

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

DIRECT TESTIMONY OF
PAUL R. HERBERT

ON BEHALF OF TENNESSEE-AMERICAN WATER COMPANY

CASE NO. - _____

CONCERNING

COST OF SERVICE ALLOCATION

AND

CUSTOMER RATE DESIGN

NOVEMBER 2006

BEFORE THE TENNESSEE REGULATORY AUTHORITY

RE: TENNESSEE-AMERICAN WATER COMPANY

CASE NO. _____

DIRECT TESTIMONY OF PAUL R. HERBERT

Line
No.

1 Q. Please state your name and address.

2 A. My name is Paul R. Herbert. My business address is 207 Senate Avenue,
3 Camp Hill, Pennsylvania.

4 Q. By whom are you employed?

5 A. I am employed by Gannett Fleming, Inc.

6 Q. Please describe your position with Gannett Fleming, Inc. and briefly state
7 your general duties and responsibilities.

8 A. I am Senior Vice President. My duties and responsibilities include the
9 preparation of accounting and financial data for revenue requirement and
10 cash working capital claims, the allocation of cost of service to customer
11 classifications, and the design of customer rates in support of public utility
12 rate filings.

13 Q. Have you presented testimony in rate proceedings before a regulatory
14 agency?

15 A. Yes. I have testified before the Pennsylvania Public Utility Commission, the
16 New Jersey Board of Public Utilities, the Public Utilities Commission of Ohio,
17 the Public Service Commission of West Virginia, the Kentucky Public
18 Service Commission, the Iowa State Utilities Board, the Virginia State
19 Corporation Commission, the Tennessee Regulatory Authority, and the

1 Missouri Public Service Commission concerning revenue requirements, cost
2 of service allocation, rate design and cash working capital claims. A list of
3 the cases in which I have testified is provided at the end of my direct
4 testimony.

5 Q. What is your educational background?

6 A. I have a Bachelor of Science Degree in Finance from the Pennsylvania State
7 University, University Park, Pennsylvania.

8 Q. Would you please describe your professional affiliations?

9 A. I am a member of the American Water Works Association and have served
10 as a member of the Management Committee for the Pennsylvania Section. I
11 am also a member of the Pennsylvania Municipal Authorities Association. In
12 1998, I became a member of the National Association of Water Companies
13 as well as a member of its Rates and Revenue Committee.

14 Q. Briefly describe your work experience.

15 A. I joined the Valuation Division of Gannett Fleming Corddry and Carpenter,
16 Inc., predecessor to Gannett Fleming, Inc., in September 1977, as a Junior
17 Rate Analyst. Since then, I advanced through several positions and was
18 assigned the position of Manager of Rate Studies on July 1, 1990. On June
19 1, 1994, I was promoted to the position of Vice President and on November
20 1, 2003, I was promoted to my current position as Senior Vice President.

21 While attending Penn State, I was employed during the summers of
22 1972, 1973 and 1974 by the United Telephone System - Eastern Group in its
23 accounting department. Upon graduation from college in 1975, I was

1 employed by Herbert Associates, Inc., Consulting Engineers (now Herbert
2 Rowland and Grubic, Inc.), as a field office manager until September 1977.

3 Q. What is the purpose of your testimony in this proceeding?

4 A. The purpose of my testimony is to explain Tennessee-American Water
5 Company's cost of service allocation study and proposed rate design set
6 forth in Exhibit No. PRH-1.

7 COST OF SERVICE ALLOCATION

8 Q. Briefly describe the purpose of your cost allocation study.

9 A. The purpose of the study was to allocate the total cost of service, which is
10 the total revenue requirement, to the several customer classifications. In the
11 study, the total costs were allocated to the residential, commercial, industrial,
12 public authorities, sales for resale, private fire protection and public fire
13 protection classifications in accordance with generally accepted principles
14 and procedures. The cost of service allocation results in indications of the
15 relative cost responsibilities of each class of customers. The allocated cost
16 of service is one of several criteria appropriate for consideration in designing
17 customer rates to produce the required revenues. The results of my
18 allocation of the pro forma cost of service as of June 30, 2006, and
19 proposed customer rates to produce the pro forma revenue requirement as
20 of that date are presented in the study.

21 Q. Please describe the method of cost allocation that was used in your study.

22 A. The base-extra capacity method, as described in 2000 and prior Water
23 Rates Manuals published by the American Water Works Association
24 (AWWA), was used to allocate the pro forma costs. Base-extra capacity is a

1 recognized method for allocating the cost of providing water service to
2 customer classifications in proportion to the classifications' use of the
3 commodity, facilities, and services. It is generally accepted as a sound
4 method for allocating the cost of water service and was used by the
5 Company in the Company's previous studies.

6 Q. Please describe the procedure followed in the cost allocation study.

7 A. Each identified classification of cost in the pro forma cost of service was
8 allocated to the customer classifications through the use of appropriate
9 factors. These allocations are presented in Schedule B on pages 8 through
10 14. The items of cost, which include operation and maintenance expenses,
11 depreciation expense, taxes and income available for return, are identified in
12 columns 1 and 2 of Schedule B. The cost of each item, shown in column 4,
13 is allocated to the several customer classifications based on allocation
14 factors referenced in column 3. The development of the allocation factors is
15 presented in Schedule C. I will use some of the larger cost items to illustrate
16 the principles and considerations used in the cost allocation methodology.
17 Purchased water, purchased electric power, treatment chemicals and waste
18 disposal are examples of costs that tend to vary with the amount of water
19 consumed and are thus considered base costs. They are allocated to the
20 several customer classifications in direct proportion to the average daily
21 consumption of those classifications through the use of Factor 1. The
22 development of Factor 1 is shown in Schedule C on page 15.

23 Other source of supply, water treatment and transmission costs are
24 associated with meeting usage requirements in excess of the average,

1 generally to meet maximum day requirements. Costs of this nature were
2 allocated to customer classifications partially as base costs, proportional to
3 average daily consumption, partially as maximum day extra capacity costs,
4 in proportion to maximum day extra capacity, and, in the case of certain
5 pumping stations and transmission mains, partially as fire protection costs,
6 through the use of Factors 2 and 3. The development of the allocation
7 factors, referenced as Factors 2 and 3, is shown in Schedule C, on pages 15
8 through 18.

9 Costs associated with storage facilities and the capital costs of
10 distribution mains were allocated partly on the basis of average consumption
11 and partly on the basis of maximum hour extra demand, including the
12 demand for fire protection service, because these facilities are designed to
13 meet maximum hour and fire demand requirements. The development of
14 the factors, referenced as Factors 4 and 5, used for these allocations is
15 shown in Schedule C, on pages 19 through 23.

16 Factor 4, used to allocate distribution mains, is based on the same
17 volumes used in Factors 1 through 3 except that the consumption for the
18 larger industrial customers and sales for resale classifications are excluded.
19 This is to recognize that larger industrial and sales for resale customers are
20 served primarily from larger mains. Factor 5, Allocation of Storage Facilities,
21 uses the same basic methodology as Factor 4, although Factor 1 volumes
22 are used and the fire demand weighting is based on the storage capacity for
23 fire service as compared to the total storage capacity.

1 Fire demand costs were allocated to public and private fire protection
2 service in proportion to the relative potential demands on the system by
3 public fire hydrants and private service lines as presented in Schedule C on
4 page 18.

5 Costs associated with pumping facilities and the operation and
6 maintenance of mains were allocated on combined bases of maximum day
7 and maximum hour extra capacity because these facilities serve both
8 functions. For pumping facilities, the relative weightings of Factor 2
9 (maximum day), Factor 3 (maximum day and fire) and Factor 4 (maximum
10 hour) were based on horsepower of pumps serving maximum day, maximum
11 day and fire and maximum hour functions. The development of this
12 weighted factor, referenced as Factor 6, is presented on page 24.

13 For operation and maintenance of mains, the relative weightings of
14 Factor 3 (maximum day and fire) and Factor 5 (maximum hour) were based
15 on the footage of transmission and distribution mains. For cost allocation
16 purposes, mains larger than 10-inch were classified as serving a
17 transmission function and mains 10-inch and smaller were classified as
18 serving a distribution function. The development of this weighted factor,
19 referenced as Factor 7, is presented on page 25.

20 Costs associated with meters were allocated to customer
21 classifications in proportion to the capacity requirements of the sizes and
22 quantities of meters serving each classification. The development of the
23 factor for meters, referenced as Factor 10, is presented on page 27. Factor
24 11, Allocation of Services, was developed in a similar manner as Factor 10,

1 except that the relative unit cost per foot by service size was used in order to
2 weight the number of services by classification. Costs associated with public
3 fire hydrants were assigned directly to the public fire protection class (Factor
4 21).

5 Costs for customer accounting, billing and collecting were allocated
6 on the basis of the number of customers for each classification, and costs
7 for meter reading were allocated on the basis of metered customers. The
8 development of these factors, referenced as Factor 12 and Factor 13, is
9 presented on page 31.

10 Administrative and general costs were allocated on the basis of
11 allocated direct costs, excluding those costs such as purchased water,
12 power, chemicals and waste disposal which require little administrative and
13 general expense. The development of factors for this allocation, referenced
14 as Factor 14, is presented on page 32.

15 Annual depreciation accruals were allocated on the basis of the
16 function of the facilities represented by the depreciation expense for each
17 depreciable plant account. The original cost less depreciation of utility plant
18 in service was similarly allocated for the purpose of developing factors,
19 referenced as Factor 17, for allocating items such as income taxes and
20 return. The development of Factor 17 is presented on pages 33 through 36.

21 Factors 14 and 17, as well as Factors 8, 9, 15, 16 and 18, are
22 composite allocation factors. These factors are based on the result of
23 allocating other costs and are computed internally in the cost allocation

1 program. Refer to Schedule C for a description of the bases for each
2 composite allocation factor.

3 Q. What was the source of the total cost of service data set forth in column 3 of
4 Schedule B?

5 A. The pro forma costs of service were furnished by the Company, and are set
6 forth in various Company exhibits.

7 Q. Refer to Schedule B, pages 16 and 20, and explain the source of the system
8 maximum day and maximum hour ratios used in the development of factors
9 referenced as Factors 2, 3 and 4.

10 A. The ratios were based on a review of historic Company data. The maximum
11 day ratio of 1.45 times the average day approximates the ratio of maximum
12 daily send-out experienced by the Company in the last five years. The
13 maximum hour ratio of 1.9 times the average hour was estimated based on
14 the relationship of system maximum hour ratios compared to system
15 maximum day ratios for other similar systems.

16 Q. What factors were considered in estimating the maximum day extra capacity
17 and maximum hour extra capacity demands used for the customer
18 classifications in the development of Factors 2, 3 and 4?

19 A. The estimated demands were based on judgment which considered field
20 studies of actual customer class demands conducted for other American
21 Companies, field observations of the service areas of the Company, field
22 studies of similar service areas, and generally-accepted customer class
23 maximum day and maximum hour demand ratios.

24 Q. Have you summarized the results of your cost allocation study?

1 A. Yes. The results are summarized in columns 1, 2 and 3 of Schedule A on
2 page 6. Column 2 sets forth the total allocated pro forma cost of service as
3 of June 30, 2006, for each customer classification identified in column 1.
4 Column 3 presents each customer classification's cost responsibility as a
5 percent of the total cost.

6 Q. Have you compared these cost responsibilities with the proportionate
7 revenue under existing rates for each customer classification?

