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VIA HAND DELIVERY

filed electronically in docket office on 02/11/11

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

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 Chairman Freeman:

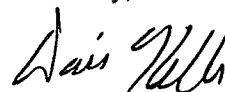
Enclosed please find an original and five (5) sets of copies of Tennessee American Water Company's Responses to the TRA's Third Data Request dated January 28, 2011, Questions 139 through 146.

A compact disk is being provided in the binder of each set of copies. This disk contains all responses and attachments. In addition, these responses are being filed today by way of email to the Tennessee Regulatory Authority Docket Manager, Sharla Dillon. I have enclosed a second disk labeled "Docket Manager Disk" for Ms. Dillon that contains a single PDF file of this material.

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

Sincerely,



David Killion

Enclosures

cc: Mr. David Foster, Chief of Utilities Division (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)
Valerie L. Malueg, Esq. (w/ enclosure)
Frederick L. Hitchcock, Esq. (w/ enclosure)
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)

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TENNESSEE AMERICAN WATER COMPANY
Docket No. 10-00189
Tennessee Regulatory Authority Staff Data Request No. 3

Responsible Witness: Michael A. Miller & James I. Warren

RATE BASE

Question:

139. On page 55 (lines 7-10) of his direct testimony, Mr. Buckner states that CAPD "recommends that the FIN 48 amount be included as a deduction from rate base. Conversely, TAWC has excluded the FIN 48 amount for setting rates in this docket."

TAWC witness Mr. Miller states on page 62 (lines 23-24) of his testimony that the "Company proposes that its jurisdictional rate base be reduced for the value of the additional ADITs arising from application of the tax accounting change." On page 63 (lines 15-17), Mr. Miller states "I am attaching to this testimony Rebuttal Exhibit MAM-14 which I believe demonstrates what level of rate base reduction is in the Company's filing related to deferred income taxes-capitalized repairs (net of the FIN 48 reserve)."

Please reconcile these statements (whether in your opinion TAWC has included a reduction to rate base to reflect FIN 48) and provide your position as to this inclusion or exclusion of the reduction to rate base for FIN 48. Provide any documentation, workpapers, or reference to previously submitted workpapers that will support your position.

Response:

Please note the MAM-14 referred to above was not a Rebuttal Exhibit but an Exhibit attached to the direct testimony of Mr. Miller. The Company did include ADITs related to the capitalized repairs as shown in Exhibit MAM-14 attached to Mr. Miller's direct testimony. The FIN 48 Reserve amount was deducted from the tax deduction generated on the entirety of the capitalized repairs deduction (\$323,956-SIT and \$1,744,373-FIT) as shown on Exhibit MAM-14. The ADITs recorded on the Company's books do not

include the FIN 48 Reserve because they are not interest-free capital. Per the requirements of FIN 48, interest must be recorded on the FIN 48 Reserve. This is based on the opinion of the Company and its expert tax advisors, which was a product of a detailed analysis that is required by FIN 48 to assess “uncertain tax positions.” Based on this detailed analysis, the Company and its tax advisors believe the FIN 48 portion of the capitalized repairs deduction will not be recognized by the IRS and will therefore have to be repaid to the IRS with interest.

It is the Company’s opinion that the Company’s rate base should not be reduced by the FIN 48 Reserve because:

1. The uncertain tax position regarding capitalized repairs has been determined to be “more likely than not” to be rejected at least in part (approximately 30% of total deduction taken) by the IRS. This belief is based on a detailed study performed by the Company and its internal and external tax experts, including its outside independent auditor, PwC.
2. The FIN 48 Reserve is not an ADIT because it is not interest-free capital at this point based on the detailed assessment required by FIN 48. It can only become an ADIT if the IRS eliminates the uncertainty of the Company’s aggressive tax deduction. This could only be done by IRS clarification by way of further IRS instruction or an audit regarding the permitted unit of property, or the statute of limitations expiring, which will not happen until 2012 for the first capitalized repair deduction taken by the Company on the 2008 federal income tax deduction (including the catch-up deduction required when a change in tax accounting occurs).
3. If the FIN 48 Reserve is deducted from rate base in this case, the Company could never recover the lost revenue from its customers if the FIN 48 portion of the capitalized repairs deduction is not determined to be deductible by the IRS. The Company’s tax experts have determined that “the more likely than not” scenario is that the FIN 48 portion of the capitalized repairs will not be allowed to be deducted.

4. If the aggressive tax position of the Company turns out to be fully deductible in the future (a scenario that the Company's tax experts have determined to be unlikely), the customer will receive the full benefit of that deduction through the ADIT increase (by reversal of the FIN 48 Reserve) which would then be amortized fully over the remaining book life of the assets driving the timing difference.
5. The Company's position is consistent with all regulatory commission decisions in contested rate cases that the Company is aware of (See footnotes on page 49 of Mr. Miller's rebuttal testimony).

The Company's position regarding FIN 48 is more fully explained in the Rebuttal Testimony of Mr. James Warren (at pages 25-36) and Mr. Miller's rebuttal testimony (at pages 44-49).

The Company provided a number of responses to discovery requests that support its position on FIN 48 in this case, including the following:

- TRA-02-Q134
- TN-CAPD-01-Q56
- TN-CAPD-02-Q1

TENNESSEE AMERICAN WATER COMPANY
Docket No. 10-00189
Tennessee Regulatory Authority Staff Data Request No. 3

Responsible Witness: **Sheila Miller**

RATE BASE

Question:

140. Regarding the Company's CWIP forecast, please explain whether retirements were included in the balances of CWIP and provide justification for the inclusion (or exclusion) of retirements in that calculation.

Response:

The Company inadvertently included retirements in the balances of CWIP in its original filing. The CWIP retirements were inadvertently included as an offset in the CWIP balance, which overstated the rate base by \$1,165,021.

The Company has acknowledged this error, as described in the rebuttal testimony of Sheila Miller, on page 14. The retirements should not be included in the CWIP balance because they are included in retirement work in progress and not part of construction work in progress.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 10-00189
Tennessee Regulatory Authority Staff Data Request No. 3

Responsible Witness: Sheila Miller

RATE BASE

Question:

141. With regard to UPIS forecast, should the addition of \$250,000 of land be included in additions to Plant in determining the 13-month average? Provide justification for your position.

Response:

The Company's office building lease expires in 2013. The Company has been notified that the TVA will be purchasing the office building from the Company's lessor and the TVA does not wish to continue to rent the Company's office building to the Company.

