TENNESSEE-AMERICAN WATER COMPANY
CASE NO. ____________
DIRECT TESTIMONY
Paul T. Diskin

1. Q. WILL YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD?

A. My name is Paul T. Diskin and my business address is 800 W. Hershey Park Drive, Hershey, PA 17033.

2. Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by American Water as the Manager of Rates and Regulations.

3. Q. WHAT ARE YOUR RESPONSIBILITIES IN THIS POSITION?

A. I supervise and coordinate the preparation of data and various exhibits in rate matters as well as maintaining and administering the Company's tariffs. I also present testimony in formal rate cases and other regulatory proceedings. I have testified in the various Pennsylvania Public Utility Commission proceedings which are listed in Appendix A and B.

4. Q. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE?

A. I received a Bachelor of Science degree in Business Administration with a dual concentration in Accounting and Management from Clarion State College in December of 1977. In December of 1992, I was awarded an MBA from York College of Pennsylvania. I have completed the continuing education program conducted by the National Association of Regulatory Utility Commissioners (NARUC) and the University of Utah. In addition, I am a Certified Management Accountant (CMA) recognized by the Institute of Management Accountants. I also serve as the Chairman of the Rates and Revenue Committee of the Pennsylvania Chapter of the National Association of Water Companies.

My experience in the water utility industry began in 1979 when I was employed as a Junior Accountant in the Continuing Property Records Section of the American Water Works Service Company, Inc. My principal duties were to process investment and retirement work orders and to record additions and retirements of utility plant in the subsidiary ledgers of the various districts of the Company's predecessor corporations. Later in the same year, I was assigned to the Rates and Revenue Section to aid in the preparation of rate filings. In 1980, I was promoted to the position of Rate Analyst I, and in 1981 was promoted to Rate Analyst II. Effective January 1982, I was promoted to the position of Revenue Requirement Specialist. On July 1, 1988, I became Assistant Director of Rates and Revenue for the Pennsylvania Region. Effective January 1, 1993, I was transferred to Pennsylvania-American. On July 1, 2001, I became Director of Rates and Planning. Effective July 15, 2004, I was appointed as Manager of Rates and Regulations for the Southeast Region of American Water.

5. Q. WAS THE COMPANY'S ACCOUNTING EXHIBITS PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes, they were.

6. Q. WHAT IS THE SOURCE OF THE INFORMATION USED IN THE COMPANY'S ACCOUNTING EXHIBITS?

A. The information contained in the Accounting Exhibits was prepared from the financial and operational records of the Company.

7. Q. PLEASE EXPLAIN THE INCREASE IN RATES THAT THE COMPANY IS SEEKING IN THIS PROCEEDING?

A. The Company is seeking a rate increase that would produce additional annual revenues of $1.9 million or 5.9%. The Company last filed for a rate increase in 2003.

8. Q. WHAT ARE THE TEST YEAR AND ATTRITION YEAR SELECTED BY THE COMPANY FOR THIS FILING?

A. The Company has selected the twelve months ending March 31, 2004, as its test year and an attrition year starting on January 1, 2005 and ending December 31, 2005.

9. Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. A. My testimony will 1) sponsor the Company's Accounting Exhibits Nos. 1, 2, and 3 which support the proposed revenue increase of $1,970,887 and 2) support the Company's attrition year level of Revenue, Labor, Fuel and Power, Chemicals, Waste Disposal, Group Insurance, Regulatory Expense, Insurance Other than Group, Uncollectible Expense, Rents, General Office Expense, Miscellaneous Expense, Other Maintenance Expense, AFUDC, General Taxes and Rate Base. Next, I will address the Company's proposed rate base shown on Exhibit No. 1, Schedule 2, consisting of 3 pages. Then, I will address the Company's proposed Computation of Working Capital shown on Exhibit No. 1, Schedule 3, consisting of six pages. I will also address the Company's Operating Revenues Per Books for the Test Year and for the Attrition Year under both Present and Proposed Rates, except for average daily usages for both the residential and commercial customer classes.

10. Q. WHO WILL ADDRESS THE COMPANY'S PROPOSED AVERAGE DAILY USAGE FOR THE RESIDENTIAL AND COMMERCIAL CUSTOMER CLASSES?

A. The Company has retained the services of Dr. Edward L. Spitnagel, Jr., Professor, Washington University in St. Louis, Missouri, to provide weather normalizations for both the residential and commercial customer classes. I will explain how Dr. Spitnagel's averages were used in the Company's bill analysis.

11. Q. WHAT IS THE TEST PERIOD REFLECTED IN THIS CASE?

A. The Company has used a historical test period of twelve months ending March 31, 2004. The Company has adjusted the test period for two levels of adjustments. The first adjustment normalizes the test year. The second level adjusts the normalized year to arrive at the attrition year which is the twelve months ended December 31, 2005.

12. Q. MR. DISKIN, ARE THERE ANY EXHIBITS YOU WISH TO SPONSOR BEFORE YOU CONTINUE?

A. Yes, I would like to give a brief description of the accounting schedules which detail and support the rate base, revenues, expenses, and capitalization for the test year and attrition year.

<u>Exhibit 1</u> is a financial summary of the filing which details how the Company arrived at the amount of the requested revenue increase. There is also a rate base summary for the test year and attrition year with supporting schedules.

<u>Exhibit 2</u> is an operating income summary for the test year and attrition year with supporting schedules broken down by major

account group.

Exhibit 3 provides a cost of capital summary for the attrition year and supporting schedules which provide detail on each component of the capital structure.

14. Q. HOW DID THE COMPANY DETERMINE THE OPERATING REVENUES SHOWN IN ITS ACCOUNTING EXHIBIT?

A. The Company's operating revenues are obtained from (i) metered sales, (ii) private and public fire service, and (iii) miscellaneous, service revenues, rents from property, and other water revenues.

(i) Metered Sales

The Company uses a bill analysis reflecting the actual billing determinants for the test year, twelve months ended March 31, 2004. Exhibit No. 4, Schedules 1 and 2, sets forth the individual bill analysis by customer classes. This schedule multiplies attrition year billing determinants by present and proposed rates.

15. Q. DID THE COMPANY MAKE ANY ADJUSTMENTS TO PER BOOK REVENUES FOR THE TEST YEAR?

A. Yes, the Company made a total of four adjustments, as follows: (1) weather normalization adjustment for the residential and commercial customer classes, (2) eliminated net change in accrued revenues, (3) annualization of the rate increase that became effective August, 2003 and (4) added revenue for the estimated number of new customers to be added during the attrition year. The estimate is based on historical results. The reasons for these adjustments are identified in the Company's work papers that are filed under separate cover.

16. Q. **HOW WERE THE OPERATING EXPENSE ADJUSTMENTS IN THE ACCOUNTING EXHIBIT CALCULATED?**

A. **The adjustments reflect an ongoing level of operating expenses consistent with the test year matching principles. Known and measurable price adjustments have been included to restate test year expense levels to rate year levels, the first 12-month period in which new rates will be in effect.**

17. Q. **WHAT IS YOUR TESTIMONY ON THE ISSUE OF COMPANY LABOR EXPENSE?**

A. **I will address the methodology used by the Company in developing the Going-level provision for labor expense.**

18. Q. **HOW DID THE COMPANY CALCULATE GOING-LEVEL LABOR EXPENSE IN ITS COST OF SERVICE?**

A. **The Company calculated labor expense by individual employee. Each employee's wages during the twelve months ended March 31, 2004 were adjusted to account for the wage level to be paid during the first twelve-months in which the new rates will be in effect. This is the same approach the Company has used in prior filings.**

19. Q. **HOW WERE THE WAGE LEVELS FOR THE ATTRITION**

YEAR DETERMINED?

A. For hourly employees, the hours worked during the test year were obtained from the Company's actual payroll records. Adjustments were then made to overtime hours to restate those hours to a level equivalent to the employee's hourly pay rate. For example, the hours paid at time and a half wage rates were multiplied by 1.5 to yield hours that could be applied to the employee's hourly wage rate. Similar adjustments were made for other premium overtime hours. Each employee's equivalent hours were then applied to their average test year wage rate to determine going-level wages.

20. Q. HOW WERE THE AVERAGE RATE YEAR WAGE RATES CALCULATED?

A. For union employees, the Company's existing bargaining agreements were examined. The agreements contain negotiated wage rates through the attrition year. The wage rates for each pay class in effect for the attrition year were pro-rated based upon the number of days in the attrition year. The result is an average attrition year wage rate for each union employee.

