

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
DIRECT TESTIMONY
HAROLD J. SMITH

INTRODUCTION

Q1. Please state your name and business address.

A. My name is Harold J. Smith and my business address is, 511 East Boulevard, Charlotte, North Carolina 28203.

Q2. By whom are you employed and in what capacity.

A. I am a Vice President of Raftelis Financial Consultants, Inc. (RFC), a consulting firm specializing in the areas of water and wastewater finance and pricing. RFC was established in 1993 in Charlotte, North Carolina, by George A. Raftelis to provide environmental and management consulting services to public and private sector clients. RFC is a national leader in the development of water and wastewater rates.

Q3. Please describe your educational background and work experience.

A. I obtained a Master of Business Administration from Wake Forest University in 1997 and a Bachelor of Science in Natural Resources from the University of the South in 1987. I began working at RFC in 1997 as a Senior Consultant. As an employee of Raftelis Financial Consulting, I have been involved in numerous utility projects including a number of studies involving transition to new rate structures designed to address specific pricing objectives. I have also served on engagements involving a wide range of technical specialties including:

- Utility Cost of Service and Rate Structure Studies
- Privatization Feasibility Studies
- Privatization Procurements
- Utility Financial Planning Studies

Q4. Have you previously testified before any regulatory agencies or in court on utility rate related matters?

A. Yes. I provided testimony before the Rhode Island Public Utility Commission (RIPUC) on behalf of Newport, Rhode Island's water department for their three most recent rate filings, including their current filing (RIPUC Docket #s 3578, 3675 and 3818).

1 **Q5. Do you belong to any professional organizations or committees?**

2 A. Yes. I am a member of the American Water Works Association where I serve as chairman of
3 the Competitive Practices Committee, and I am a member of the Financial Management
4 Committee of the New England Water Works Association.
5

6 **Q6. Please describe your role in this proceeding?**

7 A. RFC was engaged by the City of Chattanooga to review testimony and other documents
8 related to TAWC's current rate filing before the TRA and to analyze data found in those
9 documents in an effort to ascertain whether the rates that TAWC is seeking in this filing are
10 justified on a cost of service basis and represent a fair charge to the citizens of the City of
11 Chattanooga and to the City, itself, as a major customer of TAWC, for the services that TAWC
12 provides.
13

14 **Q7. Can you explain the cost of service concept and the role that it plays in utility rate
15 setting?**

16 A. Yes. The cost of service concept dictates that rates should be based on what it actually costs
17 to provide the customer with water service and that to the degree possible those costs should be
18 recovered from customers based on the way in which they demand service. Setting rates
19 consistent with cost of service principles improves the degree to which rates are fair and
20 equitable, and prevents utilities from using water rates to subsidize unrelated costs. The cost of
21 service approach is generally accepted as the preferred way to set rates in the water industry, and
22 is promoted by the American Water Works Association and other industry leaders.
23

24 **Q8. Was RFC able to determine whether the rates being sought by TAWC are cost
25 justified?**

26 A. No. Based upon our review of the data provided, TAWC has not demonstrated that the costs
27 allocated to TAWC rate payers are justified under cost of service principles.
28

29 **Q9. Did RFC perform a cost of service analysis as part of its review and analysis?**

1 A. No. Cost of service rate analysis is a two-phase process. The first phase identifies the costs
2 required to provide water service while excluding unrelated expenditures. The second phase
3 develops a set of rates that are consistent with the demands that each customer class places on
4 the water system. The first phase prevents over-recovery of costs, and the second phase provides
5 equity among rate classes by requiring customers with the most stringent demands to pay
6 proportionately more of the system costs. RFC's scope focused solely on assessing whether or
7 not the data provided by TAWC was sufficient to support the first phase of a cost of service
8 analysis as described above.

9
10 An analysis to verify rate equity across customer classes, as required in the second phase of a
11 cost of service analysis, would require unlimited access to all of TAWC's departmental budgets,
12 financial policies, and operational records. It is our understanding that obtaining this type of data
13 might take months and would require a delay in the proceedings. Our analysis has by necessity
14 been focused on the revenue requirement data submitted either as part of the original TAWC
15 filing or in response to data requests filed by the City and other rate case interveners.