8 A. Yes. A comparison of the allocated cost responsibilities and the percentage
9 revenue under existing rates can be made by comparing columns 3 and 5 of
10 Schedule A. A similar comparison of the percentage cost responsibilities
11 (relative cost of service) and the percentage of pro forma revenues (relative
12 revenues) under proposed rates can be made by comparing columns 3 and
13 7 of Schedule A .

14 CUSTOMER RATE DESIGN

15 Q. What are the appropriate factors to be considered in the design of the rate
16 structure?

17 A. In preparing a rate structure, one should consider the allocated costs of
18 service, the impact of radical changes from the present rate structure, the
19 understandability and ease of application of the rate structure, community
20 and social influences, and the value of service. General guidelines should
21 be developed with management to determine the extent to which each of
22 these criteria is to be incorporated in the rate structure to be designed,
23 inasmuch as the pricing of a commodity or service is a function of
24 management.

1 Q. Did management discuss rate design guidelines with you?

2 A. Yes, they did. The guidelines were to increase service charges and
3 volumetric rates based on an across-the-board, uniform increase of
4 approximately 19.67%.

5 Q. Do you agree with these guidelines?

6 A. Yes, I do. The revenues under the existing rate structure are reasonably
7 aligned with the indicated cost of service.

8 Q. Have you prepared comparisons of present and proposed rates for each
9 classification and each rate zone?

10 A. Yes. Schedule D on page 40 of the cost allocation study presents
11 comparisons of the present and proposed rates.

12 Q. Does this conclude your direct testimony?

13 A. Yes, it does.

TENNESSEE REGULATORY AUTHORITY

COMMONWEALTH OF PENNSYLVANIA

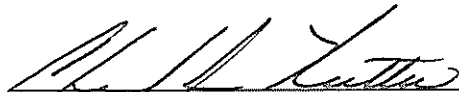
COUNTY OF CUMBERLAND

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

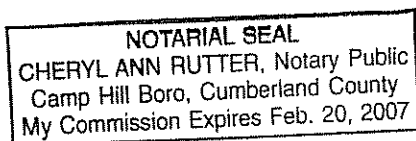
He is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, his testimony would set forth in the annexed transcript consisting of 11 pages.


Paul R. Herbert

Sworn to and subscribed before me
this 13th day of November 2006.


Notary Public

My commission expires February 20, 2007.



LIST OF CASES IN WHICH PAUL R. HERBERT TESTIFIED

<u>Year</u>	<u>Jurisdiction</u>	<u>Docket No.</u>	<u>Client/Utility</u>	<u>Subject</u>
1. 1983	Pa. PUC	R-832399	T. W. Phillips Gas and Oil Co.	Pro Forma Revenues
2. 1989	Pa. PUC	R-891208	Pennsylvania-American Water Company	Bill Analysis and Rate Application
3. 1991	PSC of W. Va.	91-106-W-MA	Clarksburg Water Board	Revenue Requirements (Rule 42)
4. 1992	Pa. PUC	R-922276	North Penn Gas Company	Cash Working Capital
5. 1992	NJ BPU	WR92050532J	The Atlantic City Sewerage Company	Cost Allocation and Rate Design
6. 1994	Pa. PUC	R-943053	The York Water Company	Cost Allocation and Rate Design
7. 1994	Pa. PUC	R-943124	City of Bethlehem	Revenue Requirements, Cost Allocation, Rate Design and Cash Working Capital
8. 1994	Pa. PUC	R-943177	Roaring Creek Water Company	Cash Working Capital
9. 1994	Pa. PUC	R-943245	North Penn Gas Company	Cash Working Capital
10. 1994	NJ BPU	WR94070325	The Atlantic City Sewerage Company	Cost Allocation and Rate Design
11. 1995	Pa. PUC	R-953300	Citizens Utilities Water Company of Pennsylvania	Cost Allocation and Rate Design
12. 1995	Pa. PUC	R-953378	Apollo Gas Company	Revenue Requirements and Rate Design
13. 1995	Pa. PUC	R-953379	Carnegie Natural Gas Company	Revenue Requirements and Rate Design
14. 1996	Pa. PUC	R-963619	The York Water Company	Cost Allocation and Rate Design
15. 1997	Pa. PUC	R-973972	Consumers Pennsylvania Water Company - Shenango Valley Division	Cash Working Capital
16. 1998	Ohio PUC	98-178-WS-AIR	Citizens Utilities Company of Ohio	Water and Wastewater Cost Allocation and Rate Design
17. 1998	Pa. PUC	R-984375	City of Bethlehem - Bureau of Water	Revenue Requirement, Cost Allocation and Rate Design
18. 1999	Pa. PUC	R-994605	The York Water Company	Cost Allocation and Rate Design
19. 1999	Pa. PUC	R-994868	Philadelphia Suburban Water Company	Cost Allocation and Rate Design
20. 1999	PSC of W. Va.	99-1570-W-MA	Clarksburg Water Board	Revenue Requirements (Rule 42), Cost Allocation and Rate Design
21. 2000	Ky. PSC	2000-120	Kentucky-American Water Company	Cost Allocation and Rate Design
22. 2000	Pa. PUC	R-00005277	PPL Gas Utilities	Cost Allocation and Rate Design
23. 2000	NJ BPU	WR00080575	Atlantic City Sewerage Company	Cash Working Capital
				Cost Allocation and Rate Design

LIST OF CASES IN WHICH PAUL R. HERBERT TESTIFIED, cont.

24.	2001	Ia. St Util Bd	RPU-01-4	Iowa-American Water Company	Cost Allocation and Rate Design
25.	2001	Va. St. Corp Cm	PUE010312	Virginia-American Water Company	Cost Allocation and Rate Design
26.	2001	WV PSC	01-0326-W-42T	West-Virginia American Water Company	Cost Allocation and Rate Design
27.	2001	Pa. PUC	R-016114	City of Lancaster	Tapping Fee Study
28.	2001	Pa. PUC	R-016236	The York Water Company	Cost Allocation and Rate Design
29.	2001	Pa. PUC	R-016339	Pennsylvania-American Water Company	Cost Allocation and Rate Design
30.	2001	Pa. PUC	R-016750	Philadelphia Suburban Water Company	Cost Allocation and Rate Design
31.	2002	Va. St. Corp Cm	PUE-2002-00375	Virginia-American Water Company	Cost Allocation and Rate Design
32.	2003	Pa. PUC	R-027975	The York Water Company	Cost Allocation and Rate Design
33.	2003	Tenn Reg. Auth	03-	Tennessee-American Water Company	Cost Allocation and Rate Design
34.	2003	Pa. PUC	R-038304	Pennsylvania-American Water Company	Cost Allocation and Rate Design
35.	2003	NJ BPU	WR03070511	New Jersey-American Water Company	Cost Allocation and Rate Design
36.	2003	Mo. PSC	WR-2003-0500	Missouri-American Water Company	Cost Allocation and Rate Design
37.	2004	Va. St. Corp Cm	PUE-200 -	Virginia-American Water Company	Cost Allocation and Rate Design
38.	2004	Pa. PUC	R-038805	Pennsylvania Suburban Water Company	Cost Allocation and Rate Design
39.	2004	Pa. PUC	R-049165	The York Water Company	Cost Allocation and Rate Design
40.	2004	NJ BPU	WRO4091064	The Atlantic City Sewerage Company	Cost Allocation and Rate Design
41.	2005	WV PSC	04-1024-S-MA	Morgantown Utility Board	Cost Allocation and Rate Design
42.	2005	WV PSC	04-1025-W-MA	Morgantown Utility Board	Cost Allocation and Rate Design
43.	2005	Pa. PUC	R-051030	Aqua Pennsylvania, Inc.	Cost Allocation and Rate Design
44.	2006	Pa. PUC	R-051178	T. W. Phillips Gas and Oil Co.	Cost Allocation and Rate Design
45.	2006	Pa. PUC	R-061322	The York Water Company	Cost Allocation and Rate Design
46.	2006	NJ BPU	WR-06030257	New Jersey American Water Company	Cost Allocation and Rate Design
47.	2006	Pa. PUC	R-061398	PPL Gas Utilities, Inc.	Cost Allocation and Rate Design
48.	2006	NM PRC	06-00208-UT	New Mexico American Water Company	Cost Allocation and Rate Design

TENNESSEE AMERICAN WATER COMPANY
CHATTANOOGA, TENNESSEE

COST OF SERVICE ALLOCATION STUDY

AS OF JUNE 30, 2006

AND

PROPOSED CUSTOMER RATES

GANNETT FLEMING VALUATION AND RATE CONSULTANTS, INC.



HARRISBURG, PENNSYLVANIA

CALGARY, ALBERTA

VALLEY FORGE, PENNSYLVANIA

TENNESSEE AMERICAN WATER COMPANY

Chattanooga, Tennessee

COST OF SERVICE ALLOCATION STUDY

AS OF JUNE 30, 2006

AND

PROPOSED CUSTOMER RATES

GANNETT FLEMING, INC. - VALUATION AND RATE DIVISION

Harrisburg, Pennsylvania



Gannett Fleming

GANNETT FLEMING, INC.
P.O. Box 67100
Harrisburg, PA 17106-7100

Location:
207 Senate Avenue
Camp Hill, PA 17011

Office: (717) 763-7211
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www.gannettfleming.com

November 13, 2006

Tennessee American Water Company
1101 South Broad Street
Chattanooga, TN 37401

Attention Michael A. Miller, Treasurer

Gentlemen:

Pursuant to your request, we have conducted a cost of service allocation study based on pro forma revenue requirements estimated for the test year ended June 30, 2006, and have prepared proposed rate schedules designed to produce the pro forma revenue requirements.

The attached report presents the results of the study, as well as supporting schedules which set forth the detailed cost allocation calculations. Schedule A on page 6 presents a comparison of the cost of service by customer classification with the pro forma revenues produced by each classification under present and proposed rates.

Respectfully submitted,

GANNETT FLEMING, INC.

PAUL R. HERBERT
Sr. Vice President
Valuation and Rate Division

PRH/krm



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TENNESSEE AMERICAN WATER COMPANY

COST OF SERVICE ALLOCATION STUDY AS OF JUNE 30, 2006 AND PROPOSED CUSTOMER RATES

PART I. INTRODUCTION

PLAN OF REPORT

The report sets forth the results of the cost of service allocation study as of June 30, 2006, prepared for Tennessee American Water Company. Part I, Introduction, contains statements with respect to the basis of the study, the procedures employed, and a summary of the results of the study. Part II, Cost of Service by Customer Classification, presents detailed schedules of the allocation of costs to customer classifications, as well as the bases for the allocations. Part III, Proposed Customer Rates, sets forth the proposed rate structure for each service area.

BASIS OF THE STUDY

The purpose of the study was to allocate costs to several customer classifications based on considerations of quantity of water consumed, variability of rate of flow, and costs associated with metering, billing and accounting. The allocation study was based on recognized procedures for allocating the several categories of costs to customer classifications in proportion to each classification's use of the facilities, commodities and services which entail the total cost of providing water service.

ALLOCATION PROCEDURES

The allocation study was based on the Base-Extra Capacity Method for allocating costs to customer classifications. The method is described in the 2000 and prior editions of the Water Rates Manual, published by the American Water Works Association. The four basic categories of cost responsibility are base, extra capacity, customer and fire protection costs. The following discussions present a brief description of these costs and the manner in which they were allocated.

Base Costs are costs that tend to vary with the quantity of water used, plus costs associated with supplying, treating, pumping and distributing water to customers under average load conditions, without the elements necessary to meet peak demands. Base costs were allocated to customer classifications on the basis of average daily usage.