For non-union hourly and clerical employees, current wage rates that became effective on April 1, 2003 were adjusted for wage increases of 3% on April 1, 2004. As was done for union wage rates, the test year wage rate was calculated based upon the number of days each of those wages were in effect.

21. Q. HOW WERE THE ATTRITION YEAR WAGE LEVELS FOR SALARIED EMPLOYEES DETERMINED?

A. Salaried employees are exempt from overtime pay. For that reason, the current annual salary for each employee has been adjusted for wage increases that became effective on April 1, 2004. Consistent with the other employee classes, the 2004 salaries were calculated based upon the number of days each of the salary amounts would be in effect.

22. Q. WHAT IS THE BASIS UPON WHICH FUEL AND POWER COST WAS CALCULATED FOR THIS RATE ADJUSTMENT?

A. The basis for fuel and power is based upon expected water pumped to the system during the attrition year (system delivery), and its cost to pump and treat. Attrition year water sales, non-revenue usage water (which is water used for system flushing, street cleaning, sewer flushing, etc.) and an estimated unaccounted for water is combined to arrive at system delivery. Fuel and power is based on KWH's per million gallons system delivery.

Fuel and power costs are based on estimated KWH usage and KWD required to produce the projected system delivery for the attrition year. KWH's per thousand gallons is used to calculate energy charges. The KWH's per thousand gallons required is based on the latest 12 months actual, with adjustments for any known changes that will affect KWH usage. Both KWH and KWD usage is priced at the rates currently being charged by the Chattanooga Electric Power Board. The total attrition year fuel and power expense is $ 1,755,680 which represents an increase of $ 204,058 over the test year expense due to an increase in overall system delivery.

23. Q. WHAT IS THE BASIS FOR THE CHEMICAL COSTS?

A. Chemical costs are based upon expected water pumped to the system (system delivery) for the attrition year and the cost to treat that water. Attrition year water sales, non-revenue usage (used for street cleaning, sewer flushing, etc.) and an estimated unaccounted for water is combined to arrive at system delivery. System delivery, plus water used at the treatment plant, is combined to produce total treatment rate. The total attrition year chemical expense is $861,861 which is an increase of $121,330 over the test year expense due to the increase in system delivery.

24. Q. WHAT IS THE BASIS FOR THE COST OF WASTE DISPOSAL?

A. Waste disposal is based upon the 2005 budget. This amount is slightly higher than that during the test year.

25. Q. PLEASE EXPLAIN THE DEVELOPMENT OF THE ADJUSTMENT FOR GROUP INSURANCE.

A. The group insurance expense for the normalized test year was calculated first by determining the annualized group insurance cost. The cost is determined by applying the group insurance rates in effect at January 1, 2004 to the pro forma insurance coverages based upon the employee complement and salary and wage information. From this amount, an amount representing the employee contribution for their healthcare coverage is subtracted. The result is the Company's annualized group insurance cost.

Since group insurance is an employee benefit, the cost for group insurance is charged based upon direct labor charges. Since 16.61 percent of labor was not charged to expenses (as previously explained) this percentage of group insurance cost is excluded from the Company's claim for group insurance expense.

26. Q. ARE THERE ANY OTHER PAYROLL-RELATED EXPENSES?

A. Yes, there are. The Company's claim for payroll taxes is based on historic and future test year salary and wage expense. As is the case with group insurance, 16.61% of the calculated payroll taxes are eliminated, representing the portion not charged to operations.

27. Q. PLEASE EXPLAIN THE COMPANY'S CLAIM FOR OPEBS.

A. The Company's claim for OPEB expense represents the test year amount accrued of $996,796 less the capitalized portion of $114,043 or a net amount of $882,753.

28. Q. PLEASE EXPLAIN THE COMPANY'S PENSION ADJUSTMENT IN THIS CASE.

A. The Company participates with all its American Water Services ("AWS") affiliates in a system-wide Pension Plan. Its actuary, Towers Perrin, prepares the AWS's pension calculations. The Company's adjustment to pension expense is based on Towers Perrin's Actuarial Report for 2003-2004.

29. Q. MR. DISKIN, YOU LISTED A NUMBER OF OTHER EXPENSE CATEGORIES THAT YOU WILL BE SUPPORTING, WOULD YOU PLEASE DISCUSS EACH ONE?

A. Yes. Each of the following expense categories were reviewed for the test year and adjusted to reflect a normalized test year and further adjusted to an appropriate level of expense for the attrition year. Some of the expense categories were adjusted for an inflation factor of 3.3%.

30. Q. HOW DID YOU ARRIVE AT THE 3.3% INFLATION

FACTOR?

A. I used the Value Line Forecast for the US Economy Gross Domestic Product estimated inflation rate. For the attrition year, I used the annual amount of change of 3.3%.

31. Q. PLEASE CONTINUE.

A. REGULATORY EXPENSE

The company has estimated the cost of the preparation and presentation of this current filing to be $150,000. The Company is proposing to amortize these costs over a three year period resulting in an annual cost of $50,000. Also, included in the attrition year cost is the Cost of Service Study Expense in the amount of $40,000 which the company is proposing an amortization period of five years resulting in an annual cost of $8,000. Total attrition year expense is $58,000.

INSURANCE OTHER THAN GROUP

The Company's proposed level for this expense for the attrition year is $657,000 and is based on the Company's 2005 budget. This expense category includes costs for general liability, workers compensation, and property insurance.

CUSTOMER ACCOUNTING EXPENSE

Customer accounting expense for the test year was $572,632. The Company applied the inflation factor of 3.3% to these expenses, excluding uncollectibles and postage to arrive at an increase of $1,713.

This category includes costs associated with the customer billing and collecting function. It includes costs for office supplies, report forms, computer supplies, postage, collection agency fees, lock box expenses, janitorial service, telephone expense, and other miscellaneous customer accounting expense.

UNCOLLECTIBLE EXPENSE

The uncollectible percentage of .93% was derived by taking the net charge offs, less recoveries as a percentage of total revenues for the test year. The attrition year uncollectible expense is

$307,859.

GENERAL OFFICE EXPENSE

General office expense for the test year was $189,347. The inflation factor of 3.3% was applied to the remaining expenses (excluding postage) to arrive at an attrition year expense of $193,122. This expense category includes costs associated with the general expenses for the offices. These include report forms, office supplies, computer supplies, overnight mail expenses, janitorial services, telephone expense, electrical expense, employee expenses, credit line fees, bank service charges, and other miscellaneous general office expenses.

MISCELLANEOUS EXPENSE

Miscellaneous expense for the test year totaled $1,596,601. The Company is proposing four adjustments to this category. The first adjustment reflects the inflation factor adjustment of 3.3%. This results in an increase of $50,067. The Company did not apply the inflation factor to the Employee Stock Option Plan (ESOP) expense or the 401K expense.

The second adjustment eliminated the cost of temporary employees and normalized the test year. This resulted in a decrease of $18,671.

The third adjustment was to include the cost of leasing vehicles for an amount of $9,780. The Company is in the process of switching from purchasing vehicles to leasing vehicles.

The fourth adjustment is the amortization of the transition costs for the Shared Services Center and the Customer Call Center annualized for an entire year.

The proposed miscellaneous expense for the attrition year is $1,661,970 which includes adjustments totaling $(140,306)

MAINTENANCE EXPENSE

Maintenance expense for the test year was $630,331. An adjustment was made to include the costs of preventative programs totaling $92,450. The Company is proposing to

increase this total by $23,851 to reflect the inflation factor to arrive at an attrition year balance of $746,632.

This expense category includes costs associated with maintaining the property of the Company. This would include repair parts, tools, maintenance supplies, contracted services, paving, maintenance agreements, and other miscellaneous maintenance expenses.

AFUDC

The Company's proposed amount for AFUDC is $28,791 and is based upon the 2005 budget. This adjustment was made to reflect the AFUDC as an above the line item for ratemaking purposes.

TAXES OTHER THAN INCOME

PROPERTY TAXES

Property taxes for the test year were $2,625,029. An additional amount was accrued during the last quarter of the test year to true-up the prior years' actual payment. This resulted in a normalized adjustment of ($320,865). The attrition year adjustment of $199,465 reflects the increase in the appraised value of the Company property through the attrition year.

GROSS RECEIPTS TAXES

Gross receipts tax was calculated based on projected jurisdictional revenues for Tennessee including Other Operating revenues. The result was reduced by Vendor's Compensation, Franchise Tax, Excise Tax, a $5,000 exemption, and multiplied by the 3% tax rate.

PSC FEES

The PSC Inspection Fee was based on projected 2004 jurisdictional revenues. This was reduced by uncollectibles and a $5,000 exemption to arrive at taxable revenues. The result is multiplied by the Tennessee statutory rates that were taken from the 2003 return.