16
17 **Q10. On what specific aspects of the revenue requirements that TAWC is seeking in this**
18 **case did RFC focus its analysis?**

19 A. Our analysis focused on several components of the costs that TAWC is seeking to recover
20 through their proposed rates: the management fees that TAWC pays to American Water Works
21 Service Company ("Service Company") pursuant to the 1989 agreement between TAWC and the
22 Service Company ("1989 Agreement"), including the costs associated with the national call
23 center that is used to handle customer calls from TAWC's customers, and specific TAWC
24 operation and maintenance costs that have increased significantly over the past few years.

25
26 **Q11. Why did you focus your analysis on the Service Company's fees charged to TAWC?**

27 A. There are several reasons that our analysis focused on this aspect of TAWC's costs. First,
28 the Service Company's fees, which are captured under the line item "Management Fees" in
29 TAWC's Exhibit 2, Schedule 3 represent a significant portion (approximately 22%) of the
30 overall attrition year O&M expenses that TAWC is seeking in this rate case. Second, over the

1 last five years, management fees have nearly tripled, escalating an average of 27% per year while
2 all other operating costs have risen an average of slightly less than 4 percent per year (Graph 1
3 and Exhibit 1). Third, these costs are fees paid to a company that is closely affiliated with
4 TAWC and is a subsidiary of TAWC's parent company. The magnitude of the costs, the fact
5 that they have increased dramatically in the recent past, and the relationship between the two
6 parties involved justifies careful scrutiny in an effort to verify that the services being provided by
7 the Service Company do provide value to TAWC's customers and to ensure that providing these
8 services via the 1989 Agreement is cost effective and in the best interest of the ratepayers.

9
10 **Q12. Has the information provided indicated why management fees have increased so**
11 **substantially since 2002?**

12 A. No, not in detail sufficient enough to demonstrate that the increases were cost justified.

13
14 **Q13. What types of costs are included in management fees charged to TAWC by the**
15 **Service Company?**

16 A. Data provided by TAWC regarding its management fees is not explicit enough to ascertain
17 the exact nature of the services that are associated with the management fees charged to TAWC.

18
19 **Q14. Would all of the management fees allocated to TAWC be recoverable under cost of**
20 **service principles?**

21 A. The data provided by TAWC does not allow a determination of whether or not the allocated
22 management fees are relevant to the ability of TAWC to provide water service to Chattanooga
23 and the surrounding area. TAWC's failure to fully comply with the City's data request has
24 prevented us from evaluating this issue.

25
26 **Q15. Can you provide examples of specific Service Company costs that have not been**
27 **justified under cost of service principles?**

28 A. Yes. The costs in the attached schedule are examples of costs embedded in the management
29 fee for which insufficient support information has been provided to justify these costs on a cost
30 of service basis. This list is not intended to be complete.

Service Company Category per the response to City's Q19*	July 2005-June 2006 Costs Charged to TAWC
CORP-Business Change	\$106,974
CORP-HR Talent Development	28,951
CORP-Non-Departmental Costs	99,218
CORP-CEO	19,973
CORP-Marketing and Sales	24,266
CORP-Chief Growth Officer	12,686**
SE-Operational Risk	36,345

* TN-COC-01-Q18 & Q19 supplemental SCB 2005.pdf; and TN-COC-01-Q18 & Q19 supplemental SCB Jan June 06.pdf

**January-December 2006

Q16. If a cost is associated with a service that does not provide benefit to TAWC's ratepayers, would it be recoverable from those ratepayers under cost of service principles?

A. No, it would not.

Q17. What else did your analysis reveal about changes in costs over the past several years?

A. We expected TAWC's direct costs to be reduced in an amount greater than the additional management fees paid to the Service Company for call center operation. If you refer to Graph 1, you will see that only labor costs experienced a meaningful reduction during 2002 through 2004, but as shown in Graph 2, even this labor cost reduction of \$1.2 million accounted for less than half of the increase in management fees of \$2.5 million. Furthermore, labor has increased again to the 2002 levels in the proposed attrition year.

Q18. Why is the rise in management fees without a commensurate decrease in other costs a reason for concern?

