

TENNESSEE REGULATORY AUTHORITY



460 James Robertson Parkway
Nashville, Tennessee 37243-0505

VIA FAX AND US MAIL

September 20, 2010

R. Dale Grimes
Bass, Berry & Sims PLC
150 Third Avenue South, Suite 2800
Nashville, TN 37201

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 Mr. Grimes:

To further the Staff's investigation of the reasonableness of the rates filed with this Authority on September 17, 2010 by Tennessee American Water Company, you will need to furnish additional information as requested on the attached Staff Data Request. Please pay particular attention to the directions provided in the first section labeled "Administrative." If you have questions regarding any item number in the attached request, please contact Paul Greene (extension 156) or Pat Murphy (extension 178) for clarification before responding.

Thank you for your attention to this matter. Please provide all responses by September 24, 2010.

Sincerely,

David Foster
Chief
Utilities Division

Enclosure

C: John S. Watson

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**TRA STAFF DATA REQUEST
Minimum Filing Guidelines**

ADMINISTRATIVE

⇒The Tennessee Regulatory Authority (“TRA”) requires an original and thirteen (13) copies of the filing.

⇒All schedules requested as a computer file and/or a CD are to be provided in Microsoft Excel or Microsoft Word readable format and Word Perfect readable format for files sent to the Consumer Advocate and Protection Division (“CAPD”).

⇒Whenever “latest” information is requested, this information should not be over 90 days old at the time of filing (unless the latest information is more than 90 days old) and should be updated after filing, if material changes occur.

⇒Please respond fully to each item, even if the data has been partially supplied in prior filings or dockets. Information supplied in one item can be referenced if asked for again in another item.

⇒Responses to the requests listed here are to be supplied to the TRA at the following address:

Docket Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

⇒Each copy of the responses should be placed in loose-leaf binders with each item tabbed. Each response should begin by restating the item request. If several sheets are required to answer an item, each sheet should be appropriately labeled and indexed, for example, Item 1(a), Sheet 1 of 4.

⇒For each item responded to, indicate the witness whose testimony would encompass the information requested, where applicable.

⇒For data requested that is also supplied in summary form on the PSC 3.06 reports for the test period only, please reconcile your response to these reports if a variance exists.

⇒Unless otherwise specifically requested, information shall be required for the Tennessee operations only.

⇒Information for which a claim of confidentiality or privilege is claimed should be filed in a sealed envelope marked “Confidential and Privileged.” Any such information will be reviewed by the TRA Staff or the CAPD only after an appropriate non-disclosure agreement has been agreed to. In the absence of the agreement of the party claiming

confidentiality or privilege, no such confidential or privileged information may be placed on the TRA's web site or otherwise made public until after the filing party has been given 10 days notice of an Order of the TRA requiring such public disclosure, during which period of time, any interested party may seek a Protective Order from any court having jurisdiction to issue the same.

⇒ In responding to these requests, the applicant should provide the most current, accurate, and comprehensive information available at the time of the response. In making its responses, the applicant should employ those persons who are most knowledgeable regarding the requested information. All information should be presented in a manner designed to promote clear understanding and assessment.

GENERAL

1. In addition to the .pdf files required by the Docket Manager, for Staffs' use, provide the petition and all pre-filed direct testimony in Word files and all schedules and exhibits accompanying the petition in working Excel files on a CD. In addition to the paper copies required, provide all responses to this and future requests in Word or Excel files on CD when possible. Files must be named in a manner that indicates the request item for which the response is provided.
2. If material to TAWC's cost or level of service in Tennessee, please provide a comprehensive discussion of all abnormal conditions or changes in condition that (a) occurred during the last three years or (b) are reasonably anticipated to occur up to the anticipated hearing date in this case. Explain how these changes will affect TAWC's Tennessee operations going forward. The discussion should include, but not be limited to the following:
 - a. Management changes
 - b. Operational changes
 - c. Administrative changes
 - d. Recent or pending mergers, consolidations, or acquisitions
 - e. Major changes in sales or transportation volumes
 - f. Pending negotiations for possible changes in sales or transportation volumes to any current or prospective commercial or industrial customer.
 - g. Changes in pipeline allocations.
 - h. Labor contracts and/or Union problems
 - i. Expenses
3. State the effect that each of the applicable changes discussed in the item above has had or will have on TAWC's, its Parent's, Multi-State Utility's, or Affiliated Utility Service Company's, revenues, expenses, rate base, and capital structure, including TAWC's, its Parent's, Multi-State Utility's, or Affiliated Utility Service Company's, method of allocating each change among its regulated, unregulated, and jurisdictional operations.