FRANCHISE TAX

Franchise tax, as imposed by the state of Tennessee, applies to the company's apportioned net worth or value of property owned and

used in Tennessee, whichever is greater, as shown at the close of the corporation's fiscal year. The Franchise Tax is paid in arrears and is based on the previous years original cost of assets. For this filing, we utilized the balances as of March 31, 2004 as a basis for the tax and multiplied it by the statutory rate of $.25 per $100.

RATE BASE:

32. Q. HAS THE COMPANY CHANGED THE METHODOLOGY OF CALCULATING REQUESTED RATE BASE FROM THE APPROACH ADVOCATED IN ITS LAST CASE?

A. No, it has not. This is the same approach used and approved in Case No. 03-00118. Shown on Exhibit No. 1, Schedule 2, Column No. 1 of the Company's Accounting Exhibit, is the rate base for the historical test year totaling $85,553,595. In Column No. 2, the Company has summarized it's requested ratemaking adjustments to rate base totaling $2,057,796 over and above the historical test year. In Column number 3, the Company has shown its requested rate base for the mid-point of the Attrition Year, aggregating $87,611,392.

33. Q. PLEASE DETAIL THE COMPONENTS THAT COMPRISE RATE BASE SHOWN ON EXHIBIT 1, SCHEDULE 2.

A. UTILITY PLANT IN SERVICE

Includes the actual undepreciated original cost of all land and land rights, easements, structures and improvements, together with equipment in service at March 31, 2004. To this actual March 31, 2004 balance, the budgeted cumulative effect of additions and retirements to Utility Plant for the Period January 1, 2005 through December 31, 2005 have been reflected to arrive

at utility plant balance at the mid-point of the attrition year. These additions and retirements are summarized on Exhibit 1, Schedule 2, page 3 of 3 and are addressed in greater detail in Mr. Bishop's Direct Testimony.

CONSTRUCTION WORK IN PROGRESS

This amount is shown in both March 31, 2004 actual and December 31, 2005 budgeted balances. These amounts are representative of all actual or budget project work for utility plant that are not in service at December 31, 2005.

LIMITED-TERM UTILITY PLANT-NET

WORKING CAPITAL

Working capital shown on Exhibit 1, Schedule 2, is further detailed on Exhibit 1, Schedule 3, and I will explain those components that make-up working capital.

Average Cash

Average cash represents a monthly average which was computed based on 12 monthly averages of daily cash balances per bank statements for the year ended July 31, 2002. The monthly average was computed by dividing the total daily balances for the month by the same month's total days.

Prepaid Insurance, Prepaid Taxes, and Materials and Supplies

Prepaid insurance, prepaid taxes, and materials and supplies represent an average of the thirteen month end balances for the test year ending July 31, 2002.

Deferred Regulatory Expense

The deferred regulatory expense consists of an average of two cases unamortized balances at the September 30, 2003 attrition year mid point. The amounts included in rate base include $187,000 for the current rate case expense and $36,000 for the current Cost of Service Study.

Unamortized Debt Expense

Unamortized debt expense was calculated by starting with the July 31, 2002 unamortized debt expense and subtracting the cumulative amortizations to arrive at the balances of the beginning and ending of the attrition year. The average of these two balances, plus the unamortized debt expense of the proposed debt issue, result in a $238,260 balance at the attrition year midpoint.

Other Deferred Debits

Other deferred debits consist of three items detailed below:

- Unamortized transition costs of the Customer Call Center which total $915,709.
- Unamortized transition costs of the Shared Services Center which total $343,096.
- Unamortized security costs which total $250,458.

Lead-Lag Study

The Company is using a Lead/Lag Study that was performed based on historical data for the twelve months ending July 31, 2002, which includes a working capital allowance of $525,000.

Incidental Collections

Incidental collections represent the average balance of funds for sewer billing and sales tax not yet remitted or paid for the 12 months ending July 31, 2002. The average balances resulting in a reduction to rate base working capital for sewer billing and sales tax are $1,895,262 and $85,819 respectively.

RATE DESIGN

34. Q. HOW DID THE COMPANY DEVELOP THE TARIFF RATES REQUESTED IN THIS CASE?

A. The proposed tariff rates are based upon an across the board increase.

35. Q. PLEASE EXPLAIN THE COMPANY'S ATTRITION LEVEL OF INCOME TAXES?

A. The Company's calculated level of Income Taxes for the attrition year is the present rate amount of $2,515,431. This is broken down into three components:

1. **Current provision for federal and state income taxes of $348,230 and $65,347 as shown on pages 1 and 2 of Accounting No. 2, Schedule 6.**
2. **Deferred federal and state income taxes of $1,865,064 and $313,158 are also shown on pages 1 and 2 of Accounting Exhibit No. 2, Schedule 6.**
3. **The annual amortization of the 3%, 4% and 10% is ($76,368) Investment tax credits for the test year.**

36. Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

APPENDIX A

	DOCKET NO
Pennsylvania-American Water Company (Wastewater)	R-00005212
	R-00973973
Collection System Improvement Charge	R-00027982
Pennsylvania-American Water Company (Water)	
	R-00038304
Facility Protection Charge	R-00027983
	R-00964438
	R-00973944
	R-00943231
	R-00932670
	R-922428
	R-911909
	R-901652
	R-891208
Pennsylvania-American Water Company (Pre-merger)	R-880916
Keystone Water Company	R-850245
Berwick District	R-842759
Northeast Region	R-842755
Southern Central Region	R-842756
Riverton Consolidated Water Company	R-850153
Western Pennsylvania Water Company	R-870825
	R-860397
Butler District	R-842624
Clarion-Punxsutawney District	R-842625
Indiana-Kane	R-842623
Warren District	R-842622
	R-850097
Western Region	R-842621
	R-850096

APPENDIX B

FORMAL CUSTOMER COMPLAINT PROCEEDINGS

DOCKET NO.	*COMPLAINTANT*
C-00971106	Gilbert
C-00981273	Drew
C-00992304	Sayegh
C-00992569	Waste Recycling
C-00003629	Ellis
C-00004511	Valvanno
C-20016173	Noll
C-00014733	Morra
C-20016207	Collier Township
C-00015337	Parks, et al
Z-015005197	Lamberton

TENNESSEE REGULATORY AUTHORITY

STATE OF PENNSYLVANIA

COUNTY OF DAUPHIN

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

He is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, his testimony would set forth in the annexed transcript consisting of 21 pages.

Paul T Diskin

Paul T. Diskin

Sworn to and subscribed before me
this 3rd day of September 2004.

Emily T. Hicks

Notary Public

My commission expires ________________.

NOTARIAL SEAL
Emily T. Hicks, Notary Public
Derry Township Dauphin County
My Commission Expires March 4, 2006

Tennessee Regulatory Authority
Company Tennessee American Water
Docket No

Overall Financial Summary

Test Year Twelve Months Ended March 31, 2004
Exhibit No 1, Schedule 1

Line No	Description	Reference to Supporting Exhibit	Proposed Test Year
7	Rate Base	Exhibit 1, Schedule 2	$87,611,392
9	Operating Income at Attrition Year Present Rates	Exhibit 2, Schedule 1	5,157,576
11	Earned Rate of Return		5 890%
13	Rate of Return	Exhibit 3, Schedule 1	8 263%
15	Required Operating Income		7,239,329
17	Operating Income Deficiency		2,081,753
19	Gross Revenue Deficiency Factor		1 69890763
21	Revenue Deficiency		3,536,706

Tennessee Regulatory Authority
Company Tennessee American Water
Docket No

Computation of Attrition Year Rate Base

Test Year Twelve Months Ended March 31, 2004
Exhibit No 1, Schedule 2

Line No		Footnote Reference	Per Books Rate Base @ 3/31/2004	Adjustments	Rate Base at Mid-Point of Attrition Year
4	Additions				
6	Utility Plant in Service (UPIS)	(1)	$150,299,728	$9,857,990	$160,157,718
8	Construction Work in Progress	(2)	3,059,985	(2,258,326)	801,659
10	Utility Plant Capital Lease		1,590,500		1,590,500
12	Deferred Maintenance		10,286	(4,645)	5,641
14	Limited-Term Utility Plant - Net	(3)	(3,270)	0	(3,270)
16	Working Capital		1,385,205	0	1,385,205
18	Total Additions		156,342,435	7,595,019	163,937,453
20	Deductions				
22	Accumulated Provision for Depreciation UPIS	(4)	46,581,674	5,346,740	51,928,414
24	RWIP		(74,680)	0	(74,680)
26	Accumulated Amortization of Utility Plant Capital Lease	(5)	618,528	123,706	742,234
28	Deferred Income Taxes	(6)	13,019,768	466,651	13,486,419
30	Customer Advances for Construction	(7)	3,066,640	(633,789)	2,432,851
32	Contributions in Aid of Construction	(8)	7,527,564	237,527	7,765,092
34	Unamortized Investment Tax Credit	(9)	49,345	(3,612)	45,733
36	Utility Plant Acquisition Adjustment	(10)	0	0	0
38	Total Deductions		70,788,839	5,537,223	76,326,062
40	Rate Base		85,553,595	2,057,796	87,611,392