The land purchase will be made to facilitate an office building more compatible with current TAWC operations. The land purchase should be included in rate base, but due to the timing of the new office building it should have been reflected as CWIP instead of UPIS. Given that it is only in the Company's attrition year for two months, and land is not depreciated, whether the land is included as CWIP or UPIS creates no change in the overall rate base requested by the Company.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 10-00189
Tennessee Regulatory Authority Staff Data Request No. 3

Responsible Witness: Michael A. Miller/James I. Warren

RATE BASE

Question:

142. Provide a reconciliation of the TAWC Trial Balance Sum of Deferred Income Taxes as referenced on RB-ADIT in the amount of \$31,014,034 (\$27,159,180 + \$3,854,854) at September 2010 and the Per Books Rate Base at 9/30/2010 (TN-TRA-02-Q138-Attachment Page 1 of 1) in the amount of \$20,317,638. Provide all supporting workpapers or reference to previously submitted workpapers.

Response:

See attached schedules which will facilitate this response. TN-TRA-03-Q142-ATTACHMENT 1 corrects the Attachment previously supplied in response to TN-TRA-02-Q138. The original response to TN-TRA-02-Q138 included the "Other Deferred Regulatory Liabilities" accounts which were primarily made up of the Net Negative Salvage reclassification which has been reflected appropriately in the Company's Accumulated Depreciation account to be consistent with the TRA's inclusion of NNS in the regulatory book depreciation rates.

TN-TRA-03-Q142-ATTACHMENT 2 provides the reconciliation of the per books balances of ADITs (net of FAS 71 tax assets) to RB-ADIT per Mr. Buckner's original testimony. Please note that Mr. Buckner corrected his original testimony and now offsets the ADIT balance with the regulatory tax assets in his revised testimony.

Please see the rebuttal testimony of Mr. Miller (pages 33-44 and Rebuttal Exhibit MAM-7) and Mr. Warren (pages 4-25) which provides Mr. Miller's and Mr. Warren's discussion of the correct ADITs using the FAS109 approach, and the Company's position that the income tax expense proposed by Mr. Buckner's pre-tax income approach does

not account for the taxes being paid by the Company for the reversal of the timing difference on pre-1981 flowed-thru for rate recovery by the TRA (and/or the TN PSC), the AFUDC gross-up and changes in income tax rates, now that Mr. Buckner has recognized the existence of the regulatory tax assets as an offset to ADITs with the filing of his revised testimony in this case.

Tennessee American Water Company
TN-TRA-03-Q142-ATTACHMENT 1
Exhibit 1 Schedule 2 Page 1

Line No.		Per Books Rate Base @ 4/30/10	Per Books Rate Base @ 5/31/10	Per Books Rate Base @ 6/30/10	Per Books Rate Base @ 7/31/10	Per Books Rate Base @ 8/31/10	Per Books Rate Base @ 9/30/10
1	<u>Additions</u>						
2	Utility Plant in Service (UPIS)	\$210,852,380	\$211,942,905	\$212,788,477	\$213,138,004	\$214,027,840	\$214,348,112
3	Construction Work in Progress	3,533,105	4,075,445	4,839,031	5,797,510	5,531,822	5,889,966
4	Utility Plant Capital Lease	1,590,500	1,590,500	1,590,500	1,590,500	1,590,500	1,590,500
5	Deferred Maintenance	0	0	0	0	0	0
6	Limited-Term Utility Plant - Net	0	0	0	0	0	0
7	Working Capital	1,011,258	1,011,258	1,011,258	1,011,258	1,011,258	1,011,258
8	same as original filing						
9	Total Additions	216,987,243	218,620,108	220,229,266	221,537,272	222,161,420	222,839,836
10	<u>Deductions</u>						
11	Accumulated Provision for Depreciation UPIS-incl NNS	66,960,310	67,290,988	67,643,947	67,923,705	68,276,017	68,528,499
12	RWIP	0	0	0	0	0	0
13	Accumulated Amortization of Utility Plant Capital Lease	1,263,564	1,272,400	1,281,236	1,290,072	1,298,908	1,307,744
14	Deferred Income Taxes*	20,231,008	20,438,863	20,606,903	20,403,570	20,635,260	22,638,057
15	Customer Advances for Construction-incl current portion reclassified	6,165,332	6,115,354	6,036,293	5,986,386	6,054,070	5,641,527
16	Contributions in Aid of Construction	9,511,447	9,522,484	9,526,842	9,523,928	9,518,884	9,516,434
17	Unamortized Investment Tax Credit	30,511	30,253	29,995	29,737	29,479	29,221
18	Utility Plant Acquisition Adjustment	62,999	62,375	61,751	61,127	60,503	59,879
19	Total Deductions	104,225,171	104,732,717	105,186,967	105,218,525	105,873,121	107,721,361
20	Rate Base	112,762,072	113,887,390	115,042,299	116,318,747	116,288,299	115,118,475

Note 1: Per books based on SFAS 109, not recognized by the TRA in Case # 08-00039. The Company did a distinct calculation of ADIT for the attrition year for two items that are normalized for rate recovery - book/tax timing differences on depreciation and capitalized repairs.

*original response to this data request included reg liability balances

Tennessee American Water
Deferred Income Tax Account Balances
TRA-03-Q142-ATTACHMENT 2

	<u>Per Books</u> <u>9/30/2010</u>	<u>Per</u> <u>RB-ADIT</u>
186030 Reg Asset - AFUDC - CWIP	127,100	
186035 Reg Asset AFUDC Equity	1,015,972	
186040 Reg Asset Plant Flow Through	3,487,829	
186045 Reg Asset Other	1,197,131	
186051 Reg Asset State Tax Change	2,789,881	
186055 Reg Asset Accum Amortization	(241,936)	
	<u>8,375,977</u>	
253301 Def Fit Other	(27,159,180)	(27,159,180)
253701 Def SIT Other	(3,854,854)	(3,854,854)
	<u>(31,014,034)</u>	<u>(31,014,034)</u>
PER BOOKS-agrees to TRA-03-Q142-attachment 1	<u>(22,638,057)</u>	<u>(31,014,034)</u>

TENNESSEE AMERICAN WATER COMPANY
Docket No. 10-00189
Tennessee Regulatory Authority Staff Data Request No. 3

Responsible Witness: Michael A. Miller

RATE BASE

Question:

143. Provide a reconciliation of each of the above (Trial Balance and Per Books Rate Base) for Deferred Tax to the Total Deferred Tax of \$14,153,878 shown on Exhibit MAM-13. Provide all supporting workpapers or reference to previously submitted workpaper.

Response:

As explained in more detail in the Rebuttal Testimony of Mr. Miller (pages 38 – Q&A middle of page – through page 40), the Company filed this case using the APB 11 approach to ADITs which includes only ADITs on the post-1980 property timing differences (the balance sheet netting approach) instead of the gross ADITs under the SFAS 109 approach (including the ADITS on the pre-1981 flow-thru property) which then have to be reduced by the regulatory assets under the SFAS 109 approach for the reversal of the SFAS 109 regulatory tax assets.