Extra Capacity Costs are costs associated with meeting usage requirements in excess of the average. They include operating and capital costs for additional plant and system capacity beyond that required for average use. The extra capacity costs in this study are subdivided into costs necessary to meet maximum day extra demand and costs to meet maximum hour extra demand. The extra capacity costs were allocated to customer classifications on the bases of each classification's maximum day and hour usage in excess of average usage. (Extra capacity costs related to fire protection are allocated directly to the fire protection classifications.)

Customer Costs are costs associated with serving customers regardless of their usage or demand characteristics. Customer costs include the operating and capital costs related to meters and services, meter reading costs, and billing and collecting costs. The

customer costs were allocated on the bases of the relative cost of meters and services, the number of meter readings and the number of bills.

Fire Protection Costs are costs associated with providing the facilities to meet the potential peak demand of fire protection service. Fire protection costs are subdivided into costs to meet Public Fire Protection and Private Fire Protection demands. Operating and capital costs for hydrants were assigned directly to Public Fire Protection. The extra capacity costs assigned to fire protection service were allocated to Public and Private Fire Protection on the basis of the total relative demands of the hydrants and fire service lines.

RESULTS OF STUDY

The data summarized in Schedule A, "Comparison of Pro Forma Cost of Service with Revenues Under Present and Proposed Rates for the Twelve Months Ended June 30, 2006," constitute the principal results of the allocation study.

The cost of service by customer classification, shown in column 2 of Schedule A, is developed in Schedule B, "Allocation of Cost of Service to Customer Classifications for the Twelve Months Ended June 30, 2006". The allocation of the total cost of service to the several customer classifications was performed by applying the allocation factors referenced in column 3 to the cost of service by account in column 4. The bases of the allocation factors are presented in Schedule C.

DESIGN OF PROPOSED RATES

The results of the cost of service allocation study were discussed with Company management in order that it be afforded the opportunity of performing its role in the design of proposed rates. The rate design guidelines developed during the discussion were to increase all rates for service a uniform 19.67% for all classes of service and service areas.

The proposed rate structure, as presented in Part III, Proposed Customer Rates, Schedule D, consists of service charges by meter size and volumetric rates by class and service area. The revenues resulting from the proposed rate structure are shown in columns 6 and 7 of Schedule A, and the increase and percentage increase in columns 8 and 9.

TENNESSEE-AMERICAN WATER COMPANY

COMPARISON OF PRO FORMA COST OF SERVICE WITH REVENUES UNDER PRESENT AND PROPOSED RATES
FOR THE TWELVE MONTHS ENDED JUNE 30, 2006

Customer Classification (1)	Pro Forma Cost of Service, as of June 30, 2006		Pro Forma Revenues Under Present Rates		Pro Forma Revenues Under Proposed Rates		Proposed Increase	
	Amount (2)	Percent of Total (3)	Amount (4)	Percent of Total (5)	Amount (6)	Percent of Total (7)	Amount (8)	Percent Increase (9)
Residential	\$19,434,031	50.5%	\$13,681,917	42.5%	\$16,354,136	42.5%	\$2,672,219	19.5%
Commercial	10,462,122	27.2%	10,230,156	31.8%	12,242,287	31.8%	2,012,131	19.7%
Industrial	3,946,415	10.3%	3,428,902	10.7%	4,103,407	10.7%	674,505	19.7%
Other Public Authority	2,705,353	7.0%	2,404,176	7.4%	2,877,105	7.5%	472,929	19.7%
Other Water Utilities	1,361,068	3.5%	1,048,255	3.3%	1,254,459	3.2%	206,204	19.7%
Private Fire Protection	566,420	1.5%	1,373,647	4.3%	1,644,020	4.3%	270,373	19.7%
Public Fire Protection	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total Sales of Water	38,475,409	100.0%	32,167,053	100.0%	38,475,414	100.0%	6,308,361	19.6%
Other Water Revenues	1,336,761		1,265,235		1,336,761		71,526	5.7%
Total	\$39,812,170		\$33,432,288		\$39,812,175		\$6,379,887	19.1%

PART II. COST OF SERVICE BY CUSTOMER CLASSIFICATION

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2006

Account Number (1)	Account Description (2)	Factor Ref. (3)	Cost of Service (4)	Residential (5)	Commercial (6)	Industrial (7)	Other Public Authority (8)	Other Water Utilities (9)	Private Fire Protection (10)	Public Fire Protection (11)
OPERATION AND MAINTENANCE EXPENSES										
Source of Supply										
----Operation----										
601.1	Operating Labor	2	0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
601.1	Operating Expense	2	0	0	0	0	0	0	0	0
610.1	Purchased Water	1	52,331	16,474	15,323	11,141	4,359	4,694	126	215
----Maintenance----										
620.2	OR MN SS STRUCT & IMP MAT	2	159,105	53,650	48,113	29,816	13,699	13,110	270	445
	Subtotal Source of Supply		211,436	70,124	63,436	40,957	18,058	17,804	396	660
Power and Pumping Expenses										
----Operation----										
6011	Gen Sup & Eng Lab Oper PU	6	0	0	0	0	0	0	0	0
601.1	Labor Oper PU	6	1,170,401	394,893	354,163	204,235	100,772	87,195	10,651	18,492
601.1	Pump Oper Sup and Eng Elec	6	-2,107	-711	-638	-368	-181	-157	-19	-33
615.1	Purch Power PU	1	1,470,150	462,803	430,460	312,995	122,463	131,872	3,528	6,028
6152	Purch Power PU - Lookout Min. Tariff	19	188,293	158,524	22,991	0	6,779	0	0	0
6153	Purch Power PU - Lakeview Tariff	20	69,757	59,935	8,580	0	1,242	0	0	0
616.1	Fuel For Power Production	1	4,513	1,421	1,321	961	376	405	11	19
620.1	Misc Pumping Exp. Current	6	332	112	100	58	29	25	3	5
650.2	SS & PUMP Transportation	6	12	4	4	2	1	1	0	0
675.1	Misc Pumping Exp. Electric	6	419	141	127	73	36	31	4	7
	Subtotal Power and Pumping		2,901,769	1,077,122	817,108	517,956	231,517	219,372	14,178	24,518
Water Treatment Expenses										
----Operation----										
601.3	Wt Operation Superv & Eng	2	0	0	0	0	0	0	0	0
601.3	General Wt Labor	2	226	76	68	42	19	19	0	1
618.3	General Chemicals	1	952,795	299,940	278,978	202,850	79,368	85,466	2,287	3,906
620.3	Misc Wt Expenses-Current	2	77,342	26,080	23,388	14,494	6,659	6,373	131	217
631.3	WT Contract Services	2	2,115	713	640	396	182	174	4	6
635.3	Other Wt Oper Contract Services	2	35,313	11,908	10,679	6,618	3,040	2,910	60	99
641.3	Wt Rents	2	643	217	194	120	55	53	1	2
650.3	Wt Oper Transportation	2	72	24	22	13	6	6	0	0
675.3	Waste Disposal Exp (Cur)	1	177,353	55,831	51,929	37,758	14,774	15,909	426	727
675.3	General Wt Expenses	2	54,510	18,381	16,484	10,215	4,693	4,492	93	153
675.3	Misc Wt Expenses-Current	2	57,631	19,433	17,428	10,800	4,962	4,749	98	161

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2006

Account Number (1)	Account Description (2)	Factor Ref. (3)	Cost of Service (4)	Residential (5)	Commercial (6)	Industrial (7)	Other Public Authority (8)	Other Water Utilities (9)	Private Fire Protection (10)	Public Fire Protection (11)
----Maintenance----										
620.4	Or Mn Wt Struct & Imp Mat	2	116,786	39,380	35,316	21,886	10,055	9,623	199	327
635.4	Other Wt Maint Contract Services	2	10,027	3,381	3,032	1,879	863	826	17	28
675.4	Misc. Expense Maint. WT	2	377,919	127,434	114,283	70,822	32,539	31,141	642	1,058
6504	Wt Maint Transportation	2	0	0	0	0	0	0	0	0
	Subtotal Water Treatment		1,862,732	602,798	552,441	377,893	157,215	161,741	3,958	6,685
Transmission & Distribution Expenses										
----Operation----										
601.5	T&D Operation Super & Eng	8	91,464	51,851	25,903	4,372	6,192	622	924	1,601
601.5	Storage Facilities Labor	5	0	0	0	0	0	0	0	0
601.5	Misc Meter Labor	10	268,298	191,243	60,904	4,910	11,000	241	0	0
601.5	Maps and Records Labor	7	222,425	86,901	78,093	18,528	22,243	3,114	4,960	8,586
615.5	Storage Facilities Expense	5	2,246	730	655	383	186	161	48	83
620.5	Misc T & D Expenses-Current	7	32,334	12,633	11,352	2,693	3,233	453	721	1,248
635.5	Other T & D Oper Contract Services	7	113,368	44,293	39,804	9,444	11,337	1,587	2,528	4,376
641.5	T&D Rentals	8	321	182	91	15	22	2	3	6
650.5	Td Oper Transportation	8	200	113	57	10	14	1	2	4
675.5	T&D Lines Expense	7	4,495	1,756	1,578	374	450	63	100	174
675.5	Misc Meter Expenses	10	5,628	4,012	1,278	103	231	5	0	0
675.5	Misc T&D Expenses-Current	8	102,574	58,149	29,049	4,903	6,944	698	1,036	1,795
----Maintenance----										
601.6	Or Mn T&D Supr & Eng	9	67,640	34,652	17,336	3,375	4,363	541	2,178	5,195
601.6	Or Mn T&D Mains Lab	7	587,833	229,666	206,388	48,966	58,783	8,230	13,109	22,690
601.6	Or Mn Services Lab	11	279,216	219,157	34,371	1,173	3,769	28	20,718	0
601.6	Or Mn Meters Lab	10	124,927	89,048	28,358	2,286	5,122	112	0	0
601.6	Or Mn Hydrants Lab	21	57,906	0	0	0	0	0	0	57,906
601.6	Or Mn Other T&D Plant Lab	9	0	0	0	0	0	0	0	0
620.6	Or Mn T&D Struct & Imp-Mat	7	265,266	103,639	93,135	22,097	26,527	3,714	5,915	10,239
635.6	Other T & D Maint Contract Services	9	1,206	618	309	60	78	10	39	93
650.6	Td Maint Transportation	9	10,112	5,180	2,592	505	652	81	326	777
675.6	Maps And Records Expenses	9	0	0	0	0	0	0	0	0
675.6	Or Mn Meters Mat	10	10,282	7,329	2,334	188	422	9	0	0
675.6	Or Mn Other T&D Plant Mat	10	98,738	70,380	22,414	1,807	4,048	89	0	0
	Subtotal Transmission & Distribution		2,346,479	1,211,532	656,001	126,192	165,616	19,761	52,607	114,773

TENNESSEE-AMERICAN WATER COMPANY
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FOR THE TWELVE MONTHS ENDED JUNE 30, 2006

