

(4) The City is providing its objections herein without waiver of, or prejudice to, its right at any later time to raise objections to: (a) the competence, relevance, materiality, privilege, or admissibility of the response, or the subject matter thereof; and (b) the use of any response or subject matter thereof in any subsequent proceedings.

(5) The City objects to each request to the extent that it is unreasonably cumulative or duplicative or seeks information obtainable from some other source that is more convenient, less burdensome, or less expensive.

(6) The City objects to each request to the extent it seeks information outside the City's custody or control.

(7) The City's specific objections to each request stated herein shall be in addition to the General Objections set forth in this section. These General Objections form a part of each discovery response, and they are set forth here to avoid the duplication and repetition of restating them for each discovery response. The absence of a reference to a General Objection in response to a particular request does not constitute a waiver of any General Objection with respect to that discovery request. All responses are made subject to and without waiver of the City's general and specific objections.

DISCOVERY REQUEST NO. 1:

To the extent not previously provided, please provide electronic copies (on CD) of all tables, charts, diagrams, schedules, and exhibits (collectively, "Exhibits") contained in the testimony of Michael P. Gorman for Chattanooga. Please include all workpapers, schedules, underlying computations and supporting documentation used and relied upon by Mr. Gorman in the preparation of his testimony, including the preparation of all Exhibits. Please provide all electronic spreadsheets with cell formulas, cell references, macros and VBA code intact.

RESPONSE:

See attached Excel format spreadsheets of previously provided PDF exhibits and workpapers.

The spreadsheets are being served electronically with a copy of these responses.

DISCOVERY REQUEST NO. 2:

To the extent not previously provided, please provide copies of all schedules and underlying computations and workpapers developed in the analysis by Chattanooga and/or its witness, Mr. Gorman, of TAWC's requested rate increase in electronic spreadsheet format with all formulas intact. This request includes, but is not limited to, the analyses of the revenue requirement components and computations, including all ratemaking adjustments to the historic and forecasted data, and the cost of service model.

RESPONSE:

See response to Discovery Request No. 1.

DISCOVERY REQUEST NO. 3:

Refer to Michael P. Gorman's testimony on page 6, lines 19 through 21, which states that "The net effect of recognizing these reductions to the ADIT balance is an increase in rate base. This is a concern since many of the regulatory assets she identifies appear to already be included in rate base." Please identify specifically where the reductions to the ADIT balance were already included as regulatory assets in rate base.

RESPONSE:

The increase in rate base caused by these reductions to the ADIT balance are not explained or justified in TAWC's testimony. As a result, the statement in the testimony is based on the item

descriptions provided in Petitioner's Exhibit RB-9-Deferred Taxes-LCB that could be identified with items already included elsewhere in TAWC's calculation of revenue requirement. Plant, which includes AFUDC, and CWIP are included in rate base as shown in Exhibit RB-1-Summary-LCB, and certain deferrals are included in working capital (Schedule RB-8.1 and Schedule RB-8.2).

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

IN RE:

**PETITION FOR A GENERAL RATE
INCREASE, IMPLEMENTATION OF A
DISTRIBUTION SYSTEM
INFRASTRUCTURE CHARGE AND THE
ESTABLISHMENT OF TRACKING
MECHANISMS FOR PURCHASED
POWER, PENSIONS AND CHEMICAL
EXPENSES**

Docket No. 12-00049

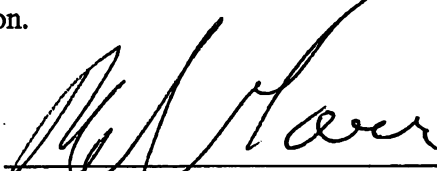
AFFIDAVIT

STATE OF MISSOURI
COUNTY OF ST. LOUIS

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Michael P. Gorman, being by me first duly sworn, who deposed and said that:


The foregoing responses to the First Discovery Requests of Petitioner Tennessee American Water Company were prepared by me or under my supervision and are true and accurate to the best of my knowledge and information.

DATED this 25th day of September, 2012.

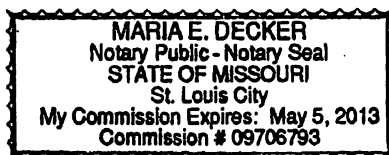


Michael P. Gorman

Sworn to and subscribed before me this 25th day of September, 2012.



Notary Public
My commission expires: May 5, 2013.



CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing pleading was emailed and was served upon the following person(s) via ☐ hand delivery or ☒ United States first class mail with proper postage applied thereon to ensure prompt delivery:

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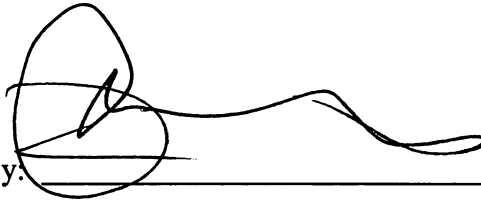
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Mr. David C. Higney
Grant Konvalinka & Harrison, P.C.
Republic Centre, Ninth Floor
633 Chestnut Street
Chattanooga, TN 37450

This 26th day of September, 2012.

By: _____

A handwritten signature in black ink, appearing to be "D. Higney", written over a horizontal line.

Tennessee American Water Company

Adjusted 13-Month Average Attrition Year Rate Base

<u>Line</u>	<u>Description</u>	<u>As Filed Attrition Year 13 Mo Avg Nov. 12 - Nov. 13 (1)</u>	<u>Rate Base Adjustments (2)</u>	<u>Adjusted Attrition Year 13 Mo Avg Nov. 12 - Nov. 13 (3)</u>	<u>Reference</u>
	Utility Plant				
1	Utility Plant in Service	\$ 250,455,533	\$ (5,507,459)	\$ 244,948,074	Exhibit MPG-2, Page 1. Exhibit RB-3-CWIP-LCB, Page 10
2	Construction Work in Progress	3,581,671	(1,706,675)	1,874,996	
3	Utility Plant Capital Lease	1,590,500	-	1,590,500	
4	Deferred Maintenance	-	-	-	
5	Limited Term Utility Plant	-	-	-	
6	Total Utility Plant	\$ 255,627,704	\$ (7,214,134)	\$ 248,413,570	Sum of Lines 1-5
7	Accumulated Provision for Depreciation UPIS	\$ 81,011,226	\$ -	\$ 81,011,226	
8	Accumulated Amortization of Utility Plant Capital Lease	1,576,226	-	1,576,226	
9	Total Accumulated Depreciation:	\$ 82,587,452	\$ -	\$ 82,587,452	
10	Net Utility Plant:	\$ 173,040,252	\$ (7,214,134)	\$ 165,826,118	Ln 6 - Ln 9
11	Working Capital	\$ 3,188,192	\$ -	\$ 3,188,192	Exhibit MPG-1, Page 2. Exhibit RB-10 Customer Advances - LCB
12	Total Additions	\$ 3,188,192	\$ -	\$ 3,188,192	
13	Deferred Income Taxes	\$ 23,407,464	\$ 8,580,818	\$ 31,988,282	
14	RWIP	-	-	-	
15	Customer Advances for Construction	4,473,724	700,000	5,173,724	
16	Contributions in Aid of Construction	12,466,115	-	12,466,115	
17	Unamortized Investment Tax Credit	20,965	-	20,965	
18	Utility Plant Acquisition Adjustment	39,920	-	39,920	
19	Total Deductions:	\$ 40,408,188	\$ 9,280,818	\$ 49,689,006	Sum of Lines 13-18
20	Rate Base	\$ 135,820,256	\$ (16,494,952)	\$ 119,325,304	Ln 10 + Ln 12 - Ln 19

Tennessee American Water Company

Deferred Income Tax Adjustment

<u>Line</u>	<u>Description</u>	<u>Amount</u>	<u>Reference</u>
	Deferred Income Taxes		
1	Regulatory Assets	\$ 7,620,777	Exhibit RB-9 Deferred Taxes - LCB
2	Regulatory Liabilities	(175,869)	Exhibit RB-9 Deferred Taxes - LCB
3	Uncertain Tax Positions (FIN 48)	<u>1,135,910</u>	TAWC 12/31/11 Financial Report, Page F-33
4	Total Adjustment	\$ 8,580,818	