The information shown on Exhibit MAM-13 shows only the ADITs generated on post-1980 property that are required to be normalized by the IRS, and the Company added to that the amount of ADITs that would result from the normalization of the capitalized repairs deduction (net of FIN 48).

Provided with this response and identified as TRA-03-Q143-ATTACHMENT 1 (an expanded version of Rebuttal Exhibit MAM-7 that was attached to Mr. Miller's Rebuttal Testimony) is a schedule that compares (i) the SFAS 109 approach to ADITs and the addition to income tax expense required to reflect the reversal of the timing differences on pre-1981 flow-through property, AFUDC gross-up, and change in tax rates that would be required to reverse the SFAS 109 regulatory tax assets (column 1), (ii) the Company's

ADITs prepared under the APB 11 approach (column 2), (iii) the CAPD's approach in Mr. Buckner's original testimony (column 3), and (iv) the CAPD's approach in Mr. Buckner's revised testimony (column 4).

The difference in ADITs in the APB 11 approach versus the SFAS 109 approach results from the manner in which the timing differences related to pre-1981 property, the AFUDC gross-up, and the change in tax rates are reflected on the balance sheet. In addition, the impact of the reversal of the SFAS 109 regulatory tax assets are embedded in the Company's income tax calculation and they are omitted from Mr. Buckner's normalized pre-tax income tax expense approach as reflected in Schedule 7 (Exhibit 1, page 7 of 9) of his revised testimony.

Please note that in Mr. Miller's Rebuttal Testimony, at page 44, bullet #5, he recommends that the ADITs (net of the FIN 48 Reserve) in this case should be determined under the SFAS 109 approach as reflected in Rebuttal Exhibit MAM-7, column 1. This ADIT rate base reduction should only be used if, and only if, the income tax expense is determined in this case under the SFAS 109 approach, or determined under the normalized pre-tax income approach that has been proposed by the CAPD (as amended) to increase the CAPD's income tax stance by the impact of the reversal of the regulatory tax assets (timing difference on pre-1981 flow-thru property, AFUDC gross-up and tax rate changes) in the amount of \$623,832 for the current income taxes in this case. The additional income tax expense for the reversal of the SFAS 109 regulatory assets is required to be made to the CAPD's approach because those tax adjustments are not captured in the pre-tax book income, as reflected in the CAPD's income tax calculation.

At page 44 of Mr. Miller's rebuttal testimony, bullet #6, Mr. Miller indicates that if the Authority does not recognize the adjustment required to correct the CAPD's income tax expense in the amount of \$623,832 to reflect the required adjustment to the pre-tax book income approach, then the Company's ADITs as determined under the APB 11 approach should be utilized to determine the rates in this case.

Attached to this response and identified as TRA-03-Q142-ATTACHMENT 2 are the working papers and Accounting Exhibits that support the Company's determination of the \$14,153,878.01 of ADITs on post-1980 property as reflected on Exhibit MAM-13. These workpapers have previously been provided in their native format to the TRA Staff and the other parties to this case.

Tennessee American Water Company
Deferred Tax Reconciliation
TRA-03-Q143-ATTACHMENT 1

<u>Line #</u>		(1) 2010 Case Proper FAS 109 <u>Approach</u>	(2) 2010 Case APB 11 <u>Approach</u>	(3) 2010 Case CAPD FAS 109 <u>Approach</u>	(4) 2010 Case CAPD (Revised) FAS 109 <u>Approach</u>
(1)	Regulatory Asset	8,375,977	0	0	8,375,977
(2)	ADITS	(31,014,034)	(17,153,815)	(31,014,034)	(31,014,034)
(3)	ADITS Utilized for Rate Recovery	(22,638,057)	(17,153,815)	(31,014,034)	(22,638,057)
(4)	FIN 48 reserve	0	0	(2,068,329)	(2,068,329)
(5)		(22,638,057)	(17,153,815)	(33,082,363)	(24,706,386)
(6)	WACC	8.38%	8.38%	8.38% *	8.38%
(7)		(1,897,069)	(1,437,490)	(2,772,302)	(2,070,395)
(8)	Rev conversion factor	1.67319346	1.67319346	1.67319346	1.67319346
(9)	Total rev requirement	(3,174,164)	(2,405,198)	(4,638,598)	(3,464,172)
Current Tax on Reversal of Timing					
(10)	Difference on Pre-1981 Property & AFUDC Gross-up	623,832		0	0
(11)		(2,550,332)	(2,405,198)	(4,638,598)	(3,464,172)
(12)	Difference in revenue requirement between TAWC & CAPD at Company WACC			(2,233,399)	(1,058,973)

*used Company's WACC for comparison purposes

Tennessee Regulatory Authority
Company: Tennessee-American Water Company
Case No:

Computation of Current Federal and State Income Taxes Based on Current Rate for the
Normalized and Attrition Years and Proposed Rates for the Attrition Year

Test Year: Twelve Months Ended: March 31, 2011
Exhibit No. 2, Schedule E
Page 2 of 2

