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January 27, 2011

Chairman Mary Freeman
General Counsel
Tennessee Regulatory Authority
460 James Robertson Pkwy.
Nashville, TN 37238

filed electronically in docket office on 01/27/11

Re: *Petition of Tennessee American Water for a General Rate Increase*
Docket No. 10-00189

Dear Chairman Freeman:

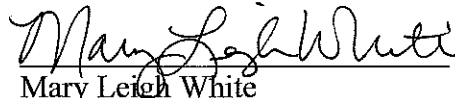
In order to comply with the Tennessee Regulatory Authority's ("TRA") request at the January 24, 2011 Status Conference, the Consumer Advocate and Protection Division ("Consumer Advocate") has compiled the following list in an attempt to memorialize the second round of discovery resolutions discussed between the Consumer Advocate and Tennessee American Water Company ("TAWC").

1. TAWC has informally supplemented its response to CAPD Discovery Request 1 and has agreed to formally supplement the response in a filing with the TRA.
2. The Consumer Advocate has agreed to supplement its answer to TAWC Discovery Requests 12 and 20 with a yes or no answer and corresponding explanation.
3. The Consumer Advocate has agreed to supplement its answer to TAWC Discovery Requests 21, 31 and 35 as discussed between Mr. Buckner and Mr. Miller.
4. The Consumer Advocate has agreed to supplement its answer to TAWC Discovery Requests 25-28, which requests the Consumer Advocate to identify any studies or analysis performed or relied upon by Mr. Buckner and if there are none, the supplemental response will state that fact.
5. TAWC will review Dr. Klein's revised direct testimony and reserves the right to ask additional questions if deemed necessary with regard to TAWC Discovery Request 21.

6. The Consumer Advocate agrees to allow additional discovery requests of TAWC so long as they are directly related to the revisions contained within the revised testimony of either Dr. Klein or Mr. Buckner
7. TAWC Discovery Request 22 remains under dispute.

The Consumer Advocate believes that once the above information is exchanged, there will be no outstanding discovery disputes, with the exception of TAWC Discovery Request 22. However, the Consumer Advocate reserves the right to compel further responses if necessary. Thank you for your attention to this matter.

Sincerely,



Mary Leigh White
Assistant Attorney General
Office of the Attorney General
Consumer Advocate and Protection Division
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Nashville, TN 37202-0270
(615) 741-4657

CC: Docket 10-00189; all parties of record in Docket 10-00189

**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

**CONSUMER ADVOCATE AND PROTECTION DIVISION'S SUPPLEMENTAL
RESPONSES TO TENNESSEE AMERICAN WATER COMPANY'S SECOND
DISCOVERY REQUESTS**

The Consumer Advocate and Protection Division of the Office of the Attorney General ("Consumer Advocate"), hereby submits its supplemental responses to the second discovery request of Tennessee American Water Company ("TAWC" or "Company") as described by the letter filed on January 27, 2011 with the Tennessee Regulatory Authority ("TRA").

DISCOVERY RESPONSES

DISCOVERY REQUEST NO.12:

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

RESPONSE:

The Consumer Advocate objects to this discovery request to the extent that this Request asks the Consumer Advocate's non-legal expert witnesses to draw legal conclusions. Without waiving these objections, the Consumer Advocate responds as follows:

The Consumer Advocate is of the opinion that the Internal Revenue Code requires that most property-related temporary differences are normalized in order for the utility to be eligible for liberalized depreciation.

SUPPLEMENTAL RESPONSE:

Yes, the Consumer Advocate is of the opinion that IRS regulations effective in 1981 prohibited the flow-through of accelerated depreciation tax benefits (meaning public utilities had to use normalization).

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:

See response to discovery request No. 12.

SUPPLEMENTAL RESPONSE:

The Consumer Advocate does not believe the lack of netting for setting rates is in, of itself, an IRS normalization violation. However, it is the Consumer Advocate's contention that the regulatory assets should be netted if based on the decisions of the TRA that rate revenues will be increased to recover from customers the future tax expenses. It is unclear to the Consumer Advocate that the TRA has ever approved recognition of the regulatory assets in question.