Account Number (1)	Account Description (2)	Factor Ref. (3)	Cost of Service (4)	Residential (5)	Commercial (6)	Industrial (7)	Other Public Authority (8)	Other Water Utilities (9)	Private Fire Protection (10)	Public Fire Protection (11)
Customer Accounting Expenses										
601.7	Meter Reading Labor	13	523,742	457,279	60,073	1,257	5,080	52	0	0
601.7	Contracts & Orders Labor	12	195	169	22	0	2	0	0	0
601.7	Billing & Accing Salaries	12	0	0	0	0	0	0	0	0
604.7	Employee Benefits Ca	12	0	0	0	0	0	0	0	0
620.7	Misc Ca Expenses-Current	12	1,341	1,165	153	3	13	0	6	0
632.7	Ca Contract Services	12	1,870	1,625	214	4	18	0	8	0
635.7	Other Ca Contract Services	12	63,803	55,451	7,286	153	613	6	287	6
642.7	Ca Rents	12	1,476	1,283	169	4	14	0	7	0
650.7	Ca Transportation	12	0	0	0	0	0	0	0	0
670.7	Uncollectible Accounts	12	702,743	610,754	80,253	1,687	6,746	70	3,162	70
675.7	Meter Reading Expenses	13	4,528	3,953	519	11	44	0	0	0
675.7	Collecting Expenses	12	25,416	22,089	2,903	61	244	3	114	3
675.7	Billing & Accing Computer	12	164,615	143,087	18,799	395	1,580	16	741	16
675.7	Cust Accg-Billing/Telephone	12	37,255	32,378	4,254	89	358	4	168	4
675.7	Cust Accg-Billing/Postage	12	303,210	263,518	34,827	728	2,911	30	1,364	30
675.7	Misc Cust Accg Expenses	12	69,868	60,722	7,979	168	671	7	314	7
675.7	Misc Oper Ca Cust Serv	12	469	408	54	1	5	0	2	0
	Subtotal Customer Accounting		1,900,531	1,653,861	217,305	4,561	18,299	188	6,174	136
Administrative and General Expenses										
601.8	Adm & General Salaries	14	1,310,800	739,947	311,053	104,340	75,109	37,489	14,681	28,182
601.8	Employee Pensions & Benefits	15	2,255,579	1,195,908	564,120	188,566	140,297	66,088	32,255	68,344
604.8	401K Contributions Expense	15	86,067	45,633	21,525	7,195	5,353	2,522	1,231	2,608
620.8	Or Mn General Ag Plant	14	0	0	0	0	0	0	0	0
632.8	Auditing Services	14	35,018	19,768	8,310	2,787	2,007	1,002	392	753
633.8	Legal Services	14	30,555	17,248	7,251	2,432	1,751	874	342	657
634.8	Management Fees - Water Quality	1	108,984	34,308	31,910	23,203	9,078	9,776	262	447
634.8	Management Fees - Cust. Billing/Service	12	775,339	673,847	88,544	1,861	7,443	78	3,489	78
634.8	Management Fees - Administration	14	2,813,152	1,588,024	667,561	223,927	161,194	80,456	31,507	60,483
634.8	Management Fees - Empl. Service	15	366,947	194,555	91,773	30,677	22,824	10,752	5,247	11,118
635.8	Contract Services - Other	14	1,591	898	378	127	91	46	18	34
635.8	Other WT Contract Services	2	8,283	2,793	2,505	1,552	713	683	14	23
635.8	Other WT Contract Services	2	58,707	19,796	17,753	11,002	5,055	4,837	100	164
641.8	AG Rents	14	1,192	673	283	95	68	34	13	26
642.8	Adm & General Rents	14	34,379	19,407	8,158	2,737	1,970	983	385	739
650.8	AG Transportation	14	373,104	210,617	88,538	29,699	21,379	10,671	4,179	8,022
657.8	General Liability	14	273,230	154,239	64,837	21,749	15,656	7,814	3,060	5,874
658.8	Workmens Comp Premium Exp	15	159,425	84,527	39,872	13,328	9,916	4,671	2,280	4,831
659.8	Insurance Other	14	91,285	51,531	21,662	7,266	5,231	2,611	1,022	1,963
660.8	Advertising Exp	14	31,807	17,955	7,548	2,532	1,823	910	356	684
666.8	Regulatory Commission Expenses	18	269,298	130,503	70,206	26,472	18,151	9,533	3,959	10,476

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2006

Account Number	Account Description (2)	Factor Ref. (3)	Cost of Service (4)	Residential (5)	Commercial (6)	Industrial (7)	Other Public Authority (8)	Other Water Utilities (9)	Private Fire Protection (10)	Public Fire Protection (11)
675.8	Expenses Of Employees	15	37,234	19,742	9,312	3,113	2,316	1,091	532	1,128
675.8	Misc Office Expenses	14	59,152	33,391	14,037	4,708	3,389	1,692	663	1,272
675.8	Injuries & Damages Exp	14	0	0	0	0	0	0	0	0
675.8	Research & Dev-Service Co	14	0	0	0	0	0	0	0	0
675.8	Or Mn A&G Struc & Imp Mat	14	0	0	0	0	0	0	0	0
675.8	Misc. General Expense - Current	14	111,745	63,080	26,517	8,895	6,403	3,196	1,252	2,403
657.8	Miscellaneous General Exp	14	152,421	86,042	36,170	12,133	8,734	4,359	1,707	3,277
657.8	AFUDC Adjustment	14	(83,747)	(47,275)	(19,873)	(6,666)	(4,799)	(2,395)	(938)	(1,801)
	Subtotal Administrative and General		9,361,547	5,357,157	2,179,950	723,730	521,152	259,773	108,008	211,785
	Total Operation & Maintenance Expenses		18,584,495	9,972,594	4,486,241	1,791,289	1,111,857	678,639	185,321	358,557

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ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2006

Account Number (1)	Account Description (2)	Factor Ref. (3)	Cost of Service (4)	Residential (5)	Commercial (6)	Industrial (7)	Other Public Authority (8)	Other Water Utilities (9)	Private Fire Protection (10)	Public Fire Protection (11)
DEPRECIATION EXPENSE										
Intangible										
339600	Comprehensive Planning Study	14	81,026	45,739	19,227	6,450	4,643	2,317	907	1,742
Source of Supply										
303.00	Land & Land Rights	2	0	0	0	0	0	0	0	0
306000	Lakes, Rivers, & Other Intakes	2	9,569	3,227	2,894	1,793	824	788	16	27
339200	Other P/E SS	2	505	170	153	95	43	42	1	1
309000	Supply Mains	2	34,767	11,723	10,514	6,515	2,993	2,865	59	97
Pumping Equipment										
304200	Pumping Structures	6	145,126	48,966	43,915	25,325	12,495	10,812	1,321	2,293
	Lookout Mountain Tariff	19	528	445	64	0	19	0	0	0
	Lakeview Tariff	20	648	557	80	0	12	0	0	0
310100	Power Generation Equipment -other	6	7,545	2,546	2,283	1,317	650	562	69	119
311200	Electric Pumping Equipment	6	96,747	32,642	29,276	16,882	8,330	7,208	880	1,529
	Lookout Mountain Tariff	19	5,903	4,970	721	0	213	0	0	0
	Lakeview Tariff	20	1,482	1,273	182	0	26	0	0	0
311300	Deisel Pumping Equipment	6	2,350	793	711	410	202	175	21	37
311500	Other Pumping Equipment	6	1,005	339	304	175	87	75	9	16
Water Treatment										
303.00	Land & Land Rights	2	0	0	0	0	0	0	0	0
304300	Water Treatment Structures	2	81,215	27,386	24,559	15,220	6,993	6,692	138	227
304301	Water Treatment Structures-Painting	2	155,300	52,367	46,963	29,103	13,371	12,797	264	435
320100	Water Treatment Equipment	2	526,240	177,448	159,135	98,617	45,309	43,362	895	1,473
320200	Granular Activated Carbon	2	0	0	0	0	0	0	0	0
Transmission & Distribution										
303.00	Land & Land Rights	7	0	0	0	0	0	0	0	0
304400	T & D Structures	7	17,930	7,005	6,295	1,494	1,793	251	400	692
330000	T & D Reservoirs & Standpipes	5	114,004	37,029	33,244	19,426	9,462	8,186	2,440	4,218
	Lookout Mountain Tariff	19	3,484	2,933	425	0	125	0	0	0
	Lakeview Tariff	20	821	705	101	0	15	0	0	0
330003	T & D Reservoirs & Standpipes-Painting	5	154,485	50,177	45,048	26,324	12,822	11,092	3,306	5,716
	Lookout Mountain Tariff	19	2,016	1,697	246	0	73	0	0	0
330100	Elevated Tanks & Standpipes	5	3,076	999	897	524	255	221	66	114
331001	T & D Mains not Classified	4	27,720	11,185	10,057	1,727	2,863	0	690	1,198
331100	T & D Mains - Mains (4" or less)	4	75,587	30,499	27,423	4,709	7,808	0	1,882	3,265

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2006

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection	Public Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
331200	T & D Mains - Mains (6" - 8")	4	5,147	2,077	1,867	321	532	0	128	222
331210	T & D Mains - Mains (6" - 10") TN	4	809,877	326,785	293,823	50,455	83,660	0	20,166	34,987
331300	T & D Mains - Mains (10" - 16")	3	93,397	30,802	27,627	17,120	7,864	7,528	897	1,560
331350	T & D Mains - Mains (12" or More)	3	314,244	103,638	92,953	57,601	26,459	25,328	3,017	5,248
330400	Clearwells	2	12,254	4,132	3,706	2,296	1,055	1,010	21	34
333000	Services	11	417,978	328,071	51,453	1,756	5,643	42	31,014	0
334100	Meters	10	51,005	36,356	11,578	933	2,091	46	0	0
334.42	Meters-Metal Case/Old Style	10	0	0	0	0	0	0	0	0
334120	Meters - Plastic Case	10	15,472	11,028	3,512	283	634	14	0	0
334130	Meters - Metal Case/New Style	10	1,276	910	290	23	52	1	0	0
334200	Meter Installations	10	148,104	105,569	33,620	2,710	6,072	133	0	0
335000	Hydrants	21	159,031	0	0	0	0	0	0	159,031
General Plant										
303.00	Land & Land Rights AG	14	0	0	0	0	0	0	0	0
304600	Office Structures	14	5,937	3,351	1,409	473	340	170	66	128
304700	Stores , Shop, & Garage Structures	14	14,538	8,207	3,450	1,157	833	416	163	313
304.53	Structures and Imp. Misc.	14	0	0	0	0	0	0	0	0
304800	Miscellaneous Structures	14	36,188	20,428	8,587	2,881	2,074	1,035	405	778
340100	Office Furniture	14	20,266	11,440	4,809	1,613	1,161	580	227	436
340200	Computer & Peripheral Equipment	14	60,460	34,130	14,347	4,813	3,464	1,729	677	1,300
340210	Computer and Mainfram Equipment	14	95,577	53,953	22,680	7,608	5,477	2,734	1,070	2,055
340220	Computer & Periph Personal	14	88,185	49,780	20,926	7,020	5,053	2,522	988	1,896
340230	Computer & Periph Other	14	30,574	17,259	7,255	2,434	1,752	874	342	657
340300	Computer Software	14	50,506	28,511	11,985	4,020	2,894	1,444	566	1,086
340310	Computer Software Mainframe	14	562,074	317,291	133,380	44,741	32,207	16,075	6,295	12,085
340320	Computer Software Personal	14	32,793	18,512	7,782	2,610	1,879	938	367	705
340330	Computer Software Other	14	2,261	1,276	537	180	130	65	25	49
340400	Data Handling Equipment	14	11,368	6,417	2,698	905	651	325	127	244
340500	Other Office Equipment	14	5,691	3,213	1,350	453	326	163	64	122
341100	Light Trucks	14	72,390	40,864	17,178	5,762	4,148	2,070	811	1,556
341200	Heavy Trucks	14	53,742	30,337	12,753	4,278	3,079	1,537	602	1,155
341300	Automobiles	14	14,460	8,163	3,431	1,151	829	414	162	311
341400	Transportation-Other	14	248	140	59	20	14	7	3	5
342000	Stores Equipment	14	2,161	1,220	513	172	124	62	24	46
343000	Tools, Shop, & Garage Equipment	14	47,418	26,767	11,252	3,774	2,717	1,356	531	1,019
344000	Laboratory Equipment	2	40,931	13,802	12,378	7,670	3,524	3,373	70	115
345000	Power Operated Equipment	14	23,110	13,046	5,484	1,840	1,324	661	259	497
346100	Communication Equipment Non telephon	14	14,233	8,035	3,377	1,133	816	407	159	306
346200	Communication Equipment-Telephone	14	16,429	9,274	3,899	1,308	941	470	184	353
347000	Miscellaneous Equipment	14	29,647	16,736	7,035	2,360	1,699	848	332	637
348000	Other Tangible Plant	14	142	80	34	11	8	4	2	3
Total Depreciation Expense			4,908,193	2,244,420	1,303,734	499,991	342,952	181,826	83,128	252,138