Line No.	Description	Per Books Test Year Present Rates		Normalized Year Present Rates		Attrition Year Present Rates		Attrition Year Proposed Rates	
		Federal	State	Federal	State	Federal	State	Federal	State
1	Operating Revenues	\$37,570,848	\$37,570,848	\$37,063,946	\$37,063,946	\$37,296,455	\$37,296,455	\$47,280,918	\$47,280,918
2									
3									
4	Operation and Maintenance Expenses	22,529,507	22,529,507	22,523,958	22,523,958	23,475,010	23,475,010	23,640,779	23,640,779
5	Depreciation and Amortization	4,621,066	4,621,066	4,352,613	4,352,613	4,877,687	4,877,687	4,877,687	4,877,687
6	Taxes, Other than Income	4,018,157	4,018,157	4,270,802	4,270,802	4,400,272	4,400,272	4,400,272	4,400,272
7	State Income Taxes - Current	(201,711)	(201,711)	(62,084)	(62,084)	(103,266)	(103,266)	534,949	534,949
8	State Income Taxes - Deferred	321,617	321,617	58,353	58,353	116,265	116,265	116,265	116,265
9	Federal Income Taxes - Current	(950,986)	(950,986)	(312,570)	(312,570)	(458,997)	(458,997)	2,754,171	2,754,171
10	Federal Income Taxes - Deferred	2,584,174	2,584,174	848,841	848,841	518,525	518,525	518,525	518,525
11	Investment Tax Credit	(76,368)	(76,368)	(76,368)	(76,368)	(76,368)	(76,368)	(76,368)	(76,368)
12	Subtotal	32,845,456	32,845,456	31,603,545	31,603,545	32,749,129	32,749,129	36,766,281	36,766,281
13	Total Income Before Deductions	4,725,392	4,725,392	5,460,401	5,460,401	4,547,326	4,547,326	10,514,637	10,514,637
14									
15	Total Other Income	-4,522	-4,522						
16									
17	Total Other Deductions	46,375	46,375						
18									
19	Total Taxes Applicable to Other Income and Deductions	-21,031	-21,031						
20									
21	Total Interest Charges	2,954,478	2,954,478	4,090,419	4,090,419	4,090,419	4,090,419	4,090,419	4,090,419
22									
23	Net Income	1,741,049	1,741,049	1,369,982	1,369,982	456,907	456,907	6,424,218	6,424,218
24									
25	State Income Taxes	116,430	116,430	-3,731	-3,731	12,999	12,999	651,214	651,214
26	Federal Income Taxes	1,539,264	1,539,264	459,903	459,903	-16,840	-16,840	3,196,328	3,196,328
27									
28	Pretax Income	3,396,743	3,396,743	1,826,154	1,826,154	453,067	453,067	10,271,761	10,271,761
29	Statutory Additions (Deductions):								
30	Permanent Difference								
31	617.001 Book Over Tax Travel and Entertainment	6,671	6,671	6,671	6,671	6,671	6,671	6,671	6,671
32	618.006 Medicare subsidiary	(184,631)	(184,631)	0	0	0	0	0	0
33	618.008 Lobbying Expenses	340	340	340	340	340	340	340	340
34	638.006 Nondeductible Penalties	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)
35									
36	Total Permanent Differences	(177,670)	(177,670)	6,961	6,961	6,961	6,961	6,961	6,961
37									
38	Financial Taxable Income	3,219,073	3,219,073	1,833,115	1,833,115	460,028	460,028	10,278,722	10,278,722
39									
40	Temporary Differences								
41	604.004 Contributions and Advances	17,782	17,782	0	0	0	0	0	0
42	606.001 Book Over Tax Depreciation	0	0	0	0	0	0	0	0
43	612.001 Book Over Tax Bad Debts	(267,925)	(267,925)	0	0	0	0	0	0
44	618.002 Amortization of Regulatory Assets - AFUDC	24,857	24,857	0	0	0	0	0	0
45	618.070 Deferred Maintenance Expense	(1,014,689)	(1,014,689)	0	0	0	0	0	0
46	618.025 Management Study Expense	(32,661)	(32,661)	0	0	0	0	0	0
47	618.028 Accrued OPEB Expense	417,444	417,444	0	0	0	0	0	0
48	618.029 Incentive Plan Expense	(101,985)	(101,985)	0	0	0	0	0	0
49	618.030 Regulatory Pension Expense	(352,479)	(352,479)	0	0	0	0	0	0
50	618.032 Miscellaneous Deferred Expense	1,014,689	1,014,689	0	0	0	0	0	0
51	626.001 Tax Over Book Depreciation	(1,758,093)	(1,758,093)	(1,758,093)	(1,758,093)	(1,777,715)	(1,351,745)	(1,777,715)	(1,351,745)
52	638.014 Cost of Removal	125,312	125,312	0	0	0	0	0	0
53	638.015 AFUDC over Interest Capitalized for Taxes	(169,432)	(169,432)	0	0	0	0	0	0
54	638.016 Refund of Taxable Advances	0	0	0	0	0	0	0	0
55	638.022 Accrued Vacation Pay Expense	16,543	16,543	0	0	0	0	0	0
56	638.027 Abandonment Losses	(51,986)	(51,986)	0	0	0	0	0	0
57	638.036 Net Negative Salvage	0	0	0	0	0	0	0	0
58	- Miscellaneous Deferred Expenses	(106,293)	(106,293)	0	0	0	0	0	0
59	- Cost of Service Study	14,326	14,326	0	0	0	0	0	0
60	- Pavement Repairs	67,144	67,144	0	0	0	0	0	0
61	- Repair Expense	(1,030,162)	(1,030,162)	(1,030,162)	(1,030,162)	(696,998)	(696,998)	(696,998)	(696,998)
62	Rate Case Expense	194,031	194,031	0	0	0	0	0	0
63	Depreciation Study	13,043	13,043	0	0	0	0	0	0
64	State depreciation in excess of federal	1,210,267	1,210,267	0	0	0	0	0	0
65	Total Temporary Differences	(3,000,534)	(3,000,534)	(2,788,255)	(2,788,255)	(1,874,713)	(2,048,743)	(1,874,713)	(2,048,743)
66									
67	Federal Taxable Income Before SIT	218,539	1,428,826	(955,140)	(955,140)	(1,414,685)	(1,588,715)	8,404,009	8,229,979
68									
69	Correction to books	100,645	499,035			0	0	0	0
70	State Income Tax	123,311	123,311	(62,084)	(62,084)	(103,266)	(103,266)	534,949	534,949
71	Taxable Income	193,873	1,927,861	(955,140)	(955,140)	(1,311,419)	(1,588,715)	7,869,060	8,229,979
72									
73									
74	Computation of Taxes:								
75	State Income Tax @	67,855	125,311	(62,084)	(62,084)	(458,997)	(458,997)	2,754,171	2,754,171
76	Federal Income Tax @					0	0	0	0
77									
78	Total Current Income Tax	67,855	125,311	(62,084)	(62,084)	(458,997)	(458,997)	2,754,171	2,754,171
79									
80									
81									
82									

Note 1: See detail on TRA-03-Q143-ATTACHMENT 2, page 2 of 7

Tennessee American Water Company
Calculation of Current Deferred Income Tax - ACRS

WORKPAPER REFERENCE: TRA-01-Q013-INCOME TAXES, Page 5 of 16

Current SIT - ACRS

2011 Attrition Year Tax Depreciation - Post 80 Property	\$4,811,439.80	See TRA-03-Q143-ATTACHMENT 2,
2011 Attrition Year Book Depreciation - Post 80 Property	\$3,459,695.08	See TRA-03-Q143-ATTACHMENT 2,
Timing Difference	\$1,351,744.72	See TRA-03-Q143-ATTACHMENT 2,
SIT @ 6.5%		\$87,863.41

Current FIT - ACRS

2011 Attrition Year Tax Depreciation - Post 80 Property	\$4,637,409.64	See TRA-03-Q143-ATTACHMENT 2,
2011 Attrition Year Book Depreciation - Post 80 Property	\$3,459,695.08	See TRA-03-Q143-ATTACHMENT 2,
Timing Difference	\$1,177,714.56	See TRA-03-Q143-ATTACHMENT 2,
Less SIT	<u>\$87,863.41</u>	
	\$1,089,851.15	
FIT @ 35%		\$381,447.90