Tennessee American Water Company

Adjusted Business Transformation Costs

<u>Line</u>	<u>Description</u>	<u>Total</u> (1)	<u>Adjustment</u> (2)	<u>Adjusted Total</u> (3)
	Labor			
1	Internal - Business	\$ 50,217,502	\$ (50,217,502)	\$ -
2	Internal - ITS	21,942,489	(21,942,489)	-
3	External - Support	110,076,964	-	110,076,964
4	External - Other	7,572,960	-	7,572,960
5	Labor Subtotal	\$ 189,809,915	\$ (72,159,991)	\$ 117,649,924
6	Employee Expenses	18,997,741	-	18,997,741
7	Hardware	18,181,054	-	18,181,054
8	Software	28,780,876	-	28,780,876
9	Program Operations	3,996,660	-	3,996,660
10	CPS	6,341,302	-	6,341,302
11	Contingency	14,300,003	(14,300,003)	-
12	BT Subtotal	\$ 280,407,551	\$ (86,459,994)	\$ 193,947,557
	Other			
13	AFUDC - BT	\$ 20,238,249	\$ (6,240,199)	\$ 13,998,050
14	Total BT	\$ 300,645,800	\$ (92,700,193)	\$ 207,945,607
15	BT Controls/OI	\$ 18,345,618	\$ -	\$ 18,345,618
16	BT Controls/OI AFUDC	1,289,735	-	1,289,735
17	Total BT Controls/OI	\$ 19,635,353	\$ -	\$ 19,635,353
18	Total	\$ 320,281,153	\$ (92,700,193)	\$ 227,580,960
19	TN Allocation Factor	2.420%	2.420%	2.420%
20	TN Allocated	\$ 7,750,804	\$ (2,243,345)	\$ 5,507,459

Source:

Petitioner's Exhibit BT-1, Schedule BT-1.1, Page 1

Tennessee American Water Company

Revenue Requirement Impact of BT Cost Adjustments

<u>Line</u>	<u>Description</u>	<u>Total Tennessee 13 Mo Avg Nov. 12 - Nov. 13 (1)</u>	<u>Adjusted Tennessee (2)</u>
1	TN Allocated BT Costs ¹	\$ 7,214,134	\$ 5,507,459
2	Pre-Tax Rate of Return ²	<u>11.83%</u>	
3	Lease Return ³		4.04%
4	Return on TN Allocated BT Costs	\$ 853,789	
5	Annual Depreciation Expense ⁴	<u>592,709</u>	
6	Revenue Requirement - 1	\$ 1,446,498	
	Revenue Requirement - 2		\$ 680,242
7	Revenue Requirement Impact		\$ (766,256)

Sources:

¹ Exhibit MPG-1, Page 1.

² Exhibit CS-1-Capital Structure-GMV, Schedule CS-1.1, Page 1

³ <http://credittrends.moody.com/>.

⁴ Bridwell Direct at 18

Notes: TAWC proposed pre-tax rate of return is used for illustrative purposes only.
I am not endorsing this recommended return.

Tennessee American Water Company

Proposed Capital Structure & Rate of Return

1. Proposed Capital Structure ¹

<u>Line</u>	<u>Description</u>	<u>Amount (000)</u> <u>(1)</u>	<u>Weight</u> <u>(2)</u>	<u>Cost</u> <u>(3)</u>	<u>Weighted</u> <u>Cost</u> <u>(4)</u>	<u>Pre-Tax</u> <u>Weighted</u> <u>Cost</u> <u>(5)</u>
1	Short-Term Debt	\$ 4,594,554	3.65%	1.42%	0.05%	0.05%
2	Long-Term Debt	64,574,762	51.35%	6.02%	3.09%	3.09%
3	Preferred Stock	-	0.00%	0.00%	0.00%	0.00%
4	Common Equity	56,587,945	45.00%	11.30%	5.08%	8.69%
5	Total	\$ 125,757,261	100.00%		8.23%	11.83%
6	Tax Conversion Factor ²					1.709

¹ Petitioner's Exhibit CS-1-Capital Structure-GMV, Schedule CS-1.1, Page 1

² Petitioner's Exhibit FS-1-Summary Revenue Requirement-GMV, Schedule FS-1.3, Page 1

Tennessee American Water Company

Historical Utility Bond Yields

<u>Line</u>	<u>Date</u>	"A" Rated Utility <u>Bond Yield</u> ¹ (1)
1	08/17/12	4.14%
2	08/10/12	3.96%
3	08/03/12	3.97%
4	07/27/12	3.95%
5	07/20/12	3.87%
6	07/13/12	3.94%
7	07/06/12	4.02%
8	06/29/12	4.13%
9	06/22/12	4.13%
10	06/15/12	4.08%
11	06/08/12	4.16%
12	06/01/12	3.92%
13	05/25/12	4.20%
14	Average	4.04%

Sources:

¹ <http://credittrends.moody.com/>.