A. Large increases in management fees might be justified if they were the result of the shifting of services from TAWC to the Service Company, which would lower TAWC's direct expenses. There is no indication that the increases in costs for management fees resulted in a commensurate drop in direct TAWC expenses.

For example, as discussed later in this testimony, TAWC has indicated that its Service Company has spent more time on "increased emphasis on meter change programs and collection activities"

1 (TN-COC-01-Q017.doc). Yet, despite this focus on collection activities, bad debt expense has
2 increased significantly.

3
4 **Q19. Did any of the management fee data in particular cause you concern in terms of cost**
5 **justification?**

6 A. One major concern was the amount of costs categorized as "Expenses" (as opposed to
7 "Payroll" for services provided to TAWC) in the Service Company's billing data to TAWC (TN-
8 COC-01-Q18 & Q19 supplemental SCB 2005.pdf and TN-COC-01-Q18 & Q19 supplemental
9 SCB Jan June 06.pdf). In response to the City's data request #18 and #19 (TN-COC-01-Q18 &
10 Q19 Supplemental attachment 3.xls), TAWC indicated that labor benefits are 36.4% of labor and
11 an additional 33.6% is added for other, undefined, general overhead, for a total of 70% of labor
12 for overhead costs. However, for the test year of July 2005 through June 2006, Payroll is
13 reported as \$1.66 million and Expenses are reported as \$2.87 million, which would indicate an
14 overhead expense of 172.9% of payroll. (Exhibit 2)

15
16 **Q20. Did you perform a similar analysis on an annual basis?**

17 A. Yes. Between 2004 and 2006 this Expense category (in the Service Company's billing data to
18 TAWC) increased substantially relative to payroll costs. Expenses were 99.7% of payroll in
19 2004, 174.3% of payroll in 2005, and 202.1% of payroll in 2006. (Exhibit 2)

20
21 **Q21. How do the expense items compare with charges that are allowed by the Agreement?**

22 A. Given the data provided, we cannot determine whether the expense items charged by the
23 Service Company to TAWC are associated with charges allowed by the 1989 Agreement, nor
24 can we determine whether the charges are for services or materials that provide benefit to the rate
25 payers of TAWC. As such, TAWC has not justified that these costs should be recovered through
26 its rates.

27
28 **Q22. How consistent are the expenses charged on a monthly basis?**

29 A. Based upon the methodology described in the 1989 Agreement, the expenses should be in
30 proportion to the payroll figures, and this is not the case. As you can see in Exhibit 3, expenses

1 relative to payroll vary widely from month to month. For example, in December of 2005,
2 expenses are 229% of payroll but are 113% of payroll in the following month.

3
4 **Q23. Did not Mr. Baryenbruch's testimony indicate that 1) these services were cost of**
5 **service based; 2) were necessary; and 3) were reasonable relative to the "marketplace" for**
6 **services?**

7 He made these assertions; however, he did not provide any evidence to support that the fees
8 charged by the Service Company were cost of service based. His analysis focused on a
9 comparison of the charges by the Service Company to what TAWC would have to pay to
10 "outsource" these responsibilities to an outside service provider or whether the fees charged were
11 reasonable relative to the "marketplace". This analysis is irrelevant in that it does not provide
12 support for cost of service-based fees charged by the Service Company. Furthermore, the
13 analysis did not compare the charges assessed by the Service Company to the costs that TAWC
14 would have incurred if they had performed the services "in house".

15
16 **Q24. Did you perform any other analyses to determine if the supporting information**
17 **provided cost justification for the Service Company's billings to TAWC?**

18 A. Yes. We reviewed the data to identify if there were consistencies or trends that would appear
19 to justify the monthly fees charged to TAWC; however, the data provided was either insufficient
20 or in a format that was not readily useful. TAWC's failure to fully comply with the City's data
21 request has prevented us from evaluating this issue.