26-Tennessee American Water Co
2010 Annual State Tax Depreciation
Based on 2008 UPIS Actual, 2009 UPIS Estimated and 2010 & 2011 UPIS Estimated
Rpt # 17 CLASSIC

WORKPAPER REFERENCE: TRA-01-Q013-INCOME TAXES, Page 9 of 16

Vintage	Begin Asset Balance	Beginning Reserve	Depreciation	Ending Asset Balance	Ending Reserve
1953	\$5,341,202.00	\$5,341,202.00	\$0.00	\$5,341,202.00	\$5,341,202.00
1961	\$6,272,568.09	\$6,272,568.09	\$0.00	\$6,272,568.09	\$6,272,568.09
1965	\$2,371,501.91	\$2,371,501.91	\$0.00	\$2,371,501.91	\$2,371,501.91
1966	\$584,280.92	\$584,280.92	\$0.00	\$584,280.92	\$584,280.92
1968	\$1,218,660.90	\$1,216,900.40	\$1,590.13	\$1,218,660.90	\$1,218,490.53
1969	\$1,067,235.68	\$1,062,571.15	\$2,936.93	\$1,067,235.68	\$1,065,508.08
1970	\$2,577,471.54	\$2,534,148.17	\$20,549.71	\$2,577,471.54	\$2,554,697.88
1971	\$2,511,066.00	\$2,489,286.39	\$6,815.77	\$2,511,066.00	\$2,496,102.16
1972	\$1,586,171.00	\$1,535,851.40	\$9,693.21	\$1,586,171.00	\$1,545,544.61
1973	\$4,155,518.00	\$3,951,433.84	\$60,093.38	\$4,155,518.00	\$4,011,527.22
1974	\$4,186,342.00	\$3,991,647.56	\$47,971.02	\$4,186,342.00	\$4,039,618.58
1975	\$711,729.00	\$695,026.24	\$4,709.32	\$711,729.00	\$699,735.56
1976	\$1,090,611.00	\$1,056,041.09	\$8,857.33	\$1,090,611.00	\$1,064,898.42
1977	\$2,108,638.00	\$2,029,307.64	\$17,901.16	\$2,108,638.00	\$2,047,208.80
1978	\$4,064,572.00	\$3,839,448.95	\$41,965.73	\$4,064,572.00	\$3,881,414.68
1979	\$4,345,325.00	\$4,083,939.77	\$49,509.65	\$4,345,325.00	\$4,133,449.42
1980	\$3,507,178.00	\$3,236,640.42	\$45,082.86	\$3,507,178.00	\$3,281,723.28
1981	\$2,850,252.18	\$2,846,216.18	\$0.00	\$2,850,252.18	\$2,846,216.18
1982	\$3,006,272.43	\$3,006,115.43	\$0.00	\$3,006,272.43	\$3,006,115.43
1983	\$1,450,440.69	\$1,450,440.69	\$0.00	\$1,450,440.69	\$1,450,440.69
1984	\$1,127,354.87	\$1,127,354.87	\$0.00	\$1,127,354.87	\$1,127,354.87
1985	\$1,625,755.76	\$1,625,755.76	\$0.00	\$1,625,755.76	\$1,625,755.76
1986	\$2,072,305.28	\$2,103,838.94	\$0.00	\$2,072,305.28	\$2,103,838.94
1987	\$2,797,430.09	\$2,658,499.90	\$14,787.62	\$2,797,430.09	\$2,673,287.52
1988	\$3,404,011.48	\$3,345,606.45	\$5,683.45	\$3,404,011.48	\$3,351,289.90
1989	\$5,187,349.25	\$4,846,556.48	\$29,744.48	\$5,187,349.25	\$4,876,300.96
1990	\$4,351,642.24	\$4,144,835.13	\$134,738.96	\$4,351,642.24	\$4,279,574.09
1991	\$2,615,843.08	\$2,405,147.16	\$111,238.58	\$2,615,843.08	\$2,516,385.74
1992	\$2,371,518.39	\$2,099,368.70	\$100,763.83	\$2,371,518.39	\$2,200,132.53
1993	\$4,194,939.37	\$3,529,851.50	\$177,071.20	\$4,194,939.37	\$3,706,922.70
1994	\$3,460,810.14	\$2,724,225.17	\$156,077.22	\$3,460,810.14	\$2,880,302.39
1995	\$3,551,368.94	\$2,705,688.72	\$151,381.45	\$3,551,368.94	\$2,857,070.17
1996	\$5,031,245.79	\$3,034,095.00	\$197,017.64	\$5,031,245.79	\$3,231,112.64
1997	\$4,928,552.31	\$2,504,105.98	\$181,658.98	\$4,928,552.31	\$2,685,764.96
1998	\$2,202,504.83	\$1,095,798.84	\$81,691.60	\$2,202,504.83	\$1,177,490.44
1999	\$7,499,412.07	\$4,320,597.65	\$255,077.62	\$7,499,412.07	\$4,575,675.27
2000	\$6,837,033.29	\$2,669,443.26	\$241,013.69	\$6,837,033.29	\$2,910,456.95
2001	\$5,035,299.32	\$1,914,505.47	\$188,822.76	\$5,035,299.32	\$2,103,328.23
2002	\$3,045,596.28	\$925,956.60	\$121,243.49	\$3,045,596.28	\$1,047,200.09
2003	\$6,206,368.27	\$3,939,307.27	\$121,657.56	\$6,206,368.27	\$4,060,964.83
2004	\$5,244,801.13	\$1,186,102.88	\$213,641.98	\$5,244,801.13	\$1,399,744.86
2005	\$2,166,146.49	\$560,393.91	\$45,943.69	\$2,166,146.49	\$606,337.60
2005 Q1	\$730,838.50	\$231,616.12	\$26,762.94	\$730,838.50	\$258,379.06
2005 Q2	\$801,782.96	\$192,524.20	\$32,221.86	\$801,782.96	\$224,746.06
2005 Q3	\$2,520,198.59	\$576,423.30	\$106,302.57	\$2,520,198.59	\$682,725.87
2005 Q4	\$8,459,581.47	\$1,464,709.14	\$343,365.90	\$8,459,581.47	\$1,808,075.04
2006	\$14,286,834.40	\$2,745,615.18	\$654,428.12	\$14,286,834.40	\$3,400,043.30
2007	\$8,952,250.76	\$1,013,085.62	\$383,916.01	\$8,952,250.76	\$1,397,001.63
Repairs 01-07	(\$9,028,090.00)	(\$772,357.00)	(\$340,980.00)	(\$9,028,090.00)	(\$1,113,337.00)
2008	\$8,789,391.70	\$808,037.89	\$439,713.52	\$8,789,391.70	\$1,247,751.41
Repairs 08	(\$2,291,973.00)	(\$118,690.00)	(\$72,580.00)	(\$2,291,973.00)	(\$191,270.00)
2009	\$4,409,656.00	\$88,193.00	\$176,386.00	\$4,409,656.00	\$264,579.00
Repairs 09	(\$696,998.00)	(\$41,819.88)	(\$27,879.92)	(\$696,998.00)	(\$69,699.80)
2010	\$12,513,728.00	\$306,487.00	\$560,527.00	\$12,513,728.00	\$867,014.00
Repairs 10	(\$696,998.00)	(\$13,939.96)	(\$27,879.92)	(\$696,998.00)	(\$41,819.88)
2011	\$8,002,940.00	\$0.00	\$273,801.00	\$8,002,940.00	\$273,801.00
Repairs 11	(\$696,998.00)	\$0.00	(\$13,939.96)	(\$696,998.00)	(\$13,939.96)
Tennessee-AM	\$189,411,526.39	\$115,555,428.45	\$5,129,116.00	\$189,411,526.39	\$120,684,544.45