4. Provide a current organizational chart for TAWC and, if applicable, its Parent, Multi-State Utility, or Affiliated Utility Service Company, showing for each officer (or any other key personnel) of TAWC, its Parent, Multi-state Utility, or Affiliated Utility Service Company: (a) the department(s) they head, and (b) to whom they report, from department or office level up. Only officers and key personnel, all or some portion of whose compensation is sought to be recovered from Tennessee ratepayers, must be included in the chart.
5. Provide six (6) copies of the Annual Stockholder Reports, the 10K reports, and 10 Q reports for TAWC, its Parent, Multi-state Utility, or Affiliated Utility Service Company, for the last three (3) years.
6. If TAWC is a separate entity, provide a current chart of accounts for TAWC and, if applicable, its Affiliated Utility Service Company. If TAWC is an operating division, also provide a current chart of accounts for the Multi-state Utility.
7. Provide copies of all rate case orders for TAWC, and its Parent, Multi-State Utility, or Affiliated Utility Service Company issued since the TAWC's last rate case or within the past three (3) years, whichever time is shorter.
8. Provide any costs associated with any employment and/or termination contracts TAWC, its Parent, Multi-State Utility, or Affiliated Utility Service Company has or has had with management personnel since the last rate filing in Tennessee, and provide copies of such.
9. Provide a detailed General Ledger for the latest 24 months for TAWC, its Parent, Multi-State Utility, and Affiliated Utility Service Company.
10. If TAWC, its Parent, Multi-State Utility, or Affiliated Utility Service Company, seeks to recover in its rates to the Tennessee ratepayers any employment separation payments made under any of the contracts, state the amount of any separation payments since the last rate filing in Tennessee.
11. Provide a detailed Trial Balance for the test period and preceding year for TAWC, its Parent, Multi-State Utility, and Affiliated Utility Service Company, by month, by account, including adjusting entries and post-closing balances.
12. If not provided in response to other items, provide the latest fiscal year-end Income Statement and Balance Sheet for TAWC, its Parent, Multi-State Utility, and Affiliated Utility Service Company. Provide an explanation of any differences in the year-end Income Statement and Balance Sheet for TAWC, its Parent, Multi-State Utility, and Affiliated Utility Service Company as set forth in its Annual Report to shareholders and its internal financial statements.
13. Provide all detailed workpapers, cost studies, or other data supporting all proposed tariff changes, adjustments to revenues, expenses, rate base, and other

changes included in the testimony and exhibits filed by TAWC. Provide computer files containing schedules for all computer-based calculations.

14. Provide a detailed list of all TAWC's affiliated party transactions for the past two years, including the nature and amount of each transaction.
15. Provide a list of outside professional services, as recorded in the test year, showing the nature of each service and the total charge for each service.
16. Provide a list of TAWC's customer service initiatives, and performance measures, including a description and analysis of the effectiveness of each for the last two (2) years. If applicable, the analysis should include, but not be limited to, time to connect the customer to the system, response time to service inquiries, restoring of service, new meter installations, billing inquiries, meeting appointment times, etc. If you have identified other areas that you monitor, include them in this response.
17. Please provide support for **all** statistics referenced in all testimony filed by TAWC in this case.
18. Provide a copy of TAWC's 2008, 2009 and 2010 budgets, including underlying rationale and assumptions.

