

**TENNESSEE-AMERICAN WATER COMPANY
DOCKET NO. 13-00130
FIRST DISCOVERY REQUEST OF THE TENNESSEE CONSUMER ADVOCATE AND
PROTECTION DIVISION**

Responsible Witness: Deron E. Allen

23. Has the Company had any communications with any representative of the City of Chattanooga about the proposed QIIP, EDI, SEC and/or PCOP tariff riders? If there have been such communications, for each communication please state the method of communication and provide the date of the communication, the subject of the communication, and the person or persons representing the Company and the City. Please provide all documents relating to any such communications.

SUPPLEMENTAL RESPONSE:

In addition to the meetings between representatives of Tennessee-American Water Company ("TAWC") and the City of Chattanooga listed in TAWC's original response, Deron Allen, President of TAWC, Nicole Osborne, Governmental Affairs, TAWC, and Melvin Malone, attorney for TAWC, met with Wade Hinton, Rick Hitchcock and Andrew Kean of the City on November 11, 2013. The purpose of the meeting was to discuss the City's evaluation of TAWC's petition and its potential impact on consumers. Prior to the meeting the City sent TAWC the November 6, 2013, letter attached to this supplemental response.

As a follow up to this meeting, TAWC sent and the City of Chattanooga executed, the letter dated November 25, 2013, which is attached to this supplemental response.



City of Chattanooga
Office of the City Attorney

Wade A. Hinton
City Attorney

Phillip A. Noblett
Deputy City Attorney

Kenneth O. Fritz
Valerie L. Malueg
Keith J. Reisman
Melinda Foster
Assistants

November 6, 2013

BY HAND DELIVERY

Mr. Deron Allen
Tennessee American Water Company
1101 Broad Street
Chattanooga, TN 37402

Dear Mr. Allen:

This letter is in response to Tennessee American Water Company's recently filed petition referenced hereinabove and a follow-up to our discussions regarding this petition. As you mentioned in our discussions and as reflected in the petition, Tennessee American Water Company (the "Company") is requesting a rate increase pursuant to Tenn. Code Ann. § 65-5-103, as amended by Chapter 245 of the Tennessee Public Acts of 2013 (the "Statute").

To qualify for the new, alternative rate recovery mechanisms, the Company's request must meet certain conditions outlined in the Statute. Those conditions apply to all mechanisms related to the recovery of (1) operational expenses, capital costs or both related to safety requirements, facility reliability, or weather-related natural disasters; (2) operational expenses, capital costs or both related to the expansion of infrastructure for the purpose of economic development; (3) expenses associated with efforts to promote economic development in the utility's service area; and (4) operational expenses, capital costs or both related to non-discretionary expenses and other approved programs.

Among the most important of the conditions set forth in the Statute is the requirement that the Tennessee Regulatory Authority ("TRA") find that proposed alternative rate recovery mechanisms and/or the costs recovered through the mechanisms are in the public interest.

Because the large majority of the Company's customers and sales are located within the City of Chattanooga ("City"), the City has an important perspective on the potential impact of the Company's proposals on the public interest. The goal of this letter is to outline a process that would allow the City to help ensure that the Company's expenses and costs recovered in alternative rate mechanisms, as outlined in the petition, meet the intent of the Statute and protect the public interest. With this in mind, it is the position of the City that it would be to the benefit of both the City and the Company if the parties could adopt a platform for sharing and review of information regarding the Company's expenses and costs sought to be recovered in the

alternative mechanisms and a methodology for accountability. Let me make it clear that the City has no desire to dictate how the Company operates; however, it does have a vested interest to make sure the citizens of Chattanooga have a fundamental understanding of how the rate increases sought will benefit the City and its residents. Further, it is an essential component of the Statute that any such rate increase be in the best interest of the public. We believe a platform of shared information would ensure transparency and avoid a need for the City to intervene in the Company's present rate case.

