

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

August 25, 2006

IN RE:)	
)	
PETITION OF TENNESSEE AMERICAN)	DOCKET NO.
WATER COMPANY FOR AN EXTENSION OF)	06-00154
WATER PURCHASE AGREEMENT BETWEEN)	
TENNESSEE AMERICAN AND TOWN OF)	
SIGNAL MOUNTAIN, TENNESSEE)	

ORDER APPROVING EXTENSION OF WATER PURCHASE AGREEMENT

This matter came before Director Eddie Roberson, Director Pat Miller and Director Ron Jones of the Tennessee Regulatory Authority (“Authority” or “TRA”), the voting panel assigned to this docket, at the regularly scheduled Authority Conference held on July 10, 2006 for consideration of the *Extension of Water Purchase Agreement* (“*Special Contract*”) between Tennessee American Water Company (“TAWC” or “Company”) and the Town of Signal Mountain, Tennessee (“Town”).

The Authority approved the original water purchase agreement (“Agreement”) between the Company and the Town by Order dated August 18, 1997 in TRA Docket No. 97-01305. The Agreement is a sale-for-resale agreement. Under the terms of the Agreement, the Town agreed to purchase a minimum of 273,750,000 gallons per year for three (3) years at a cost of ninety-five cents (\$0.95) per 1,000 gallons and to pay an additional charge equivalent to the difference in the actual usage and the minimum gallon usage of 273,750,000 gallons if the Town’s usage

falls below that amount.¹ Subsequently, the Authority has twice approved three-year extensions of the Agreement. The first extension, Docket No. 00-00745, made no changes to the rates, terms or conditions.² The second extension, Docket No. 04-00088, increased the rate from \$0.95 per 1,000 gallons to \$1.02 per 1,000 gallons while leaving the terms and conditions therein unchanged.³

The Authority has jurisdiction over this matter pursuant to Tenn. Code Ann. § 65-5-101 *et seq.* and Authority Rule 1220-4-1-.07, which states:

SPECIAL CONTRACTS. Special contracts between public utilities and certain customers prescribing and providing rates, services and practices not covered by or permitted in the general tariffs, schedules or rules filed by such utilities are subject to supervision, regulation and control by the Authority. A copy of such special agreements shall be filed, subject to review and approval.

The *Special Contract*, or most recent amendment extending the Agreement, was filed with the Authority on June 9, 2006. The *Special Contract* seeks to extend the Agreement an additional three (3) years beginning July 1, 2006 and ending July 1, 2009. The rate charged for water service will increase from \$1.02 per 1,000 gallons to \$0.796 per hundred cubic feet (CCF) (approximately \$1.061 per 1,000 gallons). The new rate represents a price increase of approximately four percent (4%) and is effectively the same increase established for comparable services in TAWC's most recent rate case before the Authority, which was considered in TRA Docket No. 04-00288.⁴ All other terms, conditions, privileges, and obligations set forth in the Agreement remain unchanged.

¹ See *In re: Application for Approval of Special Contract Between Tennessee American Water Company and the Town of Signal Mountain*, Docket No. 97-01305.

² See *In re: Request for Approval of the Extension of Water Purchase Agreement Between Tennessee American Water Company and the Town of Signal Mountain, Tennessee*, Docket No. 00-00745.

³ See *In re: Petition for Approval of the Extension of Water Purchase Agreement Between Tennessee American Water Company and the Town of Signal Mountain, Tennessee*, Docket No. 04-00088.

⁴ See *In re: Petition of Tennessee American Water Company to Change and Increase Certain Rates and Charges so as to Permit It to Earn a Fair and Adequate Rate of Return on Its Property Used and Useful in Furnishing Water Service to Its Customers*, Docket No. 04-00288.

The terms of the Agreement and of the *Special Contract*, which distinguish the Town from the Company's tariff customers, justifies a departure from the Company's tariff through a special contract. TAWC has sale-for-resale tariffs for three (3) cities.⁵ However, the inclusion of a three (3) year term of service and a minimum usage requirement distinguishes the Town from the Company's tariff customers. Additionally, the Agreement requires the Town to maintain storage capacity equal to one (1) day's water supply, which allows the Company to provide water to the Town during non-peak periods, thereby avoiding higher on-peak operating costs. The TAWC tariff rate does not include the take-or-pay three (3) year commitment or storage requirements placed on the Town of signal Mountain.⁶

The use of a special contract in dealing with large-usage customers such as the Town serves the public interest because it provides greater flexibility to the Company than is available under its tariff. The unique terms and conditions of the Agreement and the *Special Contract* benefit the Company and its ratepayers by providing the Company a long-term source of revenue and by helping control the Company's production costs during peak usage periods. Through the use of a special contract, the Company can attract the Town and other large-use customers and collect additional revenues to the benefit of the Company and ratepayers without the burden of undergoing a full-scale rate review in order to revise its tariff. In addition, the Agreement provides the Town and its residents with a dependable supply of water at fair and affordable prices.

No party has intervened in this docket or otherwise objected to the Authority's approval


⁵ The sale-for-resale category was added to TAWC's tariff in Docket No. 04-00288.

⁶ The Company is provided the opportunity, through special contracts, to secure new business and pursue new prospects in instances where an approved tariff rate does not currently exist. Absent the flexibility to negotiate special contracts and submit such contracts to the Authority for approval, the Company would be faced with potential forfeiture of its ability to generate additional revenues that inure to the benefit of its ratepayers. Each special contract is evaluated on its own merits given the circumstances existing at the time of consideration. Notwithstanding the entry of this Order, the Company has the continuing responsibility to acknowledge new customer classes and amend its existing tariff accordingly.

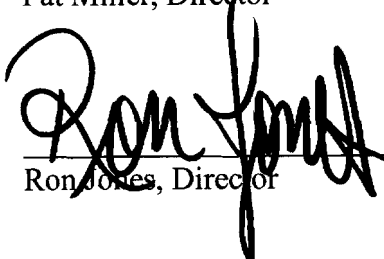
of the *Special Contract*. After careful review of the *Special Contract* and of the entire record in this matter and based on the foregoing findings and conclusions, the panel voted unanimously at the July 10, 2006 Authority Conference to approve the *Special Contract* extending the water purchase agreement.

IT IS THEREFORE ORDERED THAT:

The *Extension of Water Purchase Agreement* between Tennessee American Water Company and the Town of Signal Mountain, Tennessee, is approved.


Eddie Roberson, Director


Pat Miller, Director


Ron Jones, Director