Tennessee Regulatory Authority
Company Tennessee American Water
Docket No

Attrition Year Rate Base
Footnotes

Test Year Twelve Months Ended March 31, 2004
Exhibit No 1, Schedule 2

Line No	FOOTNOTE REFERENCE	DESCRIPTION	AMOUNT
1			
2			
3			
4			
5			
6	(1)	Net Additions to UPIS through December 31, 2005	$9,857,990
7			
8	(2)	Adjustment to CWIP through December 31, 2005	(2,258,326)
9			
10	(3)	Adjustment to Deferred Maintenance	(4,645)
11			
12	(4)	Adjustment to Limited -Term Utility Plant - Net	0
13			
14	(5)	Adjustment to Accumulated Provision for Depreciation of UPIS	5,346,740
15			
16	(6)	Adjustment to Accumulated Amortization of Utility Plant - Capital Lease	123,706
17			
18	(7)	Adjustment to Deferred Income Taxes	466,651
19			
20	(8)	Change in Customer Advances	(633,789)
21			
22	(9)	Change in Contributions in Aid of Construction	237,527
23			
24	(10)	Change in Unamortized Investment Tax Credit	(3,612)
25			
26	(11)	Adjustment to Utility Plant Acquisition Adjustment	0
27			
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Tennessee Regulatory Authority
Company Tennessee American Water
Docket No

Net Additions to Utility Plant in Service
From End of Test Year to Mid-Point of Attrition Year

Test Year Twelve Months Ended March 31, 2004
Exhibit No 1, Schedule 2

Line No	Account Number	Account Description	4/1/2004 to 12/31/2004 Additions	1/1/2005 to 12/31/2005 Additions	4/1/2004 to 12/31/2004 Retirements	1/1/2005 to 12/31/2005 Retirements	Net Additions to Utility Plant in Service 8/1/02-9/30/03
3	301 00	Organization	$0	$0	$0	$0	$0
4	303 00	Land & Land Rights	$0	$0	$0	$0	$0
5	303 99	Comprehensive Planning Study	$0	$0	$0	$0	$0
6	304 22	Pumping Structures	$0	$0	$0	$0	$0
7	304 31	Water Treatment Structures	$0	$0	$0	$0	$0
8	304 32	Water Treatment Structures-Painting	$0	$0	$0	$0	$0
9	304 40	T & D Structures	$0	$0	$0	$0	$0
10	304 51	Office Structures	$0	$0	$0	$0	$0
11	304 52	Stores , Shop, & Garage Structures	$0	$0	$0	$0	$0
12	304 53	Miscellaneous Structures	$111,000	$40,450	$0	$0	$151,450
13	306 20	Lakes, Rivers, & Other Intakes	$0	$0	$0	$0	$0
14	310 20	Power Generation Equipment	$0	$0	$0	$0	$0
15	311 22	Electric Pumping Equipment	$0	$0	$0	$0	$0
16	311 23	Deisel Pumping Equipment	$0	$0	$0	$0	$0
17	311 27	Other Pumping Equipment	$0	$0	$0	$0	$0
18	320 31	Water Treatment Equipment	$0	$0	$0	$0	$0
19	320 33	Granular Activated Carbon	$0	$0	$0	$0	$0
20	330 41	T & D Reservoirs & Standpipes	$175,000	$15,000	$0	$0	$190,000
21	330 42	T & D Reservoirs & Standpipes-Painting	$0	$1,590,000	$0	$0	$1,590 000
22	330 43	Elevated Tanks & Standpipes	$0	$0	$0	$0	$0
23	331 40	T & D Mains not Classified	$2,043,435	$872,752	$62,300	$13,100	$2,840,787
24	331 41	T & D Mains - Mains (4" or less)	$0	$0	$0	$0	$0
25	331 44	T & D Mains - Mains (6" - 8")	$0	$0	$0	$0	$0
26	331 42	T & D Mains - Mains (6" - 10")	$0	$0	$0	$0	$0
27	331 45	T & D Mains - Mains (10" - 16")	$564,972	$0	$12 758	$0	$552,214
28	331 43	T & D Mains - Mains (12" or More)	$0	$0	$0	$0	$0
29	333 40	Services	$0	$438,083	$0	$14,500	$423,583
30	334 41	Meters	$1 040,074	$762,777	$0	$40,000	$1,762,851
31	334 42	Meters-Metal Case/Old Style	$558,517	$0	$6 500	$0	$552,017
32	334 43	Meters - Plastic Case	$0	$0	$0	$0	$0
34	334 44	Meters - Metal Case/New Style	$56 000	$0	$3,500	$0	$52,500
35	334 45	Meter Installations	$0	$0	$0	$0	$0
36	335 40	Hydrants	$214,000	$115,370	$11,000	$9 500	$308,870
37	339 00	Other P/E SS	$0	$0	$0	$0	$0
38	340 51	Office Furniture	$0	$0	$0	$0	$0
39	340 53	Computer & Peripheral Equipment	$500,000	$235,000	$0	$0	$735 000
40	340 56	Computer & Periph Personal	$397,573	$50 000	$0	$30,000	$417,573
41	340 57	Computer & Periph Other	$0	$0	$0	$0	$0
42	340 55	Computer Software	$0	$0	$0	$0	$0
43	340 58	Computer Software Personal	$0	$0	$0	$0	$0
44	340 59	Computer Software Other	$0	$0	$0	$0	$0
45	340 54	Other Office Equipment	$127,200	$0	$0	$0	$127,200
46	341 52	Light Trucks	$0	$0	$33,500	$0	($33,500)
47	341 53	Heavy Trucks	$0	$0	$0	$0	$0
48	341 54	Automobiles	$0	$0	$0	$0	$0
49	341 55	Transportation-Other	$0	$0	$0	$0	$0
50	342 50	Stores Equipment	$0	$0	$0	$0	$0
51	343 50	Tools, Shop, & Garage Equipment	$124,945	$62 500	$0	$0	$187,445
52	344 50	Laboratory Equipment	$0	$0	$0	$0	$0
53	345 50	Power Operated Equipment	$0	$0	$0	$0	$0
54	346 51	Communication Equipment	$0	$0	$0	$0	$0
55	346 53	Communication Equipment-Telephone	$0	$0	$0	$0	$0
56	347 51	Miscellaneous Equipment	$0	$0	$0	$0	$0
57		Total Plant in Service	5 912,716	4 181 932	129,558	107,100	9,857 990

Tennessee Regulatory Authority
Company. Tennessee American Water
Docket No

Computation of Working Capital

Test Year Twelve Months Ended March 31, 2004
Exhibit No 1, Schedule 3

Line No	Item	Amount
5	Item	Amount
7	Average Cash	366,929
9	Prepaid Insurance	92,558
11	Prepaid Taxes	234,228
13	Materials & Supplies	346,535
15	Deferred Regulatory Expenses	223,500
17	Unamortized Debt Expense	106,689
19	Other Deferred Debits	1,452,847
21	Lead - Lag Study	543,000
23	Total	3,366,286
25	Less	
27	Customer Deposits	0
29	Incidental Collections	1,981,081
31	Total	1,981,081
33	Working Capital Requirement	1,385,205

Tennessee Regulatory Authority
Company Tennessee American Water
Docket No

Computation of Working Capital
Lead/Lag Study

Line No	Description	Days	Amount
4	Net Operating Funds		30,485,321
6	Average Daily Operating Funds		83,521
8	Composite Average Days Interval Between		
10	(A) Date Service Furnished and Date Collections Deposited	42 07	
12	(B) Date Expenses Incurred and Date of Payment	35 57	
14	(C) Net Interval	6 5	
16	Operating Funds Advanced		542,887
18	Lead/Lag Study Capital		542,887
20	Use		543,000

Composite Average Days Interval between Date Expenses are Incurred and Date of Payment