With this in mind, the City would submit the following as both an initial proposal and request for more information related to the cost recovery programs outlined in the Company's petition:

➤ OPERATIONAL EXPENSES, CAPITAL COSTS OR BOTH RELATED TO OTHER PROGRAMS THAT ARE FOUND TO BE IN THE PUBLIC INTEREST

The Company has requested the TRA to approve a "Qualified Infrastructure Investment Program" pursuant to Tenn. Code Ann. § 65-5-103(d)(5), as an "other program" that is in the public interest. In the Company's previous rate cases and at other times, the City has requested details on the Company's capital expenditures and infrastructure improvement plans, but has not been provided meaningful access to this information. The Company's last Comprehensive Planning Study was completed in 2000 and, therefore, the City and its residents do have a current understanding of the Company's infrastructure needs. In each of the recent rate cases, the Company has requested and the TRA has approved higher rates to fund capital programs that the Company has not implemented. Furthermore, the City believes that many of the capital expenditures that have been made in recent years have financed improvements that have been intended to support expansion of the Company's service area, with minimal benefits to City residents.

The City proposes that the Company provide an annual plan by an agreed date prior to the start of each year detailing the Company's infrastructure investments planned for the current year, the nature and locations of planned infrastructure improvements, and how such investments will directly benefit customers within the Company's current service territory. The City also proposes that the Company provide quarterly reports to the City describing progress on the Company's annual infrastructure improvement plan and any changes to the annual plan. The City should have an opportunity to review and comment to the Company and the TRA on the annual plan and quarterly reports, and the Company should express a willingness to consider and report back to the City and the TRA on changes it has made to the plan to give effect to any concerns voiced by the City or the reasons it has declined to do so.

➤ EXPENSES ASSOCIATED WITH THE EXPANSION OF INFRASTRUCTURE FOR THE PURPOSE OF ECONOMIC DEVELOPMENT AND EFFORTS TO PROMOTE ECONOMIC DEVELOPMENT

The Company has requested the TRA to approve an "Economic Development Investment Rider" pursuant to Tenn. Code Ann. §§ 65-5-103(d)(3) and (d)(4). To help ensure that any Company expenses related to the promotion of economic development serve the public interest, the City believes that any expenditure of funds recovered under the Company's proposed rider should be coordinated with the City which has central responsibility for planning and promoting the community's economic development. To this end, the City believes that it would be appropriate for the Company to provide advance notice to the City's mayor of all proposed expenditures related to economic development efforts for review and approval. The City believes such information sharing is consistent with the public interest requirements under the Statute and will help ensure that the Company's investments have a direct economic benefit within the Company's current service area.

➤ INVESTMENTS RELATED TO SAFETY REQUIREMENTS, FACILITY RELIABILITY, OR WEATHER DISASTERS

The Company has requested a "Safety and Environmental Compliance Rider" pursuant to Tenn. Code Ann. § 65-5-103(d)(2), which provides that the TRA may authorize a mechanism to recover operational expenses, capital costs or both related to safety requirements imposed by the state or federal government. We note, first, that the Statute does not authorize recovery of environmental compliance requirements. The City is concerned that the broad request by the Company to recover safety and environmental expenses could lead to the improper classification of environmental compliance expenses as "safety requirements". To ensure that the statutory requirements are met and that the public interest is served, the City proposes that the Company should not recover costs and expenses relating to environmental compliance under this Rider and should demonstrate in reports submitted to the City and the TRA each quarter that funds raised by this Rider are being spent only on recovery of safety requirements.