REVENUES

19. Identify TAWC's twenty-five (25) largest customers, based on usage, for the latest fiscal year. If TAWC projects a material change in a customer's usage or rates charged to any such customer, provide a mailing address, contact person, telephone number, and the following information for each customer:

Copies of all correspondence and notes of discussion or meetings with these customers regarding their anticipated usage from the test period through the attrition period.

20. Provide the number of TAWC's customers by rate classification and meter size by month for the last three (3) fiscal years. Provide the volumetric usage by month for the last three (3) fiscal years for each rate classification and meter size.
21. Provide a copy of all weather normalization workpapers, if applicable, used in projecting attrition period revenues.
22. Provide a copy of all usage and growth trends and any adjustments used to project revenues.
23. Provide the computation of an average bill for a residential water customer under the present and proposed rate schedules.

24. Provide the computation of the average cost of adding a new residential customer in Tennessee for the last three (3) fiscal years.
25. Provide a breakdown by source of all revenues shown as "Other Operating Revenues" for the test period and attrition period. Include the units and rates for each source.
26. Explain any large variances in Other Revenues between the test period and the attrition period.
27. List all special contract customers and their usage by month during the test period. Explain any anticipated changes in usage during the attrition period.

EXPENSES

28. For all NARUC or FERC accounts 601 through 675, show the gross and net expense after deducting salaries and wages, by month, for the test year and the preceding year. Also, provide the same information projected for the attrition year.
29. Provide detailed schedules explaining the calculation of the growth factor used to project expenses through the attrition year. Please break down the calculation between the inflation and customer growth components.
30. Provide a schedule(s) of employees for the test period, identifying them as hourly or salaried, part or full time, and the account to which their compensation is charged. Identify the regular, overtime, and total hours worked during the test period. Also, show the regular and total earnings during the test period. For those employees working only a partial year, give the dates of employment or termination. Identify pay raises, month and percentage, from the test period through the attrition year. Where appropriate, show the allocation of compensation for such employees or appropriate employee group between states and between utility and non-utility operations. Also, indicate any anticipated changes in employment levels through the attrition period.
31. Provide a schedule showing by month, for the last three (3) fiscal years through the test period, the amount and percentage of total payroll capitalized on a total Company, and TAWC only basis. Provide a detailed calculation of the percentage used to capitalize payroll for the attrition period.
32. Provide a description of each type of service that employees of the Parent, Multi-state Utility, or Affiliated Utility Service Company perform for the Tennessee operations for the test and attrition periods.
33. Provide copies of the latest labor union contracts for TAWC, if applicable.

34. For the test period and attrition period, provide detailed workpapers supporting the calculation of life insurance expense, long-term disability, hospitalization and medical expenses, and other miscellaneous employee insurance expenses. Show the total and capitalized amounts. Provide actual rates for the benefits that TAWC pays. Provide the amounts that the employee contributes for these benefits.
35. Provide a liability and property insurance schedule for the test period, identifying the policies in effect, the type of coverage, the coverage period, the annual premiums, the amount included as an expense, the account charged, the beneficiaries and the allocation used. Also, provide the same information for those policies currently in effect and any anticipated changes in policies through the attrition period. Where applicable, provide the name of the insurance company with a contact person and telephone number.
36. Provide the latest actuarial studies for pension expense and liabilities (FAS 87) and post employment benefits other than pensions (FAS 106).
37. Does TAWC have a written policy regarding non-base pay compensation or stock options? If so, please provide a copy of this policy. Were any amounts paid or accrued during the test period? If so, please provide a schedule of employees, showing the amount paid or accrued and the basis of the calculation. Provide the same information for the attrition period.
38. Provide a detailed analysis of advertising expense for the test period. Provide and discuss TAWC's projected advertising expenses from the end of the test period through the attrition period. For each month, identify the amount of advertising classified as follows:
 - a. Institutional
 - b. Conservation
 - c. Informational
 - d. Promotional
 - e. Image
39. Provide the amount of expense recorded for the rental of equipment or other property, for each month of the test period. Provide copies of Lease Agreements if applicable.
40. Provide a schedule identifying all directors of TAWC, its Parent, Multi-state Utility, or Affiliated Utility Service Company, dates of meetings attended, and the amount of directors' fees attributable to each meeting for each month of the test period. Identify the account to which these fees are booked.