Line No	Description	Amount	Post Payment or (Lead) Days	Dollar Days
1				
2				
3				
4	Payrolls Charged to Expense - Hourly	3,107,510	5 50	17,091,305
5	Payrolls Charged to Expense - Salary	1,871,463	14 02	26,237,915
6	Fuel and Power	1,551,622	50 65	78,589,653
7	Chemicals	740,531	28 27	20,934,819
8	Waste Disposal	179,951	31 23	5,619,870
9	AWWS Charges	2,507,276	(4 46)	(11,182,451)
10	Group Insurance	862,753	(1 31)	(1,130,207)
11	Pensions	387,895	0 00	0
12	Insurance Other than Group	709,686	(21 72)	(15,414,380)
13	Rents	28,624	9 24	264,486
14	Telephone Expense	153,334	(2 73)	(418,602)
15	Postage Expense	265,193	24 77	6,568,832
16	Amortizations	0	0 00	0
17	Stock E	51,951	23 77	1,234,875
18				
19				
20	Other Operating and Maintenance Expenses	3,694,518	20 51	75,774,559
21	Total O & M Expenses	16,112,307		
22				
23	Depreciation and Amortization	4,121,753	0 00	0
24	Taxes, Other than Income			
25	Payroll	457,400	10 61	4,853,016
26	Other	3,276,201	174 52	571,762,599
27	FIT-Current	224,991	37 00	8,324,667
28	SIT-Current	42,872	58 63	2,513,585
29	Deferred Taxes	1,092,221	0 00	0
30	Interest Expense	3,255,531	87 97	286,389,062
31	Preferred Dividends	70,000	89 48	6,263,600
32	Net Earnings	1,832,045	0 00	0
33	Net Operating Funds	30,485,321		1,084,277,203
34				
35				
36	Average Days Interval between Date Expenses are Incurred and Date of Payment		35 57	
37				
38				
39				
40				
41				
42				
43				
44				
45				

Tennessee Regulatory Authority
Company Tennessee American Water
Docket No

Average Days Interval between Number of Days
From Date Services are Furnished to Date Collections are Received

Line No		Revenues Amount	Median Service Days	Dollar Days
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12	Revenues less private fire	28,082,480	15 21	427,134,524
13				
14	Private Fire billed in advance	1,048,596	(45 63)	(47,847,435)
15				
16	Total	29,131,076		379,287,089
17				
18				
19				
20				
21				
22				
23				
24	Average Median Service Days		13 02	
25				
26	Number of Days between the Reading Date and			
27	the Date the Bills are Mailed		4 62	
28				
29	Number of Days between the Reading Date and			
30	the Date the Bills are Mailed		24 43	
31				
32	Total Average Days' Interval between Number of			
33	Days from Date Services are Furnished to			
34	Date Collections are Received		42 07	
35				
36				
37				
38				
39	Notes private fire Quarterly is billed in advance			
40	All monthly customers are billed in arrears			
41				
42				
43				
44				
45				

Tennessee Regulatory Authority
Company Tennessee American Water
Docket No

Computation of Average Materials & Supplies Paid

Test Year Twelve Months Ended March 31, 2004
Exhibit No 1, Schedule 3

End of Month	
Date	Amount
Jul-01	440,599
Aug-01	494,423
Sep-01	469,586
Oct-01	389,330
Nov-01	339,416
Dec-01	389,297
Jan-02	405,581
Feb-02	412,027
Mar-02	361,829
Apr-02	358,597
May-02	368,397
Jun-02	362,666
Jul-02	364,209
Total	5,155,957
Average Balance	396,612

Computation of Average Materials and Supplies Unpaid

End of Month	
Date	Amount
Jul-01	49,999
Aug-01	51,015
Sep-01	80,838
Oct-01	52,586
Nov-01	18,040
Dec-01	38,256
Jan-02	66,200
Feb-02	42,800
Mar-02	72,819
Apr-02	37,813
May-02	44,500
Jun-02	41,302
Jul-02	54,837
Total	651,005
Average Balance	50,077

Tennessee Regulatory Authority
Company Tennessee-American Water Company
Docket No

Statement of Income Per Books for the Test Year and
for the Attrition Year under both Present and Proposed Rates

Test Year Twelve Months Ended March 31, 2004
Exhibit No 2, Schedule 1

Line No	Description	Adjustment Shown on Schedule No	Per Books 12 Months Ended 3/31/2004	Test Year Adjustments Present Rates	Normalized Test Year	Attrition Year Adjustments	Attrition Year at Present Rates	Adjustments for Proposed Rates	Attrition Year at Proposed Rates
1	Operating Revenues	2	$30,890,359	$1,962,223	$32,852,582	$204,835	$33,057,417	$1,970,887	$35,028,304
2									
3	Operation and Maintenance Expenses	3	15,444,029	1,681,869	17,125,898	(445,330)	16,680,568	18,068	16,698,636
4	Depreciation and Amortization	4	4,249,882	(78,174)	4,171,708	386,308	4,558,016	0	4,558,016
5	Taxes, Other than Income	5	3,656,650	(287,776)	3,368,874	88,103	3,456,977	53,491	3,510,468
6	Income Taxes	6	2,278,494	476,570	2,755,064	(239,633)	2,515,431	697,297	3,212,728
7									
8	Total Operating Expenses		25,629,055	1,792,489	27,421,544	(210,553)	27,210,991	768,856	27,979,847
9									
10	Utility Operating Income		5,261,304	169,734	5,431,038	415,388	5,846,426	1,202,031	7,048,457
11									
12	Other Income								
13	AFUDC		147,213	(147,213)	0	0	0	0	0
14	Income from M & J and Contract Work		(24,247)	24,247	0	0	0	0	0
15	Interest Income		100,031	(100,031)	0	0	0	0	0
16	Gain/Loss on Sale of Property		0	0	0	0	0	0	0
17									
18	Total Other Income		222,997	(222,997)	0	0	0	0	0
19									
20	Other Deductions								
21	Miscellaneous Amortization		0	0	0	0	0	0	0
22	Miscellaneous Other Deductions		56,247	(56,247)	0	0	0	0	0
23									
24	Total Other Deductions		56,247	(56,247)	0	0	0	0	0
25									
26	Taxes Applicable to Other Income and Deductions								
27	General Taxes		0	0	0	0	0	0	0
28	State Income Taxes		0	0	0	0	0	0	0
29	Federal Income Taxes		0	0	0	0	0	0	0
30									
31	Total Taxes Applicable to Other Income and Deductions		0	0	0	0	0	0	0
32									
33	Income before Interest Charges		5,428,054	2,984	5,431,038	415,388	5,846,426	1,202,031	7,048,457
34									
35	Interest Charges								
36	Interest on Long-Term Debt		1,925,116	755,793	2,680,909	0	2,680,909	0	2,680,909
37	Interest on Long-Term Capital Lease		142,283	(142,283)	0	0	0	0	0
38	Amortization of Debt and Discount Expense		19,525	(19,525)	0	0	0	0	0
39	Interest on Short-Term Debt		248,055	(135,912)	112,143	0	112,143	0	112,143
40	Other Interest		0	0	0	0	0	0	0
41	Allowance for Borrowed Funds Used During Construction		(83,895)	83,895	0	0	0	0	0
42	Total Interest Charges		2,251,084	541,968	2,793,052	0	2,793,052	0	2,793,052
43									
44	Net Income		3,176,970	(538,984)	2,637,986	415,388	3,053,374	1,202,031	4,255,405
45									

Tennessee Regulatory Authority
Company Tennessee-American Water Company
Docket No

Operating Revenues Per Books for the Test Year and for the Attrition Year under both Present and Proposed Rates

