BUTLER | SNOW

December 30, 2013

VIA HAND DELIVERY

Hon. James M. Allison, Chairman
c/o Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

RE: Petition of Tennessee American Water Company, for Approval of a Qualified Infrastructure Investment Program, an Economic Development Investment Rider, a Safety and Environmental Rider and Pass Throughs for Purchased Power, Chemicals, Purchased Water, Wheeling Water Costs, Waste Disposal, and TRA Inspection Fees, TRA Docket No. 13-00130

Chairman Allison:

With this letter, I enclose Tennessee-American Water Company's Responses to the TRA's Second Set of Data Requests in the above-referenced matter. Please find attached to this letter five (5) paper copies of the Company's responses.

We appreciate your filing these responses. Please let me know if you have any questions.

With best regards, I am

Very truly yours,

Junaid Odubeko

Junaid A. Odubeko

JAO:sc
enclosures
cc: Joe Shirley
Vance Broemel

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TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 13-00130
SECOND DISCOVERY REQUEST OF THE
TENNESSEE REGULATORY AUTHORITY

Responsible Witness: Brent E. O'Neill

Question:

01. Reference Response to Question No. 1. Please explain why Project No. 8 costs more than Project No. 7.

Response:

The majority of the difference in the cost of the two projects is the location that the new main will be placed within the right-of-way on each project. Project No. 8 requires construction in or along the pavement, while Project No. 7 will be constructed adjacent to the pavement within the grass parkway.

Project No. 8 is the installation of approximately 300 linear feet of a 4-inch ductile iron main along West 54th Street between Beulah Avenue and Tennessee Avenue to replace an existing 2-inch cast iron main. The installation of this main will occur within a residential neighborhood. Due to conflicts with existing utilities and narrow right of way, a majority of the construction will occur within or just along the edge of the pavement. This type of construction requires additional cost for granular and controlled low strength backfill and the replacement of disturbed pavement. In addition, construction within the pavement usually requires additional time due to lost productivity by the construction crews from to the increase activities of removing and restoring the pavement, limited work time within a residential neighborhood, and additional traffic control measures.

Project No. 7 is the installation of 575 linear feet of 6-inch ductile iron main along 1st Avenue between 34th Street and 35th Street to replace 2-inch and 6-inch cast iron main. The installation of this main will occur adjacent to the pavement within the parkway due to sufficient right of way and limited conflicts with existing utilities. This type of construction does not require extensive pavement replacement or repair and limits the amount of special backfill required. This type of construction also allows for a more productive construction schedule.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 13-00130
SECOND DISCOVERY REQUEST OF THE
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Responsible Witness: Brent E. O'Neill

Question:

02. Reference Response to Question No. 2. Please provide a more detailed response to the original question.

Response:

The forecasted recurring projects in the rate case are not detailed for specific projects within the capital investment budget lines. The forecasted capital investment budget lines are based on a management determination of needs from both anticipated projects and historical spending amounts during previous years. For example, Line B, Main Replacements, will be forecasted based on previous years' spending and projects prioritized within the forecasted amount of capital expenditures. TAW may have projects that are anticipated to be completed under that Line B, but over the year the projects may get delayed due to immediate maintenance needs or relocations that were not anticipated. During the course of the year, the amount of capital expenditures may be revised to allow dollars to be moved between recurring project lines in order to accommodate business needs as appropriate. Investment projects are specifically identified and projected, however, as noted in the filing, there is only one investment project included in the Capital Recovery Riders, the Whitwell Improvement project, and this was not included in the 2012 rate case forecast.

Even if a specific investment project included some forecasted expenditures in the rate base in the attrition year, the response to Question No. 27 of the TRA's first data request shows that TAW's rate base is $2 million **higher** at the end of October 2013 than was forecasted at the end the attrition year in Docket No. 12-00049. The fact that rate base at the beginning of the forecasted period in this proceeding exceeds the rate base in the forecasted rate case, demonstrates that the recurring projects and single investment project that are forecasted in this filing were not included in the rate case expenditures.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 13-00130
SECOND DISCOVERY REQUEST OF THE
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Responsible Witness: Brent E. O'Neill

Question:

03. Reference Response to Questions No. 8 and No. 34. Provide a copy of all RFP's related to existing contracts where TAWC is proposing to recover the cost from the QIIP, EDI, SEC and PCOP Riders. Additionally, provide all bids received corresponding to these RFPs, including the contractor that was awarded the bid. Please explain how a contractor/company can pre-qualify to bid on a project.