Pre 81	\$47,700,071.04	\$46,291,795.94	\$317,676.20	\$47,700,071.04	\$46,609,472.14
Post 80	\$141,711,455.35	\$69,263,632.51	\$4,811,439.80	\$141,711,455.35	\$74,075,072.31
Total	\$189,411,526.39	\$115,555,428.45	\$5,129,116.00	\$189,411,526.39	\$120,684,544.45

NOTE: Repairs 01-07 represents the net of tax cost basis and tax accumulated depreciation.
The amounts for the components are not available at this time.

26-Tennessee American Water Co
2010 Annual Federal Tax Depreciation
Based on 2008 UPIS Actual, 2009 UPIS Estimated and 2010 & 2011 UPIS Estimated
Rpt # 17 CLASSIC

WORKPAPER REFERENCE: TRA-01-Q013-INCOME TAXES, Page 8 of 16

Vintage	Beg Asset Balance	Beginning Reserve	Depreciation	Ending Asset Balance	Ending Reserve
1953	\$5,341,202.00	\$5,341,202.00	\$0.00	\$5,341,202.00	\$5,341,202.00
1961	\$6,272,568.09	\$6,272,568.09	\$0.00	\$6,272,568.09	\$6,272,568.09
1965	\$2,371,501.91	\$2,371,501.91	\$0.00	\$2,371,501.91	\$2,371,501.91
1966	\$584,280.92	\$584,280.92	\$0.00	\$584,280.92	\$584,280.92
1968	\$1,218,660.90	\$1,216,900.40	\$1,590.13	\$1,218,660.90	\$1,218,490.53
1969	\$1,067,235.68	\$1,062,571.15	\$2,936.93	\$1,067,235.68	\$1,065,508.08
1970	\$2,577,471.54	\$2,534,148.17	\$20,549.71	\$2,577,471.54	\$2,554,697.88
1971	\$2,511,066.00	\$2,489,286.39	\$6,815.77	\$2,511,066.00	\$2,496,102.16
1972	\$1,586,171.00	\$1,535,851.40	\$9,693.21	\$1,586,171.00	\$1,545,544.61
1973	\$4,155,518.00	\$3,951,433.84	\$60,093.38	\$4,155,518.00	\$4,011,527.22
1974	\$4,186,342.00	\$3,991,647.56	\$47,971.02	\$4,186,342.00	\$4,039,618.58
1975	\$711,729.00	\$695,026.24	\$4,709.32	\$711,729.00	\$699,735.56
1976	\$1,090,611.00	\$1,056,041.09	\$8,857.33	\$1,090,611.00	\$1,064,898.42
1977	\$2,108,638.00	\$2,029,307.64	\$17,901.16	\$2,108,638.00	\$2,047,208.80
1978	\$4,064,572.00	\$3,839,448.95	\$41,965.73	\$4,064,572.00	\$3,881,414.68
1979	\$4,345,325.00	\$4,083,939.77	\$49,509.65	\$4,345,325.00	\$4,133,449.42
1980	\$3,507,178.00	\$3,236,640.42	\$45,082.86	\$3,507,178.00	\$3,281,723.28
1981	\$2,850,252.18	\$2,846,216.18	\$0.00	\$2,850,252.18	\$2,846,216.18
1982	\$3,006,272.43	\$3,006,115.43	\$0.00	\$3,006,272.43	\$3,006,115.43
1983	\$1,450,440.69	\$1,450,440.69	\$0.00	\$1,450,440.69	\$1,450,440.69
1984	\$1,127,354.87	\$1,127,354.87	\$0.00	\$1,127,354.87	\$1,127,354.87
1985	\$1,625,755.76	\$1,625,755.76	\$0.00	\$1,625,755.76	\$1,625,755.76
1986	\$2,072,305.28	\$2,103,838.94	\$0.00	\$2,072,305.28	\$2,103,838.94
1987	\$2,797,430.09	\$2,658,499.90	\$14,787.62	\$2,797,430.09	\$2,673,287.52
1988	\$3,404,011.48	\$3,345,606.45	\$5,683.45	\$3,404,011.48	\$3,351,289.90
1989	\$5,187,349.25	\$4,846,556.48	\$29,744.48	\$5,187,349.25	\$4,876,300.96
1990	\$4,351,642.24	\$4,144,835.13	\$134,738.96	\$4,351,642.24	\$4,279,574.09
1991	\$2,615,843.08	\$2,405,147.16	\$111,238.58	\$2,615,843.08	\$2,516,385.74
1992	\$2,371,518.39	\$2,099,368.70	\$100,763.83	\$2,371,518.39	\$2,200,132.53
1993	\$4,194,939.37	\$3,529,851.50	\$177,071.20	\$4,194,939.37	\$3,706,922.70
1994	\$3,460,810.14	\$2,724,225.17	\$156,077.22	\$3,460,810.14	\$2,880,302.39
1995	\$3,551,368.94	\$2,705,688.72	\$151,381.45	\$3,551,368.94	\$2,857,070.17
1996	\$5,031,245.79	\$3,034,095.00	\$197,017.64	\$5,031,245.79	\$3,231,112.64
1997	\$4,928,552.31	\$2,504,105.98	\$181,658.98	\$4,928,552.31	\$2,685,764.96
1998	\$2,202,504.83	\$1,095,798.84	\$81,691.60	\$2,202,504.83	\$1,177,490.44
1999	\$7,499,412.07	\$4,320,597.65	\$255,077.62	\$7,499,412.07	\$4,575,675.27
2000	\$6,837,033.29	\$2,669,443.26	\$241,013.69	\$6,837,033.29	\$2,910,456.95
2001	\$4,811,128.73	\$1,823,109.42	\$180,775.82	\$4,811,128.73	\$2,003,885.24
2002	\$1,789,702.01	\$544,805.81	\$71,258.19	\$1,789,702.01	\$616,064.00
2003	\$3,994,035.58	\$2,666,211.25	\$71,335.11	\$3,994,035.58	\$2,737,546.36
2004	\$2,224,365.13	\$506,442.90	\$90,671.93	\$2,224,365.13	\$597,114.83
2005	\$2,166,146.49	\$560,393.91	\$45,943.69	\$2,166,146.49	\$606,337.60
2005 Q1	\$730,838.50	\$231,616.12	\$26,762.94	\$730,838.50	\$258,379.06
2005 Q2	\$801,782.96	\$192,524.20	\$32,221.86	\$801,782.96	\$224,746.06
2005 Q3	\$2,520,198.59	\$576,423.30	\$106,302.57	\$2,520,198.59	\$682,725.87
2005 Q4	\$8,459,581.47	\$1,464,709.14	\$343,365.90	\$8,459,581.47	\$1,808,075.04
2006	\$14,286,834.40	\$2,745,615.18	\$654,428.12	\$14,286,834.40	\$3,400,043.30
2007	\$8,952,250.76	\$1,013,085.62	\$383,916.01	\$8,952,250.76	\$1,397,001.63
Repairs 01-07	(\$8,524,511.00)	(\$746,785.00)	(\$340,980.00)	(\$8,524,511.00)	(\$1,087,765.00)
2008	\$3,049,515.67	\$368,128.21	\$178,556.21	\$3,049,515.67	\$546,684.42
2008 50%	\$5,739,876.04	\$3,089,892.86	\$130,578.65	\$5,739,876.04	\$3,220,471.51
Repairs 08	(\$2,293,982.00)	(\$1,204,301.84)	(\$28,495.00)	(\$2,293,982.00)	(\$1,232,796.84)
2009 50%	\$4,409,656.00	\$2,248,925.00	\$88,193.12	\$4,409,656.00	\$2,337,118.12
Repairs 09	(\$696,998.00)	(\$41,819.88)	(\$27,879.92)	(\$696,998.00)	(\$69,699.80)
2010	\$12,513,728.00	\$306,487.00	\$560,527.00	\$12,513,728.00	\$867,014.00
Repairs 10	(\$696,998.00)	(\$13,939.96)	(\$27,879.92)	(\$696,998.00)	(\$41,819.88)
2011	\$8,002,940.00	\$0.00	\$273,801.00	\$8,002,940.00	\$273,801.00
Repairs 11	(\$696,998.00)	\$0.00	(\$13,939.96)	(\$696,998.00)	(\$13,939.96)
Tennessee-AM	\$189,809,206.85	\$116,866,860.99	\$4,955,085.84	\$189,809,206.85	\$121,821,946.83