Test Year Twelve Months Ended March 31, 2004
Exhibit No 2, Schedule 2

Line No	Description	Per Books 12 Months Ended 3/31/2004	Test Year Adjustments Present Rates	Normalized Test Year	Attrition Year Adjustments	Attrition Year at Present Rates	Adjustments for Proposed Rates	Attrition Year at Proposed Rates
1	Sales of Water							
2								
3	Metered Sales to General Customers							
4								
5	Residential	$12,048,536	$1,234,572	$13,283,108	$19,585	$13,302,693	$1,220,903	$14,523,596
6								
7	Commercial	9,345,680	38,092	9,383,772	81,198	9,464,970	867,029	10,331,999
8								
9	Industrial	3,227,598	171,772	3,399,370	0	3,399,370	310,607	3,709,977
10								
11	Other Public Authorities	2,381,918	89,780	2,471,698	29,072	2,500,770	228,910	2,729,680
12								
13	Sales for Resale	882,779	37,935	920,714	0	920,714	84,148	1,004,862
14								
15	Private Fire Service	1,183,197	101,914	1,285,111	69,279	1,354,390	124,025	1,478,415
16								
17	Public Fire Service	642,114	253,671	895,785	1,500	897,285	(897,285)	0
18								
19	Total Sales of Water	29,711,822	1,927,736	31,639,558	200,634	31,840,192	1,938,337	33,778,529
20								
21								
22	Other Operating Revenues							
23								
24	Activity / New Service Fees	103,523	0	103,523	0	103,523	0	103,523
25								
26	Late Payment Penalty	498,944	32,372	531,316	3,369	534,685	32,550	567,235
27								
28	Rents from Water Property	102,336	0	102,336	0	102,336	0	102,336
29								
30	Sewer Billing Revenues	361,987	2,115	364,102	832	364,934	0	364,934
31								
32	Miscellaneous	25,630	0	25,630	0	25,630	0	25,630
33								
34	Reconnection Fee	86,117	0	86,117	0	86,117	0	86,117
35								
36	Total Other Operating Revenues	1,178,537	34,487	1,213,024	4,201	1,217,225	32,550	1,249,775
37								
38								
39	Total Operating Revenues	30,890,359	1,962,223	32,852,582	204,835	33,057,417	1,970,887	35,028,304
40								
41								
42								
43								
44								
45								

Summary of Adjustments to Operation and Maintenance Expenses

Tennessee Regulatory Authority
Company Tennessee-American Water Company
Docket No

Test Year Twelve Months Ended March 31, 2004
Exhibit No 2, Schedule 3

Line No	Adjustment Number Reference	Description	Per Books 12 Months Ended 3/31/2004	Test Year Adjustments Present Rates	Normalized Test Year	Attrition Year Adjustments	Attrition Year at Present Rates	Adjustments for Proposed Rates	Attrition Year at Proposed Rates
1	1	Operation and Maintenance Labor	$4,631,351	$805,084	$5,436,435	($1,052,551)	$4,383,883	$0	$4,383,883
3	2	Purchased Water	$15,330	0	15,330	0	15,330	0	15,330
5	3	Fuel and Power	$1,520,849	231,077	1,751,926	3,754	1,755,680	0	1,755,680
7	4	Chemicals	$723,833	135,575	859,408	2,452	861,861	0	861,861
9	5	Waste Disposal	$129,719	3,256	132,975	463	133,438	0	133,438
11	6	Management Fees	$2,492,981	0	2,492,981	569,959	3,062,940	0	3,062,940
13	7	Group Insurance	$1,345,749	198,767	1,544,516	(158,512)	1,386,004	0	1,386,004
15	8	Pensions	$516,005	384,607	900,612	(7,822)	892,790	0	892,790
17	9	Regulatory Expense	$113,844	(113,844)	0	58,000	58,000	0	58,000
19	10	Insurance Other than Group	$670,413	(85,413)	585,000	72,000	657,000	0	657,000
21	11	Customer Accounting	$559,654	3,849	563,503	9,390	572,893	0	572,893
23	12	Uncollectible Expense	$269,736	17,928	287,664	1,866	289,530	18,068	307,598
25	13	Rents	$38,286	0	38,286	0	38,286	0	38,286
27	14	General Office Expense	$189,347	(2,394)	186,953	6,169	193,122	0	193,122
29	15	Miscellaneous Expense	$1,596,601	39,718	1,636,319	25,651	1,661,970	0	1,661,970
31	16	Other Maintenance Expense	$630,331	92,450	722,781	23,851	746,632	0	746,632
33	17	Interest on Customer Deposits	0	0	0	0	0	0	0
35	18	AFUDC		(28,791)	(28,791)	0	(28,791)	0	(28,791)
41		Total Operation and Maintenance Expenses	15,444,029	1,681,869	17,125,898	(445,330)	16,680,568	18,068	16,698,636

Summary of Adjustments to Depreciation and Amortization Expenses

Tennessee Regulatory Authority
Company Tennessee-American Water Company
Docket No

Test Year Twelve Months Ended March 31, 2004
Exhibit No 2, Schedule 4

Line No	Adjustment Number Reference	Description	Per Books 12 Months Ended 3/31/2004	Test Year Adjustments Present Rates	Normalized Test Year	Attrition Year Adjustments	Attrition Year at Present Rates	Adjustments for Proposed Rates	Attrition Year at Proposed Rates
1	1	Depreciation Expense	$4,129,281	($78,174)	$4,051,107	$386,308	$4,437,415	$0	$4,437,415
2									
3	2	Amortization of Utility Plant Acquisition Adjustment	0	0	0	0	0	0	0
4									
5	3	Amortization of Utility Capital Lease	$120,601	0	120,601	0	120,601	0	120,601
6									
7	4	Amortization of Leased Alteration Expense	0	0	0	0	0	0	0
8									
9	5	Amortization of Accumulated Depreciation on CIAC	0		0	0	0	0	0
10									
11									
12									
13			4,249,882	(78,174)	4,171,708	386,308	4 558,016	0	4,558,016
14									
15									
16									
17									
18									
19									
20									
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Attrition Year Provision for Depreciation Expense
For Utility Plant in Service

Tennessee Regulatory Authority
Company Tennessee-American Water Company
Docket No

Test Year Twelve Months Ended March 31, 2004
Exhibit No 2, Schedule 4

Line No	Account Number	Account Description	Depreciable Property at 3/31/2004	Normalized Test Year Depreciation Expense	ADDITIONS	RETIREMENTS	Depreciable Property at Mid-Point of Attrition Year	Depreciation Rate	Attrition Year Depreciation Expense
1	303 99	Comprehensive Planning Study	$405,132	$81,026	0	0	$405,132	20 00%	$81,026
2	304 22	Pumping Structures	1,897,305	73,236	0	0	1,897,305	3 86%	73,236
3	304 31	Water Treatment Structures	1,706,175	77,972	0	0	1,706,175	4 57%	77,972
4	304 32	Water Treatment Structures-Painting	1,700,789	170,079	0	0	1,700,789	10 00%	170,079
5	304 40	T & D Structures	502,632	17,642	0	0	502,632	3 51%	17,642
6	304 51	Office Structures	151,528	6,031	0	0	151,528	3 98%	6,031
7	304 52	Stores , Shop, & Garage Structures	319,733	14,868	151,450	0	471,183	4 65%	21,910
8	304 53	Miscellaneous Structures	383,138	21,609	0	0	383,138	5 64%	21,609
9	306 20	Lakes, Rivers, & Other Intakes	281,452	9,569	0	0	281,452	3 40%	9,569
10	310 20	Power Generation Equipment	222,196	7,644	0	0	222,196	3 44%	7,644
11	311 22	Electric Pumping Equipment	5,676,202	98,198	0	0	5,676,202	1 73%	98,198
12	311 23	Deisel Pumping Equipment	119,296	2,350	0	0	119,296	1 97%	2,350
13	311 27	Other Pumping Equipment	5,145	203	0	0	5,145	3 94%	203
14	320 31	Water Treatment Equipment	12,260,179	523,510	0	0	12,260,179	4 27%	523,510
15	320 33	Granular Activated Carbon	0	0	190,000	0	190,000	36 42%	69,198
16	330 41	T & D Reservoirs & Standpipes	4,840,436	87,128	1,590,000	0	6,430,436	1 80%	115,748
17	330 42	T & D Reservoirs & Standpipes-Painting	551,948	55,195	0	0	551,948	10 00%	55,195
18	330 43	Elevated Tanks & Standpipes	170,895	3,076	0	0	170,895	1 80%	3,076
		330400 Clearwell	680,784						
19	331 40	T & D Mains not Classified	1,991,820	28,085	2,916,187	75,400	4,832,607	1 41%	68,140
20	331 41	T & D Mains - Mains (4" or less)	3,796,632	61,505	0	0	3,796,632	1 62%	61,505
21	331 44	T & D Mains - Mains (6" - 8")	826	11	0	0	826	1 36%	11
22	331 42	T & D Mains - Mains (6" - 10")	48,824,310	664,011	0	0	48,824,310	1 36%	664,011
23	331 45	T & D Mains - Mains (10" - 16")	3,087,274	43,839	564,972	12,758	3,639,488	1 42%	51,681
24	331 43	T & D Mains - Mains (12" or More)	19,813,012	281,345	0	0	19,813,012	1 42%	281,345
			102,029						
25	333 40	Services	14,819,223	337,878	438,083	0	15 257,306	2 28%	347,867
26	334 41	Meters	2,431,779	23,831	1,802,851	0	4,234,630	0 98%	41,499
27	334 42	Meters-Metal Case/Old Style	0	0	558,517	0	558,517	2 45%	13,684
28	334 43	Meters - Plastic Case	91,620	14,064	0	0	91,620	15 35%	14,064
29	334 44	Meters - Metal Case/New Style	130,726	1,281	56,000	59,339	127,387	0 98%	1,248
30	334 45	Meter Installations	6,608,879	108,386	0	0	6,608,879	1 64%	108,386
31	335 40	Hydrants	6,029,971	133,262	329,370	61,000	6,298,341	2 21%	139,193
32	339 00	Other P/E SS	8,526	505	0	0	8,526	5 92%	505
33	340 51	Office Furniture	519,029	14,169	0	0	519,029	2 73%	14,169
34	340 53	Computer & Peripheral Equipment	142,602	22,674	735,000	0	877,602	15 90%	139,539
35	340 56	Computer & Periph Personal	1,133,900	180,290	447,573	30,000	1,551,473	15 90%	246,684
36	340 57	Computer & Periph Other	137,208	21,816	0	0	137,208	15 90%	21,816
37	340 55	Computer Software	3,783,604	601,593	0	0	3,783,604	15 90%	601,593
38	340 58	Computer Software Personal	166,142	26,417	0	0	166,142	15 90%	26,417
39	340 59	Computer Software Other	89,590	14,245	0	0	89,590	15 90%	14,245
40	340 54	Other Office Equipment	137,196	5,584	127,200	0	264,396	4 07%	10,761
41	341 52	Light Trucks	1,127,656	105,549	0	33,500	1,094,156	9 36%	102,413
42	341 53	Heavy Trucks	697,241	69,654	0	0	697,241	9 99%	69,654
43	341 54	Automobiles	148,897	15,694	0	0	148,897	10 54%	15,694
44	341 55	Transportation-Other	35,388	248	0	0	35,388	0 70%	248
45	342 50	Stores Equipment	43,392	2,161	0	0	43,392	4 98%	2,161
46	343 50	Tools, Shop, & Garage Equipment	754,851	29,062	187,445	0	942,296	3 85%	36,278
47	344 50	Laboratory Equipment	351,219	39,056	0	0	351,219	11 12%	39,056
48	345 50	Power Operated Equipment	229,342	21,122	0	0	229,342	9 21%	21,122
49	346 51	Communication Equipment	321,298	14,234	0	0	321,298	4 43%	14,234
50	346 53	Communication Equipment-Telephone	141,250	21,060	0	0	141,250	14 91%	21,060
51	347 51	Miscellaneous Equipment	258,043	7,457	0	0	258,043	2 89%	7,457
52		Amortization of CIAC		(108,317)					(114,521)
53									
54		Total Plant in Service	149,829,441	4 051,107	10,094,648	271,997	158,869,279		4,437,415
55									