Response:

Currently, there have been no RFP's issued for design and engineering work to be performed with regard to capital projects proposed in the petition. The RFP's are typically forwarded shortly before commencing work on the project to ensure that scope and level of work is accurate and representative at the time of the proposal. Currently, Tennessee American Water works with engineering consultants that have provided services in the past and that have negotiated master service agreements with the American Water Supply Chain group. Tennessee American Water does not request proposals through advertisement, but rather forwards request to consultants that have performed prior work for the company that was acceptable or those that have requested be included in future requests that show the ability and history of performing similar projects. As indicated in the response to questions 8, material bids are issued and reviewed on a national level for company-wide pricing through our American Water Supply Chain group. In most of the cases the pricing obtained for material used on projects has been negotiated by the Supply Chain group for a specified period prior to re-negotiations.

Chemical pricing requests have been issued to chemical suppliers for 2014 chemical pricing. While not specifically included in the PCOP at this time, the 2014 request for chemical bids is attached as part of this response.

		1026	Tennessee American Water					Polymer's					
Supplier Number	Supplier Name	Effective Dates	SAP Plant Number	SRM Plant Number		Sap Part Number	Part Description	Special Conditions	Product Code	Specify min. Zn content (%) for Zn Ortho products:	Supplier Part Number	WS1 -Water Supply Intake Process - % usage	WS2- Water Supply - Treatment of Water - % usage
			P701	286	Chattanooga Prod	1200586	CHM,CARBON,PAC LIGNITE,BULK	None	47101600	N/A			100%
			P701	286	Chattanooga Prod	1200597	CHM,CHLORINE,100%,2000LB CYLINDER	None	47101600	N/A			100%
			P701	286	Chattanooga Prod	1200647	CHM,HFS ACID,23%,BULK	None	47101600	N/A			100%
			P701	286	Chattanooga Prod	1200706	CHM,PACL,PLYMR CEDR CHEM 901,BULK	None	47101600	N/A	CC901		100%
			P701	286	Chattanooga Prod	1200844	CHM,POLYMER,NONIONC 2995 PWG,50LB	None	47101600	N/A	2995PWG		100%
			P701	286	Chattanooga Prod	1200928	CHM,SODIUM HYDROXIDE,50%,BULK	None	47101600	N/A			100%
			P701	286	Chattanooga Prod	1200989	CHM,ZINC,SULFATE,1:10,BULK	3.6% Zinc 36% Ortho as PO4	47101600	N/A	Carus 3390		100%
			P702	287	Suck Creek Road	1201423	Sodium Hydroxide 40%	N/A	47101600	N/A			
			P702	287	Suck Creek Road	1200942	CHM,SODIUM HYPOCHLORITE,13%,MINI BULK	N/A	47101600	N/A			
			P704	8144	WhitWell	1201441	CHM,Polymer,EC-265 Mini Bulk	N/A	47101600	N/A			
			P704	8144	WhitWell	1200648	CHM,HFS ACID,23%,MINI BULK	N/A	47101600	N/A	N/A		
			P704	8144	WhitWell	1200942	CHM,SODIUM HYPOCHLORITE,13%,MINI BULK	N/A	47101600	N/A	N/A		
			P704	8144	WhitWell	1200880	CHM,SODIUM PERMANGANATE,20%,MINI BULK	N/A	47101600	N/A	N/A		
			P704	8144	WhitWell	1201451	CHM,Phosphate,Ortho-Poly Carus 8500 Mini Bulk	N/A	47101600	N/A	N/A		

Susan Holmes
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WS3 - Water Supply - Treatment of Residuals - % usage	WS4 - Water Supply - Distribution - % usage	WT1- Waste Treatment - Intake Process - % usage	WT2- Waste Treatment - Treatment of Waste - % usage	WT3- Waste Treatment - Treatment of Residuals - % usage	WT4 - Waste Treatment - Transportation of Waste - % usage	Other/Unknown - % usage	Total Percentage used - Should total 100%	January	February	March	April	May	June	July	August	September	October	November	December	Grand Total
							100%	0	0	0	0	0	0	0	0	0	0	0	0	0
							100%	34,000	28,000	28,000	32,000	48,000	40,000	44,000	0	0	0	0	0	254,000
							100%	44,380	0	45,980	41,680	41,760	0	44,020	0	0	0	0	0	217,820
							100%	181,040	89,940	89,920	134,940	91,040	134,880	89,800	0	0	0	0	0	811,560
							100%	0	0	0	0	0	0	0	0	0	0	0	0	0
							100%	0	0	0	0	93,680	45,120	45,200	0	0	0	0	0	184,000
							100%	44,756	0	44,600	45,240	45,860	0	45,100	0	0	0	0	0	225,556
								0	0	0	0	0	0	0	0	0	0	0	0	0
								0	0	0	0	0	0	0	0	0	0	0	0	0
								0	0	0	0	0	0	0	0	0	0	0	0	0
								0	0	0	0	0	0	0	0	0	0	0	0	0
								0	0	0	0	0	0	0	0	0	0	0	0	0
								0	0	0	0	0	0	0	0	0	0	0	0	0
								0	0	0	0	0	0	0	0	0	0	0	0	0
								304,176	117,940	208,500	253,860	320,340	220,000	268,120	0	0	0	0	0	1,692,936