TENNESSEE-AMERICAN WATER COMPANY

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FOR THE TWELVE MONTHS ENDED JUNE 30, 2006

Account Number (1)	Account Description (2)	Factor Ref. (3)	Cost of Service (4)	Residential (5)	Commercial (6)	Industrial (7)	Other Public Authority (8)	Other Water Utilities (9)	Private Fire Protection (10)	Public Fire Protection (11)
AMORTIZATIONS										
680.51	Amort of CIAC	4	(163,076)	(65,801)	(59,164)	(10,160)	(16,846)	-	(4,061)	(7,045)
680.52	Amort of Capital Leases	14	106,033	59,856	25,162	8,440	6,076	3,033	1,188	2,280
	Total Depreciation & Amortization		4,851,150	2,238,475	1,269,732	498,271	332,182	184,859	80,255	247,373
TAXES OTHER THAN INCOME TAXES										
685.20	Property Taxes	16	2,635,280	1,143,975	748,683	244,027	201,072	76,423	54,814	166,286
685.32	FUTA Oper AG	15	4,897	2,596	1,225	409	305	143	70	148
685.33	FICA Oper AG	15	352,445	186,866	88,146	29,464	21,922	10,327	5,040	10,679
685.35	SUTA Oper AG	15	2,449	1,298	612	205	152	72	35	74
685.43	Franchise Taxes	18	303,980	147,309	79,248	29,881	20,488	10,761	4,469	11,825
685.00	PSC Fee	18	64,957	31,478	16,934	6,385	4,378	2,299	955	2,527
	Franchise Tax - Lookout Mtn	19	0	0	0	0	0	0	0	0
685.00	Filing Fee	18	0	0	0	0	0	0	0	0
685.44	Gross Receipts Tax	18	564,081	273,354	147,056	55,449	38,019	19,968	8,292	21,943
	Total Taxes Other Than Income Taxes		3,928,089	1,786,876	1,081,904	365,820	286,336	119,993	73,675	213,482
INCOME TAXES										
409.15	Federal and State Income Taxes	17	3,933,064	1,719,143	1,101,258	386,227	294,193	129,791	76,695	225,758
	Total Income Taxes		3,933,064	1,719,143	1,101,258	386,227	294,193	129,791	76,695	225,758
UTILITY OPERATING INCOME										
	Total Cost of Service	17	8,515,372	3,722,070	2,384,304	836,210	636,950	281,007	166,050	488,782
	Less:									
	Total Cost of Service		39,812,170	19,439,158	10,323,439	3,877,817	2,661,518	1,394,289	581,996	1,533,952
	Other Revenues	18	(937,306)	(454,217)	(244,356)	(92,137)	(63,174)	(33,181)	(13,778)	(36,461)
	Billing Services	12	(399,455)	(347,166)	(45,618)	(959)	(3,835)	(40)	(1,798)	(40)
	Total Cost of Service Related to Sales		38,475,409	18,637,775	10,033,465	3,784,721	2,594,509	1,361,068	566,420	1,497,451
	Allocation of Public Fire			796,256	428,657	161,694	110,844	0	0	(1,497,451)
	Total		38,475,409	\$19,434,031	\$10,462,122	\$3,946,415	\$2,705,353	\$1,361,068	\$566,420	\$0

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS

FACTOR 1. ALLOCATION OF COSTS WHICH VARY WITH THE AMOUNT OF WATER CONSUMED.

Factors are based on the pro forma test year average daily consumption for each customer classification.

Customer Classification (1)	Average Daily Consumption, 100 Cu. Ft. (2)	Allocation Factor (3)
Residential	12,535	0.3148
Commercial	11,654	0.2928
Industrial	8,474	0.2129
Other Public Authority	3,316	0.0833
Other Water Utilities	3,569	0.0897
Private Fire Protection	95	0.0024
Public Fire Protection	165	0.0041
Total	<u>39,808</u>	<u>1.0000</u>

FACTOR 2. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE AND MAXIMUM DAY EXTRA CAPACITY FUNCTIONS.

Factors are based on the weighting of the factors for average daily consumption (Factor 1) and the factors derived from maximum day extra capacity demand for each customer classification, as follows:

Customer Classification (1)	Average Daily Consumption		Maximum Day Extra Capacity		Allocation Factor (6)=(3)+(5)
	Allocation Factor 1 (2)	Weighted Factor (3)=(2)x 0.6897	Allocation Factor (4)	Weighted Factor (5)=(4)x 0.3103	
Residential	0.3148	0.2171	0.3871	0.1201	0.3372
Commercial	0.2928	0.2019	0.3239	0.1005	0.3024
Industrial	0.2129	0.1468	0.1308	0.0406	0.1874
Other Public Authority	0.0833	0.0575	0.0921	0.0286	0.0861
Other Water Utilities	0.0897	0.0619	0.0661	0.0205	0.0824
Private Fire Protection	0.0024	0.0017			0.0017
Public Fire Protection	0.0041	0.0028			0.0028
Total	<u>1.0000</u>	<u>0.6897</u>	<u>1.0000</u>	<u>0.3103</u>	<u>1.0000</u>

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 2. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE AND
MAXIMUM DAY EXTRA CAPACITY FUNCTIONS, cont.

Customer Classification (1)	Average Daily Consumption, 100 Cu. Ft. (2)	Maximum Day Extra Capacity		Allocation Factor (5)
		Factor* (3)	Rate of Flow, 100 Cu. Ft. Per Day (4)=(2)x(3)	
Residential	12,535	1.0	12,535	0.3871
Commercial	11,654	0.9	10,489	0.3239
Industrial	8,474	0.5	4,237	0.1308
Other Public Authority	3,316	0.9	2,984	0.0921
Other Water Utilities	3,569	0.6	2,141	0.0661
Subtotal	39,548		32,386	1.0000

The weighting of the factors is based on the maximum day ratio of 1.45, based on a review of maximum day ratios experienced during the period 1995 through 2006.

	Maximum Day Ratio	Weight
Average Day	1.00	0.6897
Maximum Day Extra Capacity	0.45	0.3103
Total	1.45	1.0000

* Ratio of maximum day to average day minus 1.0.

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 3. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE, MAXIMUM DAY AND FIRE SERVICE FUNCTIONS.

Factors are based on the weighting of the factors for average daily consumption (Factor 1), the factors derived from maximum day extra capacity demand and the fire protection demand by each customer classification, as follows:

Customer Classification (1)	Average Daily Consumption		Maximum Day Extra Capacity		Fire Protection		Allocation Factor (8)=(3)+(5)+(7)
	Allocation Factor 1 (2)	Weighted Factor (3)=(2)x 0.6745	Allocation Factor (4)	Weighted Factor (5)=(4)x 0.3036	Allocation Factor (6)	Weighted Factor (7)=(6)x 0.0219	
Residential	0.3148	0.2123	0.3871	0.1175			0.3298
Commercial	0.2928	0.1975	0.3239	0.0983			0.2958
Industrial	0.2129	0.1436	0.1308	0.0397			0.1833
Other Public Authority	0.0833	0.0562	0.0921	0.0280			0.0842
Other Water Utilities	0.0897	0.0605	0.0661	0.0201			0.0806
Private Fire Protection	0.0024	0.0016			0.3665	0.0080	0.0096
Public Fire Protection	0.0041	0.0028			0.6335	0.0139	0.0167
Subtotal	1.0000	0.6745	1.0000	0.3036	1.0000	0.0219	1.0000

The weighting of the factors is based on the maximum day ratio of 1.45 and the system demand for fire protection, as shown below. The fire protection factors in column 6 are developed on the following page.

		Maximum Day Ratio	System Delivery, GPD	Weight
Average Day		1.00	38,851,641	0.6745
Maximum Day Extra Capacity		0.45	17,483,238	0.3036
Subtotal		1.45	56,334,879	0.9781
Fire Protection			1,260,000	0.0219
Total			57,594,879	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

BASIS FOR ALLOCATION OF DEMAND-RELATED COSTS OF
FIRE SERVICE TO PRIVATE AND PUBLIC FIRE PROTECTION

Description (1)	Restrictive Diameter(s) Squared (2)	Number of Units (3)	Relative Demand (4)=(2)X(3)	Allocation Factor (5)
<u>Private Fire Protection</u>				
1 -Inch Fire Line	1	0	0	
1.5 -Inch Fire Line	2.25	1	2	
2 -Inch Fire Line	4	13	52	
2.5 -Inch Fire Line	6.25	1	6	
3 -Inch Fire Line	9	2	18	
4 -Inch Fire Line	16	81	1,296	
6 -Inch Fire Line	36	826	29,736	
8 -Inch Fire Line	64	294	18,816	
10 -Inch Fire Line	100	15	1,500	
12 -Inch Fire Line	144	19	2,736	
Total Private Fire Protection		1,252	54,163	0.3665
<u>Public Fire Protection</u>				
4-1/2 inch, 3 way	20.25	4,623	93,616	
Total Public Fire Protection		4,623	93,616	0.6335
Total Fire Protection Service		5,875	147,779	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 4. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE, MAXIMUM HOUR AND FIRE SERVICE FUNCTIONS.

Factors are based on the weighting of the factors for the adjusted average hour consumption, the factors derived from maximum hour extra capacity demand and the fire protection demand by each customer classification, as follows:

Customer Classification (1)	Average Hour Consumption		Maximum Hour Extra Capacity		Fire Protection		Allocation Factor (8)=(3)+(5)+(7)
	Allocation Factor (2)	Weighted Factor (3)=(2)x 0.4927	Allocation Factor (4)	Weighted Factor (5)=(4)x 0.4434	Allocation Factor (6)	Weighted Factor (7)=(6)x 0.0639	
Residential	0.4147	0.2044	0.4492	0.1991			0.4035
Commercial	0.3856	0.1900	0.3898	0.1728			0.3628
Industrial	0.0814	0.0401	0.0500	0.0222			0.0623
Other Public Authority	0.1097	0.0540	0.1110	0.0493			0.1033
Other Water Utilities	0.0000	0.0000	0.0000	0.0000			0.0000
Private Fire Protection	0.0031	0.0015			0.3665	0.0234	0.0249
Public Fire Protection	0.0055	0.0027			0.6335	0.0405	0.0432
Subtotal	1.0000	0.4927	1.0000	0.4434	1.0000	0.0639	1.0000

The weighting of the factors and the maximum hour extra capacity factors in column 4 are shown on the following page.

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 4. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE,
MAXIMUM HOUR AND FIRE SERVICE FUNCTIONS.