Summary of Adjustments to Taxes Other than Income

Tennessee Regulatory Authority
Company Tennessee-American Water Company
Docket No

Test Year Twelve Months Ended March 31, 2004
Exhibit No 2, Schedule 5

Line No	Adjustment Number Reference	Description	Per Books 12 Months Ended 3/31/2004	Test Year Adjustments Present Rates	Normalized Test Year	Attrition Year Adjustments	Attrition Year at Present Rates	Adjustments for Proposed Rates	Attrition Year at Proposed Rates
1									
2	1	Property Taxes	$2,625,029	($320,865)	$2,304,164	$199,465	$2,503,629	$0	$2,503,629
3									
4	2	Other General Taxes	657,574	0	657,574	(42,030)	615,544	53,491	669,035
5									
6	3	F U T A Taxes	5,034	1,093	6,127	(1,550)	4,577	0	4,577
7									
8	4	F I C A Taxes	363,925	36,777	400,702	(67,703)	332,999	0	332,999
9									
10	5	S U T A Taxes	5,088	(4,781)	307	(79)	228	0	228
11									
12		Total	3,656,650	(287,776)	3,368,874	88,103	3,456,977	53,491	3,510,468
13									
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Ten[redacted]e Regulatory Authority
Co[redacted] Tennessee-American Water Company
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Summary of Income Taxes

[redacted]

Test Year Twelve Months Ended Mar[redacted]31, 2004
Exhibit No 2[redacted]dule 6
[redacted]1 of 2

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Line No	Description	Per Books 12 Months Ended 3/31/2004	Test Year Adjustments Present Rates	Normalized Test Year	Attrition Year Adjustments	Attrition Year at Present Rates	Adjustments for Proposed Rates	Attrition Year at Proposed Rates
1	Federal Income Tax - Current	$86,904	$462 953	$549 857	($201,627)	$348,230	$535,526	$883,756
2								
3	State Income Tax - Current	88,501	13,617	102,118	(36,771)	65,347	161,771	227,118
4								
5	Deferred Federal Income Tax	1,484,214		1,484 214	380 850	1 865 064	0	1,865,064
6								
7	Deferred State Income Tax	313,158	0	313,158	0	313,158	0	313,158
8								
9	Amortization of ITC	(76,368)	0	(76 368)	0	(76,368)	0	(76,368)
10								
11	Adjustment of Prior Years - FIT	0	0	0	0	0	0	0
12								
13	Adjustment of Prior Years - SIT	0	0	0	0	0	0	0
14								
15	Total	2,278,494	476 570	2 372 979	142,452	2 515,431	697,297	3 212,728
16								