41. Provide a copy of TAWC's Cost Allocation Study and support for any proposed changes in rate design.
42. Provide the amount of direct and allocated charges to TAWC from its Parent, Multi-State Utility, or Affiliated Utility Service Company, by account, for each month of the test period and the projected amount for each month of the attrition period.
43. Provide the amount of each lobbying expense, charitable contribution, social club membership and athletic event paid by its Parent, Multi-State Utility, or Affiliated Utility Service Company and allocated to TAWC for each month of the test period and included in costs to be recovered in regulated rates. Provide the same information and breakdown for any amounts paid directly by TAWC and included in costs to be recovered in regulated rates. Identify the accounts charged for each amount.
44. Provide the amount of each non-recurring expense paid by TAWC's Parent, Multi-State Utility, or Affiliated Utility Service Company and allocated to TAWC for each month of the test period and included in costs to be recovered in regulated rates. Provide the same information and breakdown for any amounts paid directly by TAWC and included in costs to be recovered in regulated rates. Identify the accounts charged for each amount.
45. Provide a detailed itemization of the rate case costs by law firm and rate case consultant.
46. Provide depreciation rates by each plant account of TAWC and each plant account of TAWC's Parent, Multi-State Utility, or Affiliated Utility Service Company which allocate plant and the associated depreciation expense to TAWC. Additionally, provide an Excel schedule showing the calculation of depreciation expense incurred by, and/or allocated to TAWC for each month of the test period through the end of the attrition period.

TAXES

47. Provide copies of the following tax returns (state and federal) for the most recent three (3) tax years:
 - a. Tennessee Gross Receipts Tax Returns
 - b. Tennessee Franchise and Excise Tax Returns
 - c. Property tax statement Tennessee Ad Valorem Tax Report
 - d. Employer's Quarterly Federal Tax Returns (Form 941)
 - e. Employer's Annual Federal Unemployment Tax Return (Form 940)
 - f. Employer's Quarterly Contribution Report to the Tennessee Department of Employment Security

48. Provide the following Federal Income Tax data for the Tennessee Operations for the test year and the attrition year:
- a. The calculation of TAWC's federal income tax expense. The calculated amount should reconcile to the amount reported on the TRA 3.06 surveillance reports
 - b. A detailed calculation of the permanent book and tax differences
 - c. A detailed calculation of the temporary book and tax differences
 - d. Operating federal income taxes deferred – accelerated depreciation
 - e. Federal income taxes – operating
 - f. Income credits resulting from prior deferrals of federal income taxes
49. Provide a reconciliation of book to taxable income and a calculation of the federal income tax expense on a total Company and Tennessee only basis for the test period and for the attrition period.
50. Provide the unemployment tax rate presently being paid, broken down into state and federal rates, and any anticipated change in the state unemployment rate.

RATE BASE (EXCLUDING WORKING CAPITAL)

51. Provide monthly plant additions and retirements by account number for the last three (3) fiscal years to include the test period. Please break down plant additions into normal or special projects, as defined below:
- a. Normal construction requirements should be considered to include the needs created through normal system expansion, such as serving residential areas, shopping areas, old home conversions, replacements of tools and work equipment, transportation equipment, etc.
 - b. Special construction requirements should be considered to arise from extensive replacement of old facilities which cannot be foreseen, major expansion projects, and changes required by government action such as street improvement and relocation, community and neighborhood development, bridge replacement, etc. These requirements should be considered to be outside the control of TAWC.
 - c. For the last three (3) fiscal years, identify any contributions in aid of construction.
52. Break down budgeted plant additions between normal and special projects, using the criteria defined above, for the months between the end of the last fiscal year and the end of the attrition period. Provide sufficient detail of each individual project as to the date of inception and completion, and the proposed methods of financing. Identify those budgeted plant additions that are in process or have already been completed. Basic assumptions underlying budgets should also be submitted including the assumptions for sales volumes.