22
23 **Q25. Given the failure of TAWC to provide adequate data, were you able to perform any**
24 **analyses that yielded any useful information regarding the justification of the Service**
25 **Company's billings?**

26 A. Yes, since TAWC had provided data regarding hours and payroll, as demonstrated in Exhibit
27 4, we specifically assessed the hourly rates for "Customer Services." The implied hourly rate per
28 month ranged between \$11.34 and \$19.55 in 2005 (72% differential) and \$10.34 to \$19.67 in
29 2006 (90% differential). Given the nature of the services provided, we do not see a cost
30 justification for such variation.

1
2 **Q26. Do the results of the analyses described in the preceding questions provide any**
3 **insight into whether these costs are justifiable costs that should be recovered from the**
4 **ratepayers?**

5 A. No. The analyses performed do not provide justification that the billings are based on cost of
6 service.
7

8 **Q27. Why did you analyze "Customer Services" in particular?**

9 A. The customer service category includes the call center function which was moved from
10 Chattanooga to the Service Company's national call centers in Alton, Illinois and Pensacola,
11 Florida. In TAWC's rate case 03-00118, TAWC claimed that this move would provide
12 efficiencies and would prove to be a cost benefit to the TAWC ratepayers. We wanted to
13 determine if this had been the case.
14

15 **Q28. Did RFC perform a comparison of the call center charges assessed by the Service**
16 **Company to the costs that TAWC would be expected to incur had they maintained the call**
17 **center responsibilities?**

18 A. Yes. In 2003, TAWC indicated that the costs it eliminated by moving to the national call
19 center were \$748,642 and that the total costs for that national call center allocated to TAWC
20 would be \$704,120, for a savings of \$44,522 to TAWC ratepayers (TN-COC-01-Q01 CCC cost
21 savings.xls). In order to assess whether these savings actually occurred, we have escalated the
22 eliminated costs by 3% annually to compare with the current call center costs allocated to
23 TAWC to determine additional costs/savings (Exhibit 5).
24

25 **Q29. Based on the analysis you performed, has the relocation of the call center been**
26 **beneficial to TAWC ratepayers?**

27 No. Our analysis indicates additional cost to TAWC rate payers of approximately \$98,000 in
28 2004, \$66,000 in 2005, and \$136,000 in 2006 for the Service Company's call center as opposed
29 to the projected costs for a local call center.
30

1 **Q30. Do you have other concerns regarding the savings promised in 2003?**

2 Yes. It is questionable as to whether the costs that were to be eliminated at TAWC by the
3 centralization of the call center were truly eliminated. Specifically, TAWC indicated that the
4 costs associated with 12 personnel would be removed from TAWC costs (TN-COC-01-Q01
5 CCC cost savings.xls). However, Myra Kelley and Faye Williams still work for TAWC (TN-
6 TRA-01-Q030-ATTACHMENT.pdf). In addition, Chris Hudson had retired before the call
7 center had been moved (TN-COC-01-Q01 CCC cost savings.xls).

8
9 **Q31. Did TAWC indicate that some personnel had been reassigned (TN-TRA-01-
10 Q002.doc)?**

11 A. Yes, but we cannot determine if they are referring to these personnel or the other seven
12 employees that TAWC indicated would be reassigned in the 2003 rate case and whose related
13 costs were not included in the "cost savings" analysis (TN-COC-01-Q01 CS positions
14 eliminated.xls).

15
16 **Q32. Were TAWC's local expenditures reduced as a result of the move of the call center?**

17 A. No. The financial information provided in TAWC's annual reports does not demonstrate
18 substantial cost savings to TAWC. The costs associated with the local call center should be
19 tracked as "Customer Accounts Expense" in Column (h) on Form W-10 of the annual reports.
20 However, based on analysis of these costs in annual reports from 2002 through 2005 (Exhibit 6)
21 there is an increase of 1.4% between 2002 and 2003 and a decrease of only -0.3% between 2003
22 and 2004, where a decrease in labor costs of \$213,000 was offset by increases in bad debt
23 expense. Regardless, the financial information in TAWC's annual reports does not demonstrate
24 a savings of over \$700,000 as projected by TAWC in the 2003 rate case.