Supplier prices required in pounds unless otherwise stated in the product description All prices are delivered All charges included	Supplier prices required in pounds unless otherwise stated in the product description All prices are delivered All charges included				
1-1-2014 12-31-2014	1-1-2014 3-31-2014	2014 Blanket PO	2014 Blanket PO Acknowledgement	Physical Delivery Address	Special Delivery Requirement
		TBD	TBD	1003 Riverside Drive, Chattanooga, TN., 37406	Truck Supplied Air Required, Deliveries Accepted 7:00AM to 1:00PM Eastern Time.
		TBD	TBD	1003 Riverside Drive, Chattanooga, TN., 37406	Truck Supplied Air Required, Deliveries Accepted 7:00AM to 1:00PM Eastern Time.
		TBD	TBD	1003 Riverside Drive, Chattanooga, TN., 37406	Truck Supplied Air Required, Deliveries Accepted 7:00AM to 1:00PM Eastern Time.
		TBD	TBD	1003 Riverside Drive, Chattanooga, TN., 37406	Truck Supplied Air Required, Deliveries Accepted 7:00AM to 1:00PM Eastern Time.
		TBD	TBD	1003 Riverside Drive, Chattanooga, TN., 37406	Truck Supplied Air Required, Deliveries Accepted 7:00AM to 1:00PM Eastern Time.
		TBD	TBD	1003 Riverside Drive, Chattanooga, TN., 37406	Truck Supplied Air Required, Deliveries Accepted 7:00AM to 1:00PM Eastern Time.
		TBD	TBD	1003 Riverside Drive, Chattanooga, TN., 37406	Truck Supplied Air Required, Deliveries Accepted 7:00AM to 1:00PM Eastern Time.
		TBD	TBD	167 Dixie Lane Chattanooga, TN. 37405	Truck Supplied Air Required, Deliveries Accepted 7:00AM to 1:00PM Eastern Time.
		TBD	TBD	167 Dixie Lane Chattanooga, TN. 37405	Truck Supplied Air Required, Deliveries Accepted 7:00AM to 1:00PM Eastern Time.
		TBD	TBD		500 gallon container
		TBD	TBD		215 Gallon Container
		TBD	TBD		2 4oo gallon Containers
		TBD	TBD		125 gallon container
		TBD	TBD		100 Gallon container

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 13-00130
SECOND DISCOVERY REQUEST OF THE
TENNESSEE REGULATORY AUTHORITY

Responsible Witness: Brent E. O'Neill

Question:

04. Reference Response to Question No. 10. Has the 2013 budget been approved by the Board of Directors?

Response:

Yes.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 13-00130
SECOND DISCOVERY REQUEST OF THE
TENNESSEE REGULATORY AUTHORITY

Responsible Witness: Gary M. VerDouw

Question:

05. Reference Response to Question No. 13. Provide the methodology to be utilized in calculating the inspection fee adjustment in the PCOP calculation. Is TAWC going to amend its filing and work papers in this docket to reflect the response to this question?

Response:

Yes. Please see the attached tariff sheet and workpaper that reflects the calculated PCOP based on the actual expenditures and sales through the end of November 30, 2013. This has been adjusted to reflect the reduction of fuel and power and chemical expenses for 15% allowed unaccounted-for water. Please note that the PCOP is a true-up from the base year authorized in docket 12-00049 and therefore does not include any TRA Inspection fee from the forecasted capital riders at this point. The TRA Inspection fees will be reduced in the next PCOP filing by the amount collected from the proposed Capital Recovery Rider.

CLASSIFICATION OF SERVICE

PRODUCTION COSTS AND OTHER PASS-THROUGHS ("PCOP") RIDER

Applicability:

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales For Resale, and Private Fire, a PCOP credit of 1.10% will apply.

The above PCOP % will be recomputed annually.

General Description:

Provides for recovery or crediting of incremental increases in the cost of purchased power, chemicals, waste disposal costs at the treatment plant, purchased water from other utilities, wheeling of water by other utilities and TRA inspection fee between base rate cases.