Pre 81	\$47,700,071.04	\$46,291,795.94	\$317,676.20	\$47,700,071.04	\$46,609,472.14
Post 80	\$142,109,135.81	\$70,575,065.05	\$4,637,409.64	\$142,109,135.81	\$75,212,474.69
Total	\$189,809,206.85	\$116,866,860.99	\$4,955,085.84	\$189,809,206.85	\$121,821,946.83

NOTE: Repairs 01-07 represents the net of tax cost basis and tax accumulated depreciation.
The amounts for the components are not available at this time.

Tennessee - Composite Depreciation Rate
2011 Book Depreciation
Based on Tax Basis of Post 80 Utility Plant

WORKPAPER REFERENCE: TRA-01-Q013-INCOME TAXES, Page 10 of 16

UPI's Adds	Book Composite Rate	Tax Basis Additions	Annual Book Deprec	1981	1982	1983	1984	1985	1986	1987	1988	1989
1981	0.015717	2,850,252	44,797	44,797	44,797	44,797	44,797	44,797	44,797	44,797	44,797	44,797
1982	0.016004	3,006,272	48,112		48,112	48,112	48,112	48,112	48,112	48,112	48,112	48,112
1983	0.016935	1,450,441	24,563			24,563	24,563	24,563	24,563	24,563	24,563	24,563
1984	0.016646	1,127,355	18,766				18,766	18,766	18,766	18,766	18,766	18,766
1985	0.017626	1,625,756	28,656					28,656	28,656	28,656	28,656	28,656
1986	0.017598	2,072,305	36,468						36,468	36,468	36,468	36,468
1987	0.017876	2,797,430	50,007							50,007	50,007	50,007
1988	0.018725	3,404,011	63,740								63,740	63,740
1989	0.018685	5,187,349	96,926									96,926
1990	0.017576	4,351,642	76,484									
1991	0.019252	2,615,843	50,360									
1992	0.02482	2,371,518	58,861									
1993	0.024914	4,194,939	104,513									
1994	0.024672	3,460,810	85,385									
1995	0.02442	3,551,369	86,724									
1996	0.023933	5,031,246	120,413									
1997	0.02411	4,928,552	118,827									
1998	0.022202	2,202,505	48,900									
1999	0.024373	7,499,412	182,783									
2000	0.025858	6,837,033	176,792									
2001	0.025742	4,811,129	123,848									
2002	0.026681	1,789,702	47,751									
2003	0.02547	3,994,036	101,728									
2004	0.023995	2,224,365	53,374									
2005	0.022878	14,678,548	335,816									
2006	0.023977	14,286,834	342,555									
2007	0.023078	8,952,251	206,600									
2008	0.022979	8,789,392	201,971									
2009	0.020653	4,409,656	91,073									
2010	0.021100	12,513,728	264,040									
2011	0.021100	8,002,940	168,862									
Total Book Depreciation				44,797	92,909	117,472	136,238	164,894	201,362	251,369	315,109	412,035
Acumulated Book Depreciation				44,797	137,706	255,179	391,417	556,312	757,674	1,009,043	1,324,153	1,736,188