Customer Classification (1)	Average Hour Consumption, 100 Cu. Ft. (2)	Maximum Hour Extra Capacity		Allocation Factor (5)
		Factor* (3)	Rate of Flow, 100 Cu. Ft. Per Hour (4)=(2)x(3)	
Residential	522	3.0	1,567	0.4492
Commercial	486	2.8	1,360	0.3898
Industrial	103	1.7	174	0.0500
Other Public Authority	138	2.8	387	0.1110
Other Water Utilities	0	1.7	0	0.0000
Total	<u>1,249</u>		<u>3,488</u>	<u>1.0000</u>

The weighting of the factors is based on the maximum hour ratio of 1.90 and the system demand for fire protection, as follows:

	Maximum Hour Ratio	System Delivery, GPM	Weight
Average Hour	1.0	26,980	0.4927
Maximum Hour Extra Capacity	0.9	24,282	0.4434
Subtotal	<u>1.9</u>	<u>51,262</u>	<u>0.9361</u>
Fire Protection		<u>3,500</u>	<u>0.0639</u>
Total		<u>54,762</u>	<u>1.0000</u>

* Ratio of maximum hour to average day minus 1.0.

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 5. ALLOCATION OF COSTS ASSOCIATED WITH STORAGE FACILITIES.

Factors are based on the weighting of the factors for average hour consumption (Factor 1), the factors derived from maximum hour extra capacity demand and the fire protection demand by each customer classification, as follows:

Customer Classification	Average Hour Consumption		Maximum Hour Extra Capacity		Fire Protection		Allocation Factor (8)=(3)+(5)+(7)
	Allocation Factor 1 (2)	Weighted Factor (3)=(2)x 0.4973	Allocation Factor (4)	Weighted Factor (5)=(4)x 0.4475	Allocation Factor (6)	Weighted Factor (7)=(6)x 0.0552	
Residential	0.3148	0.1566	0.3760	0.1682			0.3248
Commercial	0.2928	0.1456	0.3263	0.1460			0.2916
Industrial	0.2129	0.1059	0.1441	0.0645			0.1704
Other Public Authority	0.0833	0.0414	0.0929	0.0416			0.0830
Other Water Utilities	0.0897	0.0446	0.0607	0.0272			0.0718
Private Fire Protection	0.0024	0.0012			0.3665	0.0202	0.0214
Public Fire Protection	0.0041	0.0020			0.6335	0.0350	0.0370
Subtotal	1.0000	0.4973	1.0000	0.4475	1.0000	0.0552	1.0000

The weighting of the factors and the maximum hour extra capacity factors in column 4 are shown on the following page.

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 5. ALLOCATION OF COSTS ASSOCIATED WITH STORAGE FACILITIES.

Customer Classification (1)	Average Hour Consumption, 100 Cu. Ft. (2)	Maximum Hour Extra Capacity		Allocation Factor (5)
		Factor* (3)	Rate of Flow, 100 Cu. Ft. Per Hour (4)=(2)x(3)	
Residential	522	3.0	1,567	0.3760
Commercial	486	2.8	1,360	0.3263
Industrial	353	1.7	600	0.1441
Other Public Authority	138	2.8	387	0.0929
Other Water Utilities	149	1.7	253	0.0607
Total	<u>1,648</u>		<u>4,167</u>	<u>1.0000</u>

* Ratio of maximum hour to average day minus 1.0.

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 5. ALLOCATION OF COSTS ASSOCIATED WITH STORAGE FACILITIES.

The weighting of the factors is based on the ratio of the capacity required for a 6-hour demand of fire flow, as related to total storage capacity.

$$\text{Fire Protection Weight} = \frac{3500 \text{ GPM} \times 60 \text{ min.} \times 6 \text{ Hours}}{22,806,000 \text{ Gallons Storage}} = 0.0552$$

$$\text{General Service Weight} \quad 1 \quad - \quad 0.0552 = 0.9448$$

The weighting of the average hourly consumption and maximum hour extra demand for general service is based on the maximum hour ratio, as follows.

	<u>Maximum Hour Ratio</u>	<u>Percent</u>	<u>Weight</u>
Average Hour	1.0	52.63	0.4973
Extra Capacity Maximum Hour	<u>0.9</u>	<u>47.37</u>	<u>0.4475</u>
Total	1.9	100.00	0.9448

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 6. ALLOCATION OF COSTS ASSOCIATED WITH POWER AND PUMPING FACILITIES.

Factors are based on the weighting of the factors for maximum daily demand (Factor 2), maximum day extra capacity and fire demand (Factor 3) and maximum hour extra capacity and fire demand (Factor 4) for each customer classification.

Customer Classification (1)	Maximum Day Extra Capacity		Maximum Day Extra Capacity and Fire		Maximum Hour Extra Capacity and Fire		Allocation Factor (8)=(3)+(5)+(7)
	Allocation Factor 2 (2)	Weighted Factor (3)=(2)x 0.2200	Allocation Factor 3 (4)	Weighted Factor (5)=(4)x 0.7001	Allocation Factor 4 (6)	Weighted Factor (7)=(6)x 0.0799	
Residential	0.3372	0.0743	0.3298	0.2310	0.4035	0.0321	0.3374
Commercial	0.3024	0.0665	0.2958	0.2071	0.3628	0.0290	0.3026
Industrial	0.1874	0.0412	0.1833	0.1283	0.0623	0.0050	0.1745
Other Public Authority	0.0861	0.0189	0.0842	0.0589	0.1033	0.0083	0.0861
Other Water Utilities	0.0824	0.0181	0.0806	0.0564	-	-	0.0745
Private Fire Protection	0.0017	0.0004	0.0096	0.0067	0.0249	0.0020	0.0091
Public Fire Protection	0.0028	0.0006	0.0167	0.0117	0.0432	0.0035	0.0158
Subtotal	1.0000	0.2200	1.0000	0.7001	1.0000	0.0799	1.0000

The weighting of the factors is based on an analysis of pumping equipment by function, as follows:

	Horse Power of Pumps	Weight
Maximum Day Extra Capacity	2,700	0.2200
Maximum Day Extra Capacity and Fire	8,590	0.7001
Maximum Hour Extra Capacity and Fire	980	0.0799
Total	12,270	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 7. ALLOCATION OF COSTS ASSOCIATED WITH TRANSMISSION AND DISTRIBUTION MAINS.

Factors are based on the weighting of the factors for maximum day extra capacity and fire demand (Factor 3) and maximum hour extra capacity and fire demand (Factor 4) for each customer classification, as follows:

Customer Classification	Maximum Day Extra Capacity and Fire		Maximum Hour Extra Capacity and Fire		Allocation Factor
	Allocation Factor 3	Weighted Factor	Allocation Factor 4	Weighted Factor	
(1)	(2)	(3)=(2)x 0.1742	(4)	(5)=(4)x 0.8258	(6)=(3)+(5)
Residential	0.3298	0.0575	0.4035	0.3332	0.3907
Commercial	0.2958	0.0515	0.3628	0.2996	0.3511
Industrial	0.1833	0.0319	0.0623	0.0514	0.0833
Other Public Authority	0.0842	0.0147	0.1033	0.0853	0.1000
Other Water Utilities	0.0806	0.0140	-	-	0.0140
Private Fire Protection	0.0096	0.0017	0.0249	0.0206	0.0223
Public Fire Protection	0.0167	0.0029	0.0432	0.0357	0.0386
Total	1.0000	0.1742	1.0000	0.8258	1.0000

The weighting of the factors is based on the footage of transmission and distribution mains as set forth below:

	Footage of Mains	Weight
Transmission Mains	1,160,312	0.1742
Distribution Mains	5,501,226	0.8258
Total	6,661,538	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 8. ALLOCATION OF TRANSMISSION AND DISTRIBUTION OPERATIONS AND SUPERVISION EXPENSES.

Factors are based on the allocation of transmission and distribution operation labor, as follows:

Customer Classification	Transmission & Distribution Operating Labor	Allocation Factor
(1)	(2)	(3)
Residential	\$278,144	0.5669
Commercial	138,997	0.2832
Industrial	23,438	0.0478
Other Public Authority	33,243	0.0677
Other Water Utilities	3,355	0.0068
Private Fire Protection	4,960	0.0101
Public Fire Protection	8,586	0.0175
Total	<u>\$490,723</u>	<u>1.0000</u>

FACTOR 9. ALLOCATION OF TRANSMISSION AND DISTRIBUTION MAINTENANCE SUPERVISION EXPENSES.

Factors are based on the allocation of transmission and distribution maintenance labor, as follows:

Customer Classification	Transmission & Distribution Maintenance Labor	Allocation Factor
(1)	(2)	(3)
Residential	\$537,871	0.5123
Commercial	269,117	0.2563
Industrial	52,425	0.0499
Other Public Authority	67,674	0.0645
Other Water Utilities	8,370	0.0080
Private Fire Protection	33,827	0.0322
Public Fire Protection	80,596	0.0768
Total	<u>\$1,049,880</u>	<u>1.0000</u>

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 10. ALLOCATION OF COSTS ASSOCIATED WITH METERS.

Factors are based on the relative cost of meters by size as developed on the following page and summarized below:

<u>Customer Classification</u> (1)	<u>Meter Equivalents</u> (2)	<u>Allocation Factor</u> (3)
Residential	65,896	0.7128
Commercial	20,988	0.2270
Industrial	1,692	0.0183
Other Public Authority	3,786	0.0410
Other Water Utilities	<u>83</u>	<u>0.0009</u>
Subtotal	<u><u>92,445</u></u>	<u><u>1.0000</u></u>

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.
BASIS FOR ALLOCATING METER COSTS TO CUSTOMER CLASSIFICATIONS

Meter Size (1)	5/8" Equivalent (2)	Residential		Commercial		Industrial		Other Public Authority		Other Water Utilities	
		Number of Meters (3)	Weighting (4)=(2)x(3)	Number of Meters (5)	Weighting (6)=(2)x(5)	Number of Meters (7)	Weighting (8)=(2)x(7)	Number of Meters (9)	Weighting (10)=(2)x(9)	Number of Meters (11)	Weighting (12)=(2)x(11)
5/8-inch	1	64,747	64,747	5,541	5,541	24	24	182	182	-	-
3/4-inch	1.5	125	188	124	186	2	3	11	17	-	-
1-inch	2.5	282	705	1,462	3,655	27	68	155	388	-	-
1-1/2-inch	5	21	105	325	1,625	7	35	68	340	-	-
2-inch	8	17	136	1,042	8,336	89	712	278	2,224	1	8
3-inch	15	1	15	43	645	-	-	4	60	-	-
4-inch	25	-	-	20	500	24	600	21	525	3	75
6-inch	50	-	-	10	500	5	250	1	50	-	-
8-inch	0	-	-	1	-	-	-	-	-	-	-
Total		65,193	65,896	8,568	20,988	178	1,692	720	3,786	4	83

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 11. ALLOCATION OF COSTS ASSOCIATED WITH SERVICES.