BASE RATE COST OF PRODUCTION COSTS AND OTHER PASS-THROUGHS

The Base Rate Cost of Purchased Power, Chemicals, Waste Disposal, Purchased Water, Wheeling Water and TRA Inspection Fee per 100 Gallons of Water Sales determined and authorized in the Base Rate proceeding in Docket No. 12-00049 is as set forth below:

Base Rate Cost per 100 Gallons $ 0.04038

Tennessee American Water Company
Docket No. 13-00130
First Discovery Request of the Tennessee Regulatory Authority, Number 55
Sample Calculation of Production Costs and Other Pass-Throughs ("PCOP") Including Non-Revenue Water
To Determine PCOP Tariff Rider
Actuals for the Year Ending November 30, 2013

Line Number	Description	Amount
	I. Calculation of the Base Rate Cost of Production Costs and Other Pass-Throughs as authorized in the Base Rate case (*):	
1	Pro Forma Production Costs and Other Pass-Throughs	$ 4,062,167
2	Pro Forma Water Sales (WS) in 100 Gallons	100,589,065
3	Base Rate Cost per 100 Gallons WS (Line 1 / Line 2)	$ 0.04038
	II. Deferral calculation - Actual Non-Revenue Water Cost Production Costs and Other Pass-Throughs vs. the Base Rate Cost (**):	
4	Actual Production Costs and Other Pass-Throughs	$ 3,283,590
5	Actual Water Sales (100 Gallons)	92,747,990
6	Actual Rate Cost Production Costs and Other Pass-Throughs per 100 Gallons WS (Line 4 / Line 5)	$ 0.03540
7	Base Rate Cost per 100 Gallons WS (Line 3)	$ 0.04038
8	Incremental Change in Production Costs and Other Pass-Throughs per 100 Gallons WS (Line 6 - Line 7)	$ (0.00498)
9	Base Rate Case Water Sales 100 Gallons (Line 2)	100,589,065
10	Deferral Amount (Line 8 * Line 9)	$ (500,976)
	III. Calculation of Production Costs and Other Pass-Throughs ("PCOP") Tariff Rider	
11	Total Deferred Amount (Line 10)	$ (500,976)
12	Total Deferred Amount Grossed Up for revenue taxes (sum of Gross Receipts)	
13	Total Deferred Amount Grossed Up for revenue taxes (sum of Gross Receipts Tax and Uncollectibles (Line 11 / (1.0-.03616)) (**	$ (519,771)
14	Projected Annual Base Rate Revenue subject to PCOP (*)	47,073,724
15	PCOP % (Line 13 / Line 14)	-1.10%

(*) The numbers are taken from the settlement agreement in Docket No. 12-00049

(**) The numbers are actuals for the year ended November 30, 2013 including Non-Revenue Water for Purchased Power and Chemicals

(***) Assumes Gross Receipts Tax @ 3.0%, Uncollectibles @ 1.0571%, TRA Fee @ 0.4250%, and Forfeited Discount Rate @ -0.8661%

Tennessee American Water Company
Docket No. 13-00130
For the Twelve Months Ending November 30, 2013
PCOP Actual Expenses

Line #	Description	A For the 12 Months Ending 11/30/2013	B **NRW Limited 12 Mos Ending 11/2013 (Column A, Lines 1 and 2 x Line 18 Recoverable %)	C Authorized Amount Per Docket 12-00049	D C - B Difference NRW Limited from Authorized Docket 12-00049	E Adjust Difference for TRA Fee Recovered Via SEC, EDI, or QIIP 12 Months Ending 11/30/2013	F E - D Adjusted Difference
1	Purchased Water Including Wheeling Charges	$ 42,887	$ 42,887	$ 51,331	$ (8,444)		$ (8,444)
2	Purchased Power	2,428,708	2,167,123	2,678,772	(511,649)		(511,649)
3	Chemicals	790,608	705,456	986,930	(281,474)		(281,474)
4	Waste Disposal	229,781	229,781	213,308	16,473		16,473
5	TRA Inspection Fee	138,344	138,344	131,826	6,518	-	6,518
6							
7	Total	$ 3,630,328	$ 3,283,590	$ 4,062,167	$ (778,577)	$ -	$ (778,577)
8							
9							
10	Sales in 100 Gallons	92,747,990	92,747,990	100,589,065		92,747,990	
11							
12	Cost per 100 Gallons (Line 7 / Line 10)	$ 0.03914	$ 0.03540	$ 0.04038	$ (0.00498)	$ -	**$ (0.00498)**