53. Identify all special projects from the end of the test period through the attrition period, using the criteria defined in the first rate base question above, by work order number and include the estimated cost. Provide a signed authorization for each special project and identify the planned starting and completion dates.
54. Identify by account the salvage and cost of removal for retirements provided in response to the first rate base question above for the last four (4) fiscal years to include the test period.
55. Describe TAWC's budgeting process including, but not limited to the following:
 - a. How far in advance are operating and construction budgets prepared? On what basis is the total operation and construction budget determined? Explain the "approval process" in budget development.
 - b. How many views or updates of the same budget year are made before a final view is adopted?
 - c. Are budgets prepared on a monthly, quarterly, or annual basis?
 - d. Which individual or department has overall responsibility for budgets/reconciliations?
 - e. Once a final budget has been adopted, are budget to actual (reconciliation) comparisons routinely made? How frequently are reconciliations prepared and by whom?
 - f. For the last two (2) completed fiscal years, provide copies of all budgets, budget to actual and indicate reasons for the variances.
 - g. Provide TAWC budgets and all supporting workpapers for the current fiscal year and next fiscal year.
56. Provide schedules showing the end of month balances for the first month prior to the beginning of the test period, monthly activity for each month and the resulting end of month balances through the last month of the attrition period. Also provide the 13 end of month average balances for each month for the items listed below (i.e., the 13 end of month average balance for 12/07 is the average of the 12/06 – 12/07 ending balances).
 - a. Plant in Service
 - b. Construction Work in Progress
 - c. Inventories
 - d. Deferred debits
 - e. Reserves
 - f. Customer Deposits
 - g. Interest on Customer Deposits
 - h. Contributions in Aid of Construction
 - i. Accumulated Deferred FIT
 - j. Accumulated Depreciation
 - k. Accounts Payable applicable to CWIP
 - l. Accounts Payable applicable to Materials & Supplies

- m. Customer Advances
 - n. Materials and Supplies
 - o. Accounts Receivable – Other
 - p. Prepaids
57. Provide an explanation and calculation of the method used to allocate any amounts included in the preceding item to non-regulated operations and other jurisdictions.
58. Provide the investment, accumulated depreciation, and deferred FIT on all property that is owned by an affiliate of TAWC, its Parent, Multi-State Utility, or Affiliated Utility Service Company, where applicable, and leased or allocated to TAWC or Multi-state Utility. An operating division of a Multi-State Utility is not an affiliate.

WORKING CAPITAL

59. Has TAWC updated the Lead-Lag Study since its last rate case? If so:
- a. Provide a copy of the Lead-Lag Study workpapers.
 - b. Provide the percentage of the sample tested to the total test period dollar amount for each account in the Lead-Lag Study.
 - c. Provide a comparison of the Lead-Lag Study used in this case with the Study used in the previous case and explain any major changes.
60. Provide a description of the policy of TAWC, its Parent, Multi-State Utility, or Affiliated Utility Service Company, with respect to maintaining minimum cash balances. Provide copies of supporting management directives or minutes from directors' meetings supporting such policies.
61. Provide a list of all TAWC's checking accounts, identifying the nature and use for each. Provide a copy of all TAWC's bank statements for each month during the test period.

MERCHANDISE & JOBBING AND OTHER NON-REGULATED OPERATIONS

62. Explain the nature and extent of each of TAWC's or, where applicable, Multi-state Utility's non-regulated operations.
63. Provide an Income Statement and identify assets devoted to and liabilities specifically arising from non-regulated operations of TAWC, its Parent, Multi-State Utility, or Affiliated Utility Service Company, for the last two (2) fiscal years. For each year, identify each class of revenue separately. The statements should include the following information for each year:
- a. The direct expense incurred by TAWC for each operation.