Factors are based on the relative cost of services by size as developed on the following page and summarized below:

<u>Customer Classification</u> (1)	<u>Service Equivalents</u> (2)	<u>Allocation Factor</u> (3)
Residential	65,281	0.7849
Commercial	10,239	0.1231
Industrial	338	0.0042
Other Public Authority	1,120	0.0135
Other Water Utilities	11	0.0001
Private Fire Protection	6,172	0.0742
Subtotal	<u>83,161</u>	<u>1.0000</u>

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.
BASIS FOR ALLOCATING SERVICES COSTS TO CUSTOMER CLASSIFICATIONS

Meter Size (1)	3/4" Equivalent (2)	Residential		Commercial		Industrial		Other Public Authority		Other Water Utilities		Private Fire Service	
		Number of Services (3)	Weighting (4)=(2)x(3)	Number of Services (5)	Weighting (6)=(2)x(5)	Number of Services (7)	Weighting (8)=(2)x(7)	Number of Services (9)	Weighting (10)=(2)x(9)	Number of Services (11)	Weighting (12)=(2)x(11)	Number of Services (13)	Weighting (14)=(2)x(13)
3/4-inch	1	64,872	64,872	5,665	5,665	26	26	193	193	0	0	0	0
1-inch	1.2	282	338	1,462	1,754	27	32	155	186	0	0	0	0
1-1/2-inch	1.6	21	34	325	520	7	11	68	109	0	0	1	2
2-inch	2	17	34	1,042	2,084	89	178	278	556	1	2	14	28
3-inch	2.7	1	3	43	116	0	0	4	11	0	0	2	5
4-inch	2.9	0	0	20	58	24	70	21	61	3	9	81	235
6-inch	4.2	0	0	10	42	5	21	1	4	0	0	826	3,469
8-inch	7	0	0	1	0	0	0	0	0	0	0	294	2,058
10-inch	9.5	0	0	0	0	0	0	0	0	0	0	15	143
12-inch	12.2	0	0	0	0	0	0	0	0	0	0	19	232
Total		65,193	65,281	8,568	10,239	178	338	720	1,120	4	11	1,252	6,172

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 12. ALLOCATION OF CUSTOMER ACCOUNTING COSTS.

Factors are based on the number of bills by classification, as follows:

<u>Customer Classification</u> (1)	<u>Number of Bills</u> (2)	<u>Allocation Factor</u> (3)
Residential	782,328	0.8691
Commercial	102,801	0.1142
Industrial	2,135	0.0024
Other Public Authority	8,647	0.0096
Other Water Utilities	48	0.0001
Private Fire Protection	4,076	0.0045
Public Fire Protection	132	0.0001
Total	<u>900,167</u>	<u>1.0000</u>

FACTOR 13. ALLOCATION OF METER READING COSTS.

Factors are based on the number of meter readings by classification, as follows:

<u>Customer Classification</u> (1)	<u>Number of Meter Readings</u> (2)	<u>Allocation Factor</u> (3)
Residential	782,328	0.8731
Commercial	102,801	0.1147
Industrial	2,135	0.0024
Other Public Authority	8,647	0.0097
Other Water Utilities	48	0.0001
Total	<u>895,959</u>	<u>1.0000</u>

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATION

FACTOR 14. ALLOCATION OF ADMINISTRATIVE AND GENERAL EXPENSE.

Factors are based on the allocation of operation and maintenance expenses power and chemicals, as follows:

Customer Classification	Operation and Maintenance Expenses	Allocation Factor
(1)	(2)	(3)
Residential	\$3,560,509	0.5645
Commercial	1,496,709	0.2373
Industrial	501,854	0.0796
Other Public Authority	361,344	0.0573
Other Water Utilities	180,520	0.0286
Private Fire Protection	70,935	0.0112
Public Fire Protection	135,877	0.0215
Total	<u>\$6,307,748</u>	<u>1.0000</u>

FACTOR 15. ALLOCATION OF LABOR RELATED TAXES AND BENEFITS.

Factors are based on the allocation of operation and maintenance labor expenses as follows:

Customer Classification	Labor Expense	Allocation Factor
(1)	(2)	(3)
Residential	\$2,494,882	0.5302
Commercial	1,176,732	0.2501
Industrial	393,484	0.0836
Other Public Authority	292,454	0.0622
Other Water Utilities	137,643	0.0293
Private Fire Protection	67,222	0.0143
Public Fire Protection	142,653	0.0303
Total	<u>\$4,705,070</u>	<u>1.0000</u>

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 16. ALLOCATION OF INTANGIBLE PLANT AND OTHER RATE BASE ELEMENTS.

Factors are based on the allocation of utility plant in service less depreciation, follows:

Customer Classification	Utility Plant in Service Less Depreciation Reserve	Allocation Factor
(1)	(2)	(3)
Residential	\$60,400,718	0.4341
Commercial	39,535,216	0.2841
Industrial	12,889,798	0.0926
Other Public Authority	10,614,674	0.0763
Other Water Utilities	4,042,009	0.0290
Private Fire Protection	2,897,803	0.0208
Public Fire Protection	8,786,629	0.0631
Total	<u>\$139,166,847</u>	<u>1.0000</u>

FACTOR 17. ALLOCATION OF INCOME TAXES AND INCOME AVAILABLE FOR RETURN.

Factors are based on the allocation of original cost rate base, as shown on the following pages and summarized below.

Customer Classification	Original Cost Rate Base	Allocation Factor
(1)	(2)	(3)
Residential	\$45,914,339	0.4371
Commercial	29,411,950	0.2800
Industrial	10,314,227	0.0982
Other Public Authority	7,856,650	0.0748
Other Water Utilities	3,468,959	0.0330
Private Fire Protection	2,044,541	0.0195
Public Fire Protection	6,028,348	0.0574
Total	<u>\$105,039,014</u>	<u>1.0000</u>

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2006

Account Number (1)	Account Description (2)	Factor Ref. (3)	Cost of Service (4)	Residential (5)	Commercial (6)	Industrial (7)	Other Public Authority (8)	Other Water Utilities (9)	Private Fire Protection (10)	Public Fire Protection (11)
UTILITY PLANT IN SERVICE LESS DEPRECIATION										
<u>Intangible</u>										
339600	Comprehensive Planning Study	16	(165,986)	(72,055)	(47,157)	(15,370)	(12,665)	(4,814)	(3,453)	(10,474)
<u>Source of Supply</u>										
303.00	Land & Land Rights	2	73,444	24,765	22,210	13,763	6,324	6,052	125	206
304.21	Struct & Improv SS	2	0	-	-	-	-	-	-	-
305.00	Collecting and Impound Res	2	0	-	-	-	-	-	-	-
306.20	Lakes, Rivers, & Other Intakes	2	145,539	49,076	44,011	27,274	12,531	11,992	247	408
307.00	Wells and Springs	2	0	-	-	-	-	-	-	-
308.00	Infiltration Galleries and Tunnels	2	0	-	-	-	-	-	-	-
309.00	Supply Mains	2	579,788	195,504	175,328	108,652	49,920	47,774	986	1,623
339.00	Other P/E SS	2	2,546	858	770	477	219	210	4	7
<u>Pumping Equipment</u>										
304.22	Pumping Structures	6	3,058,514	1,031,942	925,506	533,711	263,338	227,859	27,832	48,325
	Lookout Mountain Tariff	19	11,115	9,358	1,357	-	400	-	-	-
	Lakeview Tariff	20	8,981	7,716	1,105	-	160	-	-	-
310.20	Power Generation Equipment	6	119,508	40,322	36,163	20,854	10,290	8,903	1,088	1,888
311.22	Electric Pumping Equipment	6	4,170,684	1,407,189	1,262,049	727,784	359,096	310,716	37,953	65,897
	Lookout Mountain Tariff	19	247,144	208,071	30,176	-	8,897	-	-	-
	Lakeview Tariff	20	40,337	34,658	4,961	-	718	-	-	-
311.23	Diesel Pumping Equipment	6	71,702	24,192	21,697	12,512	6,174	5,342	652	1,133
311.27	Other Pumping Equipment	6	22,545	7,607	6,822	3,934	1,941	1,680	205	356
<u>Water Treatment</u>										
303.00	Land & Land Rights	2	18,009	6,073	5,446	3,375	1,551	1,484	31	50
304.31	Water Treatment Structures	2	783,770	264,287	237,012	146,878	67,483	64,583	1,332	2,195
304.32	Water Treatment Structures-Painting	2	462,481	155,949	139,854	86,669	39,820	38,108	786	1,295
320.31	Water Treatment Equipment	2	6,422,973	2,165,827	1,942,307	1,203,665	553,018	529,253	10,919	17,984
320.33	Granular Activated Carbon	2	0	-	-	-	-	-	-	-
<u>Transmission & Distribution</u>										
303.00	Land & Land Rights	7	328,437	128,320	115,314	27,359	32,844	4,598	7,324	12,678
304.40	T & D Structures	7	277,503	108,420	97,431	23,116	27,750	3,885	6,188	10,712
330.40	Clearwell	2	648,110	218,543	195,988	121,456	55,802	53,404	1,102	1,815
330.41	T & D Reservoirs & Standpipes	5	6,393,064	2,076,467	1,864,217	1,089,378	530,624	459,022	136,812	236,543
	Lookout Mountain Tariff	19	160,569	135,183	19,605	-	5,780	-	-	-
	Lakeview Tariff	20	23,841	20,484	2,932	-	424	-	-	-

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2006

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection	Public Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
330.42	T & D Reservoirs & Standpipes-Painting	5	1,086,936	353,037	316,951	185,214	90,216	78,042	23,260	40,217
	Lookout Mountain Tariff	19	14,183	11,941	1,732	-	511	-	-	-
330.43	Elevated Tanks & Standpipes	5	157,134	51,037	45,820	26,776	13,042	11,282	3,363	5,814
331.40	T & D Mains not Classified	4	1,953,281	788,149	708,650	121,689	201,774	-	48,637	84,382
331.41	T & D Mains - Mains (4" or less)	4	3,716,595	1,499,646	1,348,381	231,544	383,924	-	92,543	160,557
331.44	T & D Mains - Mains (6" - 8")	4	347,877	140,369	126,210	21,673	35,936	-	8,662	15,028
331.42	T & D Mains - Mains (6" - 10")	4	46,354,571	18,704,070	16,817,439	2,887,890	4,788,427	-	1,154,229	2,002,517
331.45	T & D Mains - Mains (10" - 16")	3	9,421,197	3,107,111	2,786,790	1,726,905	793,265	759,348	90,443	157,334
331.43	T & D Mains - Mains (12" or More)	3	16,208,050	5,345,415	4,794,341	2,970,936	1,364,718	1,306,369	155,597	270,674
333.40	Services	11	14,158,052	11,112,655	1,742,856	59,464	191,134	1,416	1,050,527	-
334.41	Meters	10	5,301,678	3,779,036	1,203,481	97,021	217,369	4,772	-	-
334.42	Meters-Metal Case/Old Style	10	0	-	-	-	-	-	-	-
334.43	Meters - Plastic Case	10	(24,259)	(17,292)	(5,507)	(444)	(995)	(22)	-	-
334.44	Meters - Metal Case/New Style	10	-	-	-	-	-	-	-	-
334.44	Meters, Other	10	108,673	77,462	24,669	1,989	4,456	98	-	-
334.45	Meter Installations	10	7,363,920	5,249,002	1,671,610	134,760	301,921	6,628	-	-
335.40	Hydrants	21	5,576,077	-	-	-	-	-	-	5,576,077
General										
303.00	Land & Land Rights AG	14	25,022	14,125	5,938	1,992	1,434	716	280	538
304.51	Office Structures	14	70,979	40,067	16,843	5,650	4,067	2,030	795	1,526
304.52	Stores , Shop, & Garage Structures	14	87,742	49,530	20,821	6,984	5,028	2,509	983	1,886
304.53	Miscellaneous Structures	14	331,268	187,001	78,610	26,369	18,982	9,474	3,710	7,122
340.51	Office Furniture	14	499,712	282,087	118,582	39,777	28,633	14,292	5,597	10,744
340.53	Computer & Peripheral Equipment	14	581,090	328,025	137,893	46,255	33,296	16,619	6,508	12,493
340.53	Computer and Mainframe Equipment	14	(386,367)	(218,104)	(91,685)	(30,755)	(22,139)	(11,050)	(4,327)	(8,307)
340.56	Computer & Periph Personal	14	(358,109)	(202,153)	(84,979)	(28,505)	(20,520)	(10,242)	(4,011)	(7,699)
340.57	Computer & Periph Other	14	(203,690)	(114,983)	(48,336)	(16,214)	(11,671)	(5,826)	(2,281)	(4,379)
340.55	Computer Software	14	296,877	167,587	70,449	23,631	17,011	8,491	3,325	6,383
340.55	Computer Software Mainframe	14	458,146	258,624	108,718	36,468	26,252	13,103	5,131	9,850
340.58	Computer Software Personal	14	(380,711)	(214,912)	(90,343)	(30,305)	(21,815)	(10,888)	(4,264)	(8,185)
340.59	Computer Software Other	14	5,227	2,951	1,240	416	299	149	59	112
340.54	Other Office Equipment	14	77,444	43,717	18,378	6,165	4,438	2,215	867	1,665
340.54	Data Handling Equipment	14	(12,179)	(6,875)	(2,890)	(969)	(698)	(348)	(136)	(262)
341.52	Light Trucks	14	34,831	19,662	8,265	2,773	1,996	996	390	749
341.53	Heavy Trucks	14	27,258	15,387	6,468	2,170	1,562	780	305	586
341.54	Automobiles	14	91,185	51,474	21,638	7,258	5,225	2,608	1,021	1,960
341.55	Transportation-Other	14	36,811	20,780	8,735	2,930	2,109	1,053	412	791
342.50	Stores Equipment	14	16,015	9,040	3,800	1,275	918	458	179	344
343.50	Tools, Shop, & Garage Equipment	14	851,661	480,762	202,099	67,792	48,800	24,357	9,539	18,311