WORKPAPER REFERENCE: TRA-01-Q013-INCOME TAXES, Page 11 of 16

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
44,797	44,797	44,797	44,797	44,797	44,797	44,797	44,797	44,797	44,797	44,797	44,797	44,797
48,112	48,112	48,112	48,112	48,112	48,112	48,112	48,112	48,112	48,112	48,112	48,112	48,112
24,563	24,563	24,563	24,563	24,563	24,563	24,563	24,563	24,563	24,563	24,563	24,563	24,563
18,766	18,766	18,766	18,766	18,766	18,766	18,766	18,766	18,766	18,766	18,766	18,766	18,766
28,656	28,656	28,656	28,656	28,656	28,656	28,656	28,656	28,656	28,656	28,656	28,656	28,656
36,468	36,468	36,468	36,468	36,468	36,468	36,468	36,468	36,468	36,468	36,468	36,468	36,468
50,007	50,007	50,007	50,007	50,007	50,007	50,007	50,007	50,007	50,007	50,007	50,007	50,007
63,740	63,740	63,740	63,740	63,740	63,740	63,740	63,740	63,740	63,740	63,740	63,740	63,740
96,926	96,926	96,926	96,926	96,926	96,926	96,926	96,926	96,926	96,926	96,926	96,926	96,926
76,484	76,484	76,484	76,484	76,484	76,484	76,484	76,484	76,484	76,484	76,484	76,484	76,484
	50,360	50,360	50,360	50,360	50,360	50,360	50,360	50,360	50,360	50,360	50,360	50,360
	58,861	58,861	58,861	58,861	58,861	58,861	58,861	58,861	58,861	58,861	58,861	58,861
	104,513	104,513	104,513	104,513	104,513	104,513	104,513	104,513	104,513	104,513	104,513	104,513
				85,385	85,385	85,385	85,385	85,385	85,385	85,385	85,385	85,385
				86,724	86,724	86,724	86,724	86,724	86,724	86,724	86,724	86,724
				120,413	120,413	120,413	120,413	120,413	120,413	120,413	120,413	120,413
				118,827	118,827	118,827	118,827	118,827	118,827	118,827	118,827	118,827
								48,900	48,900	48,900	48,900	48,900
								182,783	182,783	182,783	182,783	182,783
								176,792	176,792	176,792	176,792	176,792
											123,848	123,848
											47,751	47,751
488,519	538,879	597,740	702,253	787,638	874,362	994,775	1,113,602	1,162,502	1,345,285	1,522,077	1,645,925	1,693,676
2,224,707	2,763,587	3,361,327	4,063,581	4,851,219	5,725,581	6,720,357	7,833,959	8,996,462	10,341,747	11,863,824	13,509,750	15,203,426

WORKPAPER REFERENCE: TRA-01-Q013-INCOME TAXES, Page 12 of 16

[illegible]

TENNESSEE AMERICAN WATER COMPANY
Docket No. 10-00189
Tennessee Regulatory Authority Staff Data Request No. 3

Responsible Witness: Michael A. Miller

RATE BASE

Question:

144. Does the booked Accrued Deferred Income Tax amount of \$31,014,034 provided on the trial balance for the period ending 9/30/2010 include or reflect timing differences attributable to Post 80 booked depreciation through 9/30/2010? Please fully explain your response.

Response:

Yes. The amount of \$31,014,034 includes the ADITs attributable to both pre-1981 property and post-1980 property. As explained in the Q&A on page 38 of Mr. Miller's rebuttal testimony, SFAS 109 requires that all ADITs (normalized for rate recovery or flowed-thru for rate recovery) related to book/tax timing differences be reflected on the balance sheet, but permits the regulatory assets, subject to the provisions of SFAS 71 for the flow-thru property (pre-1981 property), so long as the reversal of those timing differences that were previously flowed-thru in the year the timing difference occurred, are recovered in rates over the book life of the property. The APB 11 approach (U.S. GAAP prior to 1992) only required ADITs on the balance sheet for the property normalized for rate recovery (post-1980 property).

Please see the response to TN-TRA-03-Q143 which also addresses this question.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 10-00189
Tennessee Regulatory Authority Staff Data Request No. 3

Responsible Witness: Michael A. Miller

RATE BASE

Question:

145. Provide an explanation for the differences in the amount of Accumulated Deferred Income Taxes provided in TRA responses #58, #138 and in the General Ledger.

Response:

The response to TN-TRA-03-Q142 corrects the Company's previous response to TN-TRA-02-Q138. The Company's response to TN-TRA-03-Q142 agrees to the general ledger. The Company will also provide a supplemental response to TRA-02-Q138.

The response to TRA-01-Q58 provided Accumulated Deferred Income Taxes for AWWSC and AWR. The assets and liabilities of AWWSC and AWR are not reflected on the general ledger of TAWC other than through the management fees billed to TAWC which are billed to TAWC at cost.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 10-00189
Tennessee Regulatory Authority Staff Data Request No. 3

Responsible Witness: Michael A. Miller

RATE BASE

Question:

146. Please explain how the Accumulated Deferred Income Tax calculated by CAPD in the amount of \$33,664,910 (RB-ADIT) is incorrect and why the methodology applied in arriving at this amount should not be approved. Note: The docket file should contain any data needed to answer this question. If not, please consult with the other party to obtain any needed information.

Response:

The ADIT of \$33,664,910 is incorrect in that it includes the FIN 48 Reserve (\$2,068,329) which is not an ADIT as explained in the response to TN-TRA-03-Q139. In addition, Mr. Buckner carried the full amount of \$33,664,910 as a rate base reduction in his original testimony. The Company contends the amount of \$33,664,910 should be reduced by the regulatory tax assets (\$8,375,977) related to the reversal of the timing differences on pre-1981 flow-thru property, the AFUDC gross-up, and the state tax rate changes in arriving at the rate base reduction. Mr. Buckner also reflected these same regulatory assets in his ADIT rate base reduction provided in his revised testimony.

The only issue between the Company and the CAPD on ADITs now is limited to the FIN 48 issue. As stated in the response to TN-TRA-03-Q143, the income tax calculation as proposed by Mr. Buckner is required to include the reversal of the SFAS 109 regulatory assets Mr. Buckner now acknowledges exist in his revised testimony.

If the TRA should reject the adjustment the Company contends is required to be added to the normalized pre-tax income approach for income tax expense, then the Company's ADITs as proposed in its filing (using the APB 11 approach which does not include the ADITs on pre-1981 flow-through property) should be used to establish the rates in this case.

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

**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

AFFIDAVIT

STATE OF WEST VIRGINIA

COUNTY OF KANAWHA

I, MICHAEL A. MILLER, Treasurer/Comptroller for Tennessee American Water Company, do hereby certify that the foregoing responses to the Third Data Requests from the Staff of the Tennessee Regulatory Authority were prepared by me or under my supervision and are true and accurate to the best of my knowledge and information.

DATED this 11th day of February, 2011.

Michael A. Miller
(signature)

Michael A. Miller
(printed name)

Sworn to and subscribed before me this 11th day of February, 2011.

Lisa R. Brooks
NOTARY PUBLIC

My Commission Expires:

September 7, 2019



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 11th day of February, 2011, upon the following:

<input checked="" type="checkbox"/> Hand-Delivery	Ryan McGehee, Esq.
<input type="checkbox"/> U.S. Mail	Mary L. White, Esq.
<input type="checkbox"/> Facsimile	Counsel for the Consumer Advocate
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