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:

Short Term Debt \$6,875,542
Long Term Debt \$51,923,666
Preferred Stock \$1,321,810
Parent Short Term Debt \$458,369
Parent Long Term Debt \$10,073,468
Parent Common Equity \$35,944,694
Total \$106,597,549

Revised direct testimony and exhibits of Consumer Advocate witness Dr. Klein will be filed with the TRA. Additionally, revised Consumer Advocate Exhibits with revised direct testimony of Consumer Advocate witness Terry Buckner will be filed with the TRA.

SUPPLEMENTAL RESPONSE:

Please read Dr. Klein's amended testimony. Any use of TAWC's total capital above the rate base amount computed by the Consumer Advocate would be a capital misfit and contrary to sound rate making principles.

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:

See attachments provided on enclosed CD.

SUPPLEMENTAL RESPONSE:

The Consumer Advocate believes that the regulatory assets should be netted if based on the decisions of the TRA that rate revenues will be increased to recover from customers the future tax expenses. It is unclear to the Consumer Advocate that the TRA or its predecessor (Tennessee Public Service Commission) has ever approved recognition of the regulatory assets through an Order. Therefore, the Consumer Advocate is of the opinion in this docket that it is "improper" to include those regulatory assets before the TRA has formally decided if the regulatory assets are recoverable.

Pursuant to the hearing officer's June 13, 2008 ruling in TRA Docket No. 08-00039, a party is not required to manipulate raw data to achieve a particular result in the course of discovery. The workpapers attached to Terry Buckner's Direct Testimony and the CD provided in the Consumer Advocate's initial response should be sufficient for TAWC to perform the reconciliation requested if they choose to do so.

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:

See response to No. 23. It is appropriate because it is cost causative and follows where the Operation and Maintenance Expense and Plant in Service cost are incurred by American Water. American Water's capital structure supports the Plant in Service, i.e., rate base, which is the investor-supplied plant facilities and other investments for the purpose of supplying utility service to customers.

SUPPLEMENTAL RESPONSE:

Mr. Buckner did not perform any studies or analyses other than the information provided in Mr. Buckner's Direct Testimony work papers, page 21.

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:

The Consumer Advocate objects to this Request to the extent that it is overly broad, unduly burdensome, and excessively vague; in addition, the Consumer Advocate objects to this Request to the extent that it seeks to discover confidential work product and/or privileged communications. Without waiving these objections, the Consumer Advocate responds as follows:

All of those functions support the employees of each regulated company in the performance of their duties to operate, maintain, and install plant in service for the provision of utility service to customers.

SUPPLEMENTAL RESPONSE:

Mr. Buckner did not develop any studies or analyses other than the information provided in Mr. Buckner's Direct Testimony work papers, page 21.

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:

See response to No. 26.

SUPPLEMENTAL RESPONSE:

CAPD did not develop any studies or analyses other than the information provided in Mr. Buckner's Direct Testimony work papers, page 21.

DISCOVERY REQUEST NO.28:

With respect to Terry Buckner's direct 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:

See responses to Nos.9, 10, 24, 25, and 26.

SUPPLEMENTAL RESPONSE:

Mr. Buckner did not rely on any studies or analyses other than the information provided in Mr. Buckner's Direct Testimony work papers, page 21.

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 nominal 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:

See response to No. 30. Also, see page 28, lines 2 and 3 of Terry Buckner's direct testimony.

SUPPLEMENTAL RESPONSE:

If the TRA orders TAWC to adopt a new allocation method (multifaceted formula by function) for AWWSC costs based on cost causative factors, then it would be appropriate for the costs of maintaining the accounting system to facilitate the new allocation method to be recovered in rates.

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.

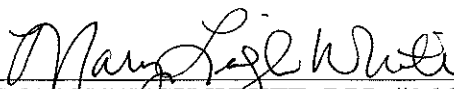
RESPONSE:

The WNA proposed by the Company would not determine an exact level of sales during the attrition year.

SUPPLEMENTAL RESPONSE:

Generally, no. The intent to normalize accurately is implicit in forecasting revenues in a rate case. Normalizing revenues is part of the effort to forecast revenues in the attrition year. Normalization cannot in all certainty be achieved in an "exact" manner with 100% accuracy. The WNA proposed by Dr. Spitznagel, as the Consumer Advocate understands it, is an attempt to normalize revenues for the effects of weather. Similarly, the revenue trends projected by the Consumer Advocate normalize revenues for the effects of all factors that impact revenues.

RESPECTFULLY SUBMITTED,



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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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This the 27 day of January, 2010.



MARY LEIGH WHITE