Line #	**Recoverable % for Production Costs**	**For the 12 Months Ending 11/30/2013**
13	Sales	92,747,990
14	System Delivery	124,947,670
15	Non-Revenue Water % [1 - (Line 13 / Line 14)]	25.8%
16	Non-Revenue Water % Authorized	15.0%
17	Variance (If Line 15 > Line 16 then Line 15 - Line 16]	10.8%
18	**Recoverable % (1 - Line 17)**	**89.2%**

**Non-Revenue Water is only applied to purchased power and chemicals.

Tennessee American - Hyperion Data on Water Usage

Water Usage Total	**2012**	**2013**
Jan	770,295	788,817
Feb	698,125	649,973
Mar	735,978	680,111
Apr	800,777	757,154
May	903,884	684,077
Jun	951,425	843,259
Jul	1,059,325	842,756
Aug	951,178	964,467
Sept	865,307	815,580
Oct	842,324	835,375
Nov	764,721	711,947
Dec	701,284	
	10,044,624	**8,573,515**

	Hyperion
Dec	701,284
Jan	788,817
Feb	649,973
Mar	680,111
Apr	757,154
May	684,077
Jun	843,259
Jul	842,756
Aug	964,467
Sep	815,580
Oct	835,375
Nov	711,947
	9,274,799

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 13-00130
SECOND DISCOVERY REQUEST OF THE
TENNESSEE REGULATORY AUTHORITY

Responsible Witness: Brent O'Neill

Question:

06. Reference Response to Question No. 21. Please explain why February 2013 reflects a negative twelve months-to-date expenditure for meter replacement.

Response:

The negative amount during February 2013 is due to an accounting correction for an overstatement of work performed during January 2013. An accrual in the amount of $43,500 was made in January to account for work and invoices that were anticipated to be received during the end of the month and into February. During February this accrual was reversed in the amount of -$43,500 in anticipation that the invoices would be received and negate the accrual, not all of the invoices were received during the month causing the reversal to show a negative capital spend during February.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 13-00130
SECOND DISCOVERY REQUEST OF THE
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Responsible Witness: Gary M. VerDouw/Brent E. O'Neill

Question:

07. Reference Response to Question No. 42. What portion, if any, of the current EDI projects will be funded by stockholders?

Response:

At this time, none of the current EDI projects will be funded by stockholders other than the equity portion of Tennessee American capital investment in those projects. There are currently no specific Economic Development projects that have been proposed that are outside the normal course of development within TAWC's system growth. The reason that it is appropriate for the current EDI projects to be funded by the ratepayers, as opposed to by the stockholders, is that the majority of the work being proposed under the EDI projects is related to new development within the Tennessee American Water System similar to new development projects that are included in each rate case. The projects are related to upsizing proposed developer mains, new hydrants and new services and meters. In addition, a portion is proposed to be used to invest in alternative fuel vehicles including the retrofit of existing vehicles.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 13-00130
SECOND DISCOVERY REQUEST OF THE
TENNESSEE REGULATORY AUTHORITY

Responsible Witness: Gary M. VerDouw

Question:

08. Please explain why forfeited discounts should be excluded when calculating the gross-up factor. Would TAWC be amenable to revising its calculations to include the forfeited discount when calculating the gross-up factor?

Response:

Tennessee American Water Company (TAWC) agrees that forfeited discounts should be included when calculating the gross-up factor. TAWC agrees that the gross-up factor and revenue taxes should be calculated in the same manner as they were in Docket No. 12-00049. Including forfeited discounts in the calculation will change the gross-up factor from 1.645413 to 1.648562. The new calculation of 1.648562 matches what was settled upon in Docket No. 12-00049. Below is a diagram that shows how the gross-up factor and revenue taxes are calculated including forfeited discounts.

PreTax ROR Conv. Factor

Line No.	Description	Amount	Balance
1	Operating Revenues		1.000000
2	Add: Forfeited Discounts	0.008661	0.008661
3	Balance		1.008661
4	Uncollectible Ratio	0.010480	0.010571
5	Balance		0.998090
6	State Excise Tax	0.065000	0.064876
7	Balance		0.933214
8	Federal Income Tax	0.350000	0.326625
9	Balance		0.606589
10	Revenue Conversion Factor (Line 1/ Line 9)		1.648562
11			
12	**Revenue Taxes**		
13			
14	Uncollectible Expense		1.0571%
15	TRA Fee		0.4250%
16	Gross Receipts Tax		3.0000%
17	Forfeited Discount Rate		-0.8661%
18	**Total Revenue Taxes:**		3.6160%