➤ CHANGES IN ESSENTIAL, NON-DISCRETIONARY EXPENSES, SUCH AS FUEL AND POWER AND CHEMICAL EXPENSES

Finally, the Company has requested "Pass-Throughs for Purchased Power, Chemicals, Purchased Water, Wheeling Water Costs, Waste Disposal, and TRA Inspection Fee" pursuant to Tenn. Code Ann. § 65-5-103(d)(5)(B), which allows a public utility to request a mechanism to permit a more timely adjustment of rates resulting from changes in essential, non-discretionary expenses. The City would like to discuss further the specific elements sought to be included in this Rider, including "wheeling water costs". This Rider should, of course, take into account both

Mr. Deron Allen
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increases and decreases and provide an opportunity for adjustment upward and downward. The City requests that the Company provide detailed information to the City on a quarterly basis of any increase or decrease to each type of non-discretionary expense that the TRA may approve for inclusion in this Rider.

We respectfully request that the Company respond to these requests not later than Friday, November 8, 2013, and ask for a follow up meeting to discuss process on Friday, November 15, 2013, with the time to be determined at a later date. Certainly, it is our hope that we can build on the momentum of goodwill extended by the Company and partner to ensure that we work together in a way that avoids any hardship for our citizens. We also believe that the mechanisms described in this letter can be beneficial to the Company to better understand the City's needs – specifically, in the areas of economic development and infrastructure.

If you need clarification on the proposal or request, please feel free to contact me or Rick Hitchcock at your first convenience.

Best regards,

A handwritten signature in black ink, appearing to read 'Wade A. Hinton', with a stylized flourish at the end.

WADE A. HINTON
City Attorney

WAH/mms



Tennessee American Water
1101 Broad Street
Chattanooga, TN 37402
amwater.com

November 25, 2013

BY HAND DELIVERY

Wade A. Hinton, City Attorney
100 E. 11th Street, Suite 200
Chattanooga, TN 37402

Dear Mr. Hinton:

I am writing in response to your November 6, 2013, letter (the "Letter"). I appreciate the Letter and the discussions that we have had both before and after November 6th with respect to Tennessee-American Water Company's ("TAWC" or "Company") recent petition with the Tennessee Regulatory Authority ("TRA" or "Authority") pursuant to Tenn. Code Ann. § 65-5-103 (the "Petition") and its potential impact on consumers. I understand and value the concerns of the City of Chattanooga (the "City").

As we have discussed, the TRA will carefully review and analyze the Petition and conduct a public hearing on the same before determining whether to approve it. Moreover, the Attorney General's Office will participate in the hearing to represent the interests of Tennessee consumers. Nonetheless, I respect the City's proactive diligence in evaluating the Petition and its potential impact.

Understanding the City's concerns, and fully persuaded of the many substantive benefits of both the alternative regulatory methods recently established by the Tennessee General Assembly and the proposed mechanisms set forth in TAWC's Petition, TAWC, as set forth below, is pleased to adopt the four-pronged approach outlined in the Letter to address the City's concerns.

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➤ **OPERATIONAL EXPENSES, CAPITAL COSTS OR BOTH RELATED TO OTHER PROGRAMS THAT ARE FOUND TO BE IN THE PUBLIC INTEREST**

The Company has requested the TRA to approve a "Qualified Infrastructure Investment Program" pursuant to Tenn. Code Ann. § 65-5-103(d)(5). As requested by the City, and prior to January 1 each year (unless a different date is more reasonable and practicable depending upon the actual effective date of any such alternative regulatory method)

TAWC will provide, on an annual basis, a detailed infrastructure investments/improvement plan for the upcoming year, including the nature and locations of planned infrastructure improvements, and how such investments will benefit customers within the Company's current service territory. The Company will provide the City with this annual plan on a reasonable timeframe, so that the City and the Company will have an opportunity to review and discuss the same. As further requested by the City, the Company will provide quarterly reports to the City outlining the progress on the Company's annual infrastructure investments/improvement plan, including any changes to the plan. As previously discussed, this information will lay the groundwork for the Company and the City to jointly review and discuss both the annual plan and the quarterly reports. It is beneficial to both the consumers and the Company for the Company to learn of and discuss the City's feedback, input and observations.