Tenn[illegible]gulatory Authority
Com[illegible]nnessee-American Water Company
Docket 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 2004
Exhibit No 2, Schedule 6
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	
1		Federal	State	Federal	State	Federal	State	Federal	State
2	Operating Revenues	$30 890 359	$30 890 359	$32 852 582	$32 852 582	$33 057 417	$33 057 417	$35 028 304	$35 028 304
3									
4	Operation and Maintenance Expenses	15 444 029	15 444 029	17 125 898	17 125 898	16 680 568	16 680 568	16 698 897	16 698 897
5	Depreciation and Amortization	4 249 882	4 249 882	4,171 708	4 171 708	4 558 016	4 558 016	4 558 016	4 558 016
6	Taxes Other than Income	3 656 650	3 656 650	3 368 874	3 368 874	3 456 977	3 456 977	3 511,242	3 511 242
7	State Income Taxes Current	88 501	88 501	88 501	88 501	65 347	65 347	227 037	19 635
8	State Income Taxes Deferred	313 158	313 158	313 158	313 158	313 158	313 158	313 158	313 158
9	Federal Income Taxes Current	86 904	86 904	86,904	86 904	86 904	86 904	883 451	86 904
10	Federal Income Taxes - Deferred	1 484 214	1 484 214	1 484 214	1 484 214	1 865 064	1,865 064	1 865 064	1 865 064
11	Investment Tax Credit	(76 368)	(76,368)	(76,368)	(76 368)	(76,368)	(76,368)	(76,368)	(76,368)
12	Subtotal	25,246,970	25,246,970	26 562,889	26,562 889	26,949 665	26,949,665	27,980,496	26 976,547
13	Total Income Before Deductions	5 643 389	5 643,389	6 289 693	6 289 693	6 107 752	6 107 752	7 047 808	8 051,757
14									
15	Total Other Income	222 997	222 997						
16									
17	Total Other Deductions	56 247	56 247						
18									
19	Total Taxes Applicable to Other Income and Deductions	0	0						
20									
21	Total Interest Charges	2 251 084	2 251,084	2 793 052	2 793 052	2 793 052	2 793 052	2 793 052	2,793 052
22									
23	Net Income	3 559 055	3 559 055	3 496 641	3 496 641	3 314 700	3 314 700	4 254 756	5 258 705
24									
25	State Income Taxes	439 248	439 248	102 118	102 118	378,505	378 505	332,793	332 793
26	Federal Income Taxes	1 494 750	1 494 750	1 494 750	1 494 750	1,875 600	1 875 600	2 672 147	2 672 147
27									
28	Pretax income	5 493 053	5 493 053	5 093 509	5 093 509	5 568 805	5 568 805	7 259 696	8 263 645
29	Statutory Additions (Deductions)								
30	Permanent Difference								
31	617 001 Book Over Tax Travel and Entertainment	2 427	2 427	2,427	2 427	2 427	2 427	2,427	2 427
32	618 006 Nondeductible Dues	352	352	352	352	352	352	352	352
33	618 008 Lobbying Expenses	0	0	0	0	0	0	0	0
34	638 006 Nondeductible Penalties	171	171	171	171	171	171	171	171
35									
36	Total Permanent Differences	2 950	2 950	2 950	2 950	2 950	2,950	2 950	2,950
37									
38	Financial Taxable Income	5 496 003	5 496 003	5 096 459	5 096 459	5,571 755	5 571 755	7 262 648	8 266 595
39									
40	Temporary Differences								
41	604 004 Contributions and Advances	74 046	74 046	74 046	74 046	74 046	74 046	74 046	74 046
42	606 001 Book Over Tax Depreciation	1 176	1 176	1 176	1 176	1 176	1 176	1 176	1 176
43	612 001 Book Over Tax Bad Debts	4 756	4 756	4 756	4 756	4 756	4 756	4,756	4 756
44	618 002 Amortization of Regulatory Assets - AFUDC	14 568	14,568	14,568	14 568	14 568	14 568	14 568	14 568
45	618 019 Cost of Service Study	(26 743)	(26 743)	(26,743)	(26 743)	(26 743)	(26 743)	(26 743)	(26 743)
46	618 023 Supplemental Pension	432	432	432	432	432	432	432	432
47	618 028 Accrued OPEB Expense	(85 164)	(85 164)	(85 164)	(85 164)	(85 164)	(85 164)	(85 164)	(85,164)
48	618 029 Incentive Plan Expense	(265 848)	(265 848)	(265 848)	(265 848)	(265 848)	(265 848)	(265 848)	(265 848)
49	618 030 Regulatory Pension Expense (Pension 2 & 3	16 130	16 130	16,130	16 130	16 130	16 130	16 130	16 130
50	618 032 Miscellaneous Deferred Expenses	150 457	150 457	150 457	150 457	150 457	150 457	150 457	150 457
51	618 036 Vacation Pay	(1 252)	(1 252)	(1 252)	(1 252)	(1,089 396)	(1 089 396)	(1 089 396)	(1 089 396)
52	626 001 Tax Over Book Depreciation	(1 097 563)	(1 097 563)	(1 097 563)	(1 097 563)	(1 097,563)	(1 097 563)	(1,097 563)	(1 097 563)
53	638 014 Cost of Removal	1 144	1 144	1 144	1 144	1 144	1 144	1 144	1,144
54	638 015 AFUDC over Interest Capitalized for Taxes	(186 461)	(186 461)	(186 461)	(186 461)	(186 461)	(186 461)	(186 461)	(186 461)
55	638 019 Deferred Maintenance Expense	3 981	3 981	3 981	3 981	3 981	3 981	3 981	3 981
56	638 027 Abandonment Losses	(627 068)	(627 068)	(627 068)	(627 068)	(627,068)	(627 068)	(627 068)	(627 068)
57	638 028 Management Study Expense	0	0	0	0	0	0	0	0
58	638 034 Regulatory Pension (Pension 1)	(342 639)	(342 639)	(342 639)	(342 639)	(342 639)	(342 639)	(342 639)	(342 639)
	638 036 Miscellaneous Deferred Expenses	(1 044 983)	(1 044 983)	(1 044 983)	(1 044 983)	(1 044 983)	(1,044 983)	(1 044 983)	(1 044 983)
	638 041 Rate Case Expense	(189,312)	(189 312)	(189 312)	(189 312)	(189 312)	(189 312)	(189 312)	(189 312)
	638 055 Deferred Security Costs	14 243	14 243	14 243	14 243	14,243	14 243	14 243	14 243
	638 056 Deferred Customer Service Center Costs	169 784	169 784	169 784	169,784	169,784	169 784	169 784	169 784
59	638 057 Deferred Financial Services Costs	21 820	21 820	21 820	21 820	21 820	21,820	21,820	21 820
60	Total Temporary Differences	(3 394 496)	(3 394 496)	(3 394 496)	(3 394 496)	(4 482 640)	(4,482 640)	(4 482 640)	(4 482 640)
61									
62									
63	Federal Taxable Income Before SIT	2 101 507	2 101 507	1 701 963	1 701 963	1,089,115	1 089 115	2 780 006	3 783 955
64	Preferred Dividend Credit			(28 824)		(28 824)		(28 824)	
65									
66	State Income Tax	126 090		102 118		65 347		227 037	
67	Taxable Income	1,975 417	2,101,507	1,571,021	1 701,963	994 944	1,089,115	2,524,145	3,783,955
68									
69	Computation of Taxes								
70	State Income Tax @ 6 00%		126 090		102 118		65 347		227 037
71	Federal Income Tax @ 35 00%	691 396		549 857		348 230		883 451	
72	Less Tax Credits	(76 368)	0	(76 368)	0	(76,368)	0	(76,368)	0
73	Total Current Income Tax	615 028	126 090	473 489	102 118	271,862	65,347	807 083	227,037
74									
75	Deferred SIT								
76									
77	Deferred FIT Including ITC	623 062						1 529 201	

Rate of Return Summary
At the Mid-Point of the Attrition Year

Tennessee Regulatory Authority
Company: Tennessee American Water
Docket No: 04-

Test Year: Twelve Months Ended: March 31, 2004
Exhibit No. 3, Schedule 1
Page 1 of 1

Line No	Class of Capital	Reference	Amount	Percent of Total	Cost Rate	Weighted Cost of Capital
1						
2						
3	Long-term Debt	Schedule 2	$43,040,110	48.88%	6 26%	3.060%
4						
5	Short-term Debt		4,699,624	5 34%	2 40%	0.128%
6						
7	Preferred Equity	Schedule 3	1,400,000	1 59%	5 00%	0 080%
8						
9	Common Equity					
10	Common Stock		18,537,633	21.05%	10 70%	2 252%
11	Retained Earnings		20,384,057	23.15%	10 70%	2 477%
12						
13	Total Capitalization		88,061,424	100 01%		7.997%
14						
15						
16						
17						
18	Total Common Equity Return Proposed		10 70%			
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30						

Embedded Cost of Long-Term Debt
At the Mid-Point of the Attrition Year

Tennessee Regulatory Authority
Company: Tennessee American Water
Docket No: 04-

Test Year: Twelve Months Ended: March 31, 2004
Exhibit No. 3, Schedule 2

Line No	Debt Issue Type, Coupon Rate	Interest Rate	Issue Date	Maturity Date	Principal Amount	Face Amount Outstanding	Unamortized (Issuance) Debt Exp	Carrying Value	Annual Interest Expense	Annual Amortization of Issue Expense	Total Cost
4											
5	General Mortgage Bonds										
6											
7	9 25% Series	9 25%	01/12/90	12/01/19	2,500,000	2,500,000	21,989	2,478,011	231,250	1,524	232,774
8	8 25% Series	8 25%	06/25/92	06/01/05	0	0	0	0	0	0	0
9	6 77% Series	6 77%	06/08/93	06/01/03	0	0	0	0	0	0	0
10	7 84% Series	7 84%	09/04/96	08/03/26	5,700,000	5,700,000	48,208	5,651,792	446,880	2,278	449,158
11	6 50% Series	6 50%	05/31/98	06/01/08	6,500,000	6,500,000	21,689	6,478,311	422,500	7,434	429,934
12	6 87% Series	6 87%	03/31/01	03/29/11	5,100,000	5,100,000	28,779	5,071,221	350,370	5,004	355,374
13	4 25% Series	4 75%	03/01/04	03/01/14	19,000,000	19,000,000	0	19,000,000	902,500	0	902,500
14	6 76% Series (proposed)	6 76%	06/01/04	06/01/34	3,200,000	3,200,000	0	3,200,000	216,320		216,320
15	Capital Lease 9 489%	9 489%	06/01/98	05/31/13	1,590,500	1,160,775		1,160,775	110,146	0	110,146
16											
17											
18	Total				$43,590,500	$43,160,775	$120,665	$43,040,110	$2,679,966	$16,240	$2,696,206
19											
20											
21	Embedded Cost of Long-Term Debt										6 26%
22											
23											
24											
25											
26											
27											
28											
29											
30											

Embedded Cost of Preferred Stock
At the Mid-Point of the Attrition Year

Tennessee Regulatory Authority
Company: Tennessee American Water
Docket No: 04-

Line No	Debt Issue Type, Coupon Rate	Issue Date	Face Amount Outstanding	Premium or Discount	Unamortized (Issuance) Pfd Stk Exp	Net Proceeds	Annual Dividends	Annual Amort of Issuance Expense	Total Annual Cost
1									
2									
3									
4	Cumulative Preferred								
5	5% Series	12/20/40	$1,400,000	$0	$0	$1,400,000	$70,000	$0	$70,000
6	4-1/2% Series	7/29/54	0	0	0	0	0	0	0
7									
8									
9	Total		1,400,000	0	0	1,400,000	70,000	0	70,000
10									
11									
12	Embedded Cost of Preferred Stock								5 00%
13									
14									
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