- b. The general office expense allocated to each operation by TAWC, its Parent, Multi-State Utility, or Affiliated Utility Service Company
 - c. All expenses charged to TAWC, its Parent, Multi-State Utility, or Affiliated Utility Service Company, from the non-regulated activities.
 - d. All revenues billed by TAWC's regulated operations to the non-regulated operations.
64. Provide a complete explanation and calculation of how costs (other than salaries and wages) as requested above were allocated to non-utility operations for the test period and for the period from the end of the test period through the attrition period.
65. Provide the percentage of non-regulated labor for the test period.

COST OF CAPITAL

66. Provide a calculation of TAWC's, its Parent's, Multi-State Utility's, or Affiliated Utility Service Company's, debt, equity capital and the debt and equity ratios for the last five (5) years. Show long and short-term debt, preferred stock and common equity separately.
67. Provide a copy of any information filed with other Regulatory Commissions (other than the Tennessee Regulatory Authority) describing the Company's debt position and equity position. Provide all data submitted in the last twelve (12) months and also on a going-forward basis.
68. Provide a calculation of the average composite interest cost for the long-term debt and short-term debt for the last two (2) years.
69. Provide a schedule identifying the following for TAWC, its Parent, Multi-State Utility, or Affiliated Utility Service Company, for the last two (2) fiscal years and adjust for any stock splits:
- a. Primary earnings per share
 - b. Fully diluted earnings per share
 - c. Dividends per share
 - d. Book value per share
 - e. High market price for each year
 - f. Low market price for each year
 - g. Average market price for each year
70. Provide a schedule identifying the date and amount of each common stock dividend paid during the last three (3) fiscal years. Include any announced future dividend payments and adjust for any stock splits.

71. Provide the computer file showing items below for the Parent, Multi-State Utility, or Affiliated Utility Service Company, for each of the last fifteen (15) fiscal years:
- a. Earnings, annual dividends declared, annual dividends paid, book value of common equity, and price of common equity (each item should be shown per average actual common share outstanding, adjusted for stock splits and stock dividends)
 - b. Rate of return to average common equity
 - c. Common stock earnings retention ratio
 - d. For common stock not issued to the public, but issued pursuant to a) tax reduction act stock ownership plans, b) employee stock option plans, and c) dividend reinvestment plans, provide net proceeds per common share issued, and number of shares issued and previously outstanding at the beginning of the year. Provide the information separately for each of the three (3) types of plans and report each plan's information as annual aggregate or as an average and indicate whether you are providing an average or aggregate figure.
 - e. For those issues of common stock sold to the public and not falling under d. above, provide:
 - 1) Date of issue
 - 2) Number of shares issued and previously outstanding for each issue and in the aggregate
 - 3) Number of shares sold to the public
 - 4) Gross proceeds per share from the public
 - 5) Net proceeds per share from the public
 - 6) Price per share to the public
72. In a computer file, provide the balance for the following for each month of the latest fiscal year:
- a. Long- and medium-term debt by issue and aggregated
 - b. Preferred stock by issue and aggregated
 - c. Common equity
73. In a computer file, provide a schedule, for each month of the latest fiscal year, showing interest rates, dividend rates, the monthly amortization of discount, premium and issuance expense and the monthly unamortized balances of discount, premium and issuance expense for long-term debt and preferred stock identified in response to the item above. Specifically, be sure to provide in your response for each month the balances by issue for unamortized discount, premium, and issuance expense for all of the Parent's, Multi-State Utility's, or Affiliated Utility Service Company's long- and medium-term debt and preferred stock, if any.

Tennessee American Water Company

Docket No. 10-00189

Page 15 of 15

85. If not provided in response to another data request item, provide the most recent 10K filed with the SEC.
86. Provide the number of stockholders of record for TAWC, its Parent, Multi-State Utility, or Affiliated Utility Service Company for the last ten (10) fiscal years.
87. For each comparable company utilized in your cost of capital study, provide the same data requested in Item Nos. 66 and 69.