➤ EXPENSES ASSOCIATED WITH THE EXPANSION OF INFRASTRUCTURE FOR THE PURPOSE OF ECONOMIC DEVELOPMENT AND EFFORTS TO PROMOTE ECONOMIC DEVELOPMENT

The Company has requested the TRA to approve an "Economic Development Investment Rider" pursuant to Tenn. Code Ann. §§ 65-5-103(d)(3) and (d)(4). To help ensure that any Company expenses related to the promotion of economic development serve the public interest, the Company, as requested by the City, will coordinate with the City, which has central responsibility for planning and promoting the community's economic development. In doing so, and as requested by the City, the Company will provide advance notice to the City of all proposed expenditures related to economic development efforts under the Rider. The Company will provide the City with such advance notice on a reasonable timeframe, so that the City and the Company will have an opportunity to review and discuss the same. This coordination will support the City's efforts to ensure that the Company's investments under this proposed mechanism have the intended economic benefit within the Company's current service area.

➤ INVESTMENTS RELATED TO SAFETY REQUIREMENTS, FACILITY RELIABILITY, OR WEATHER DISASTERS

The Company has requested a "Safety and Environmental Compliance Rider" pursuant to Tenn. Code Ann. § 65-5-103(d)(2), which provides, in part, that the TRA may authorize a mechanism to recover operational expenses, capital costs or both related to safety requirements imposed by the state or federal government, efforts to ensure the reliability of the public utility plant in service and weather-related natural disasters. As the statute does not expressly use the language "environmental compliance," the City is concerned that the use of this term under this proposed alternative regulatory method to recover safety and environmental expenses could lead to the improper classification of some "non-safety" environmental compliance expenses as "safety requirements." Recognizing this concern, the Company will provide quarterly reports to the City sufficiently demonstrating that any environmental compliance sought by the Company under this Rider, should it be approved by the TRA, are being spent only on recovery of safety requirements consistent with the statute.

➤ CHANGES IN ESSENTIAL, NON-DISCRETIONARY EXPENSES, SUCH AS FUEL AND POWER AND CHEMICAL EXPENSES

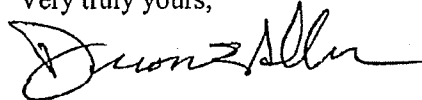
The Company has requested "Pass-Throughs for Purchased Power, Chemicals, Purchased Water, Wheeling Water Costs, Waste Disposal, and TRA Inspection Fee" pursuant to Tenn. Code Ann. § 65-5-103(d)(5)(B), which, in general, allows a public utility to request a mechanism to permit a more timely adjustment of rates resulting from changes in essential, non-discretionary expenses. As we have previously discussed, the Purchased Water and Wheeling Water Costs are, for the most part, not applicable to the City. Moreover, as proposed in the Petition, this Rider contemplates pass-throughs for both increases and decreases of such expenses. Finally, as requested by the City, the Company will provide detailed information to the City on a quarterly basis of any increase or decrease with respect to each type of non-discretionary expense, consistent with the proposed Rider as approved by the TRA. This will provide the opportunity for the City and Company to discuss the application of this Rider on a continuing, going forward basis.

* * * * *

The above-outlined, good faith approach will aid and support the City's efforts to monitor and evaluate any TRA-approved alternative regulatory methods, as proposed in TAWC's Petition, on an ongoing basis and properly position the City to act in the best interests of consumers. Moreover, it will provide the City with relevant information to support its efforts to ensure that the Company remains within the framework of any TRA-approved alternative regulatory methods and that the consumer and community benefits contemplated under such methods are realized.

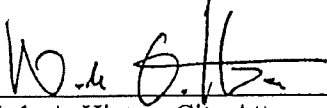
I appreciate the City's engagement on these important issues and very much look forward to continuing our efforts to work together for the good of the Greater Chattanooga community.

Very truly yours,



Deron Allen, President
Tennessee-American Water Company

RECEIVED AND ACKNOWLEDGED:

By: 
Wade A. Hinton, City Attorney
Chattanooga, Tennessee

Date: 11/25/2013