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2006

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection	Public Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
344.50	Laboratory Equipment	2	61,993	20,904	18,747	11,617	5,338	5,108	105	174
345.50	Power Operated Equipment	14	25,974	14,662	6,164	2,068	1,488	743	291	558
346.51	Communication Equipment	14	302,507	170,765	71,785	24,080	17,334	8,652	3,388	6,504
346.53	Communication Equipment-Telephone	14	(84,430)	(47,661)	(20,035)	(6,721)	(4,838)	(2,415)	(946)	(1,815)
347.51	Miscellaneous Equipment	14	895,859	505,712	212,587	71,310	51,333	25,622	10,034	19,261
348.00	Other Tangible Plant	14	168	95	40	13	10	5	2	4
Total Utility Plant in Service (Net)			<u>139,000,860</u>	<u>60,328,663</u>	<u>39,488,059</u>	<u>12,874,428</u>	<u>10,602,009</u>	<u>4,037,195</u>	<u>2,894,350</u>	<u>8,776,155</u>
Other Rate Base Elements										
	Reserve not Identified by Account	16	(5,709,853)	(2,478,647)	(1,622,169)	(528,732)	(435,662)	(165,586)	(118,765)	(350,292)
	Accumulated Deferred ITC	16	(38,767)	(16,829)	(11,014)	(3,590)	(2,958)	(1,124)	(806)	(2,446)
	Accumulated Amortization of Capital Leas	2	(980,808)	(330,729)	(296,596)	(183,803)	(84,448)	(80,819)	(1,667)	(2,746)
	CIAC - Mains	4	(11,031,985)	(4,451,406)	(4,002,404)	(687,293)	(1,139,604)	-	(274,696)	(476,582)
	CIAC - Services	11	(1,541,224)	(1,209,707)	(189,725)	(6,473)	(20,807)	(154)	(114,359)	-
	CIAC - Meters	10	(154,166)	(109,890)	(34,996)	(2,821)	(6,321)	(139)	-	-
	CIAC - Hydrants	21	(812,389)	-	-	-	-	-	-	(812,389)
	Deferred Taxes	16	(18,833,369)	(8,175,565)	(5,350,560)	(1,743,970)	(1,436,986)	(546,168)	(391,734)	(1,188,386)
331.4	CWIP - Mains not classified	4	729,841	294,491	264,786	45,469	75,393	-	18,173	31,529
304.3	CWIP - Water treatment Structures	2	751,650	253,456	227,299	140,859	64,717	61,936	1,278	2,105
340.2	CWIP - Pumping Structures	6	4,343	1,465	1,314	758	374	324	40	69
330.4	CWIP -Elevated Tanks and Standpipes	5	135,000	43,848	39,366	23,004	11,205	9,693	2,889	4,995
320.3	CWIP -Water Treatment Equipment	2	987,751	333,070	298,696	185,105	85,045	81,391	1,679	2,766
	CWIP - Services	11	-	-	-	-	-	-	-	-
	CWIP - Meters	10	-	-	-	-	-	-	-	-
	CWIP - Hydrants	21	-	-	-	-	-	-	-	-
	CWIP - Tools, Shop, & Garage Equip.	14	-	-	-	-	-	-	-	-
	RWIP	16	-	-	-	-	-	-	-	-
	Deferred Maintenance	14	0	-	-	-	-	-	-	-
	Utility Plant Capital lease	14	1,590,500	897,837	377,426	126,604	91,136	45,488	17,814	34,196
	Limited Term Utility Plant - Net	16	(20,953)	(9,096)	(5,953)	(1,940)	(1,599)	(608)	(436)	(1,322)
	Working Capital Allowance	14	962,583	543,378	228,421	76,622	55,156	27,530	10,781	20,696
Subtotal Other Rate Base Elements			<u>(33,961,846)</u>	<u>(14,414,324)</u>	<u>(10,076,109)</u>	<u>(2,560,201)</u>	<u>(2,745,359)</u>	<u>(568,236)</u>	<u>(849,809)</u>	<u>(2,747,807)</u>
Total Original Cost Rate Base			105,039,014	45,914,339	29,411,950	10,314,227	7,856,650	3,468,959	2,044,541	6,028,348

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 18. ALLOCATION OF OTHER REVENUES.

Factors are based on the allocation of total cost of service.

Customer Classification	Total Cost of Service	Allocation Factor
(1)	(2)	(3)
Residential	\$18,556,623	0.4846
Commercial	9,984,250	0.2607
Industrial	3,765,337	0.0983
Other Public Authority	2,581,446	0.0674
Other Water Utilities	1,354,083	0.0354
Private Fire Protection	563,461	0.0147
Public Fire Protection	1,488,942	0.0389
Total	<u>\$38,294,142</u>	<u>1.0000</u>

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS

FACTOR 19. ALLOCATION OF COSTS WHICH VARY WITH THE AMOUNT OF WATER CONSUMED IN THE LOOKOUT MOUNTAIN SERVICE AREA.

Factors are based on the pro forma test year average daily consumption for each customer classification.

<u>Customer Classification</u> (1)	<u>Average Daily Consumption, 100 Cu. Ft.</u> (2)	<u>Allocation Factor</u> (3)
Residential	724	0.8419
Commercial	105	0.1221
Other Public Authority	31	0.0360
Total	<u>860</u>	<u>1.0000</u>

FACTOR 20. ALLOCATION OF COSTS WHICH VARY WITH THE AMOUNT OF WATER CONSUMED IN THE LAKEVIEW SERVICE AREA.

Factors are based on the pro forma test year average daily consumption for each customer classification.

<u>Customer Classification</u> (1)	<u>Average Daily Consumption, 100 Cu. Ft.</u> (2)	<u>Allocation Factor</u> (3)
Residential	531	0.8592
Commercial	76	0.1230
Other Public Authority	11	0.0178
Total	<u>618</u>	<u>1.0000</u>

FACTOR 21. ALLOCATION OF COSTS ASSOCIATED WITH FIRE HYDRANTS.

These costs are assigned directly to the public fire protection classification.

<u>Customer Classification</u> (1)	<u>Allocation Factor</u> (3)
Public Fire Protection	1.0000

PART III. PROPOSED CUSTOMER RATES

TENNESSEE AMERICAN WATER COMPANY
Comparison of Present and Proposed Rates

Line No.		<u>Rates Effective March 9, 2005</u>			<u>Proposed Rates</u>			<u>Percent Increase</u>		
		<u>Lookout</u>			<u>Lookout</u>			<u>Lookout</u>		
		<u>Chattanooga</u>	<u>Mountain</u>	<u>Lakeview</u>	<u>Chattanooga</u>	<u>Mountain</u>	<u>Lakeview</u>	<u>Chattanooga</u>	<u>Mountain</u>	<u>Lakeview</u>
5	5/8 - inch meter	9.26	10.39	10.39	11.08	12.43	12.43	19.67%	19.67%	19.67%
6	3/4 - inch meter	15.55	15.55	15.55	18.61	18.61	18.61	19.67%	19.67%	19.67%
7	1 - inch meter	25.88	25.88	25.88	30.97	30.97	30.97	19.67%	19.67%	19.67%
8	1 1/2 - inch meter	51.79	51.79	51.79	61.98	61.98	61.98	19.67%	19.67%	19.67%
9	2 - inch meter	82.85	82.85	82.85	99.15	99.15	99.15	19.67%	19.67%	19.67%
10	3 - inch meter	155.35	155.35	155.35	185.91	185.91	185.91	19.67%	19.67%	19.67%
11	4 - inch meter	258.92	258.92	258.92	309.85	309.85	309.85	19.67%	19.67%	19.67%
12	6 - inch meter	517.85	517.85	517.85	619.72	619.72	619.72	19.67%	19.67%	19.67%
13	8 - inch meter	828.55	828.55	828.55	991.54	991.54	991.54	19.67%	19.67%	19.67%
14										
15										
16	Volumetric									
17	First 400 Cubic Feet	0.172	0.640	0.316	0.206	0.766	0.378	19.67%	19.67%	19.67%
18	Next 6,100 Cubic Feet	2.730	3.516	3.008	3.267	4.208	3.600	19.67%	19.67%	19.67%
19	Next 43,500 Cubic Feet	1.715	2.501	1.993	2.052	2.993	2.385	19.67%	19.67%	19.67%
20	Next 450,000 Cubic Feet	1.282	1.749	1.425	1.534	2.093	1.705	19.67%	19.67%	19.67%
21	Next 1,000,000 Cubic Feet	0.980	1.448	1.124	1.173	1.733	1.345	19.67%	19.67%	19.67%
22	All Over 1,500,000 Cubic Feet	0.582	1.049	0.725	0.696	1.255	0.868	19.67%	19.67%	19.67%
23	Ft. Oglethorpe	0.7960			0.9526			19.67%		
24										
25	Private Fire Service									
26										
27	1 - Inch Service	24.12			28.86			19.67%		
28	1 1/2 - Inch Service	54.40			65.10			19.67%		
29	2 - Inch Service	96.75			115.78			19.67%		
30	2 1/2 - Inch Service	147.53			176.55			19.67%		
31	3 - Inch Service	217.48			260.26			19.67%		
32	4 - Inch Service	435.50			521.17			19.67%		
33	6 - Inch Service	870.32			1,041.52			19.67%		
34	8 - Inch Service	1,742.11			2,084.80			19.67%		
35	10 - Inch Service	2,613.37			3,127.45			19.67%		
36	12 - Inch Service	3,484.78			4,170.28			19.67%		