25
26 **Q33. Could not the increased costs in the Service Company's billings be due to increased
27 call volume for the TAWC service area?**

28 A. That is unclear. Despite the fact that the number of customer accounts only increased 3.5%
29 (Exhibit 7), Mr. Watson stated that call volume is up due to "increased emphasis on meter
30 change programs and collection activities" (TN-COC-01-Q017.doc). In spite of this reported

1 emphasis, bad debt expenses increased by 147% between 2002 and 2005 (Exhibit 6).
2 Uncollectible expense is projected to increase by 14% from year ending 6/30/06 to the attrition
3 year (DR#1 to TRA Exhibit schedules.xls Exhibit 2 sch 3). If increased emphasis on collections
4 and the resultant increase in call center volume and call center costs did not result in higher
5 collections, then the call centers are not making a prudent use of resources. Given the fact that
6 TAWC did not provide evidence on time spent per type of call, we could not determine if
7 increased call volume justifies the increase in costs.

8
9 **Q34. Has TAWC justified the increase in its bad debt expense?**

10 A. No. Bad debt expense has increased from \$268,867 in 2002 to \$663,754 in 2005. The
11 attrition year reflects an "uncollectible expense" of \$702,743. Given that customer accounts
12 only increased from 71,059 in 2002 to 73,567 in 2005, insufficient information has been given to
13 justify this level of increase.

14
15 **Q35. Are there other increases to TAWC's expenses that have not been cost justified?**

16 Yes. For example, the average annual increase in Other Maintenance Expense between 2003 and
17 the attrition year is 4.3% relative to an increase of 2.7% in the Southern Region CPI.

18
19 **Q36. What are your conclusions regarding the analyses you performed on the**
20 **management fees?**

21 There have been significant increases to management fees over the past four years, without
22 corresponding decreases to local operation and maintenance costs. The data provided regarding
23 management fees is inconsistent relative to other responses to data requests and is not presented
24 in a manner that allows for justification of costs on a cost of service basis. TAWC and the
25 Service Company should demonstrate that the fees that are charged to TAWC ratepayers are
26 relevant to providing a service to the TAWC customers and are based upon the true cost of
27 providing that service. Furthermore, TAWC has not demonstrated that its ratepayers are
28 benefiting from the synergies typically afforded by the centralization of services. The TAWC
29 ratepayers should not have to subsidize management decisions that result in higher costs.

1 **Q37. Does this conclude your testimony?**

2 Yes.

3

Cost Category	2001 (a)	2002 (a)	2003 (b)	2004 (b)	2005 (b)	2006 (b)	Proposed (c)	Average Change 2001-2006
Insurance (Liability, Vehicles, Etc)	662,450	632,463	664,605	663,569	484,633	501,775	523,940	
Labor & Benefits	6,652,522	6,904,384	6,524,577	5,710,334	5,647,639	6,875,456	6,812,431	
Management Fees	1,291,887	1,541,576	2,222,548	4,012,316	3,752,617	4,312,528	4,064,421	
Other O&M	2,010,354	1,857,385	1,998,241	2,119,689	3,710,849	3,253,208	2,703,549	
Utilities, Chemicals, & Fuel	2,297,705	2,279,803	2,298,677	2,316,063	2,424,095	3,221,537	2,687,753	
Miscellaneous Expense	1,473,589	1,149,906	1,557,785	1,761,313	1,853,160	1,827,888	1,792,405	
Total O&M	\$ 14,388,506	\$ 14,365,517	\$ 15,266,433	\$ 16,583,284	\$ 17,872,993	\$ 19,992,392	\$ 18,584,499	

Annual % Change:							
Total O&M	-0.2%	6.3%	8.6%	7.8%	11.9%	-7.0%	6.8%
Management Fees	19.3%	44.2%	80.5%	-6.5%	14.9%	-5.8%	27.3%
O&M Less Management Fees	-2.1%	1.7%	-3.6%	12.3%	11.0%	-7.4%	3.7%

(a) Form W-10 of respective TAWC Annual Reports to the TRA

(b) TN-COC-01-Q024-ATTACHMENT.pdf (GAAP income statements covering Jan-Dec of each year)

(c) TRA - DR#1 Exhibit schedules.xls (Exhibit 2, Sched 3)

Exhibit 2: Service Company Expenses as % of Payroll

	Hours	Payroll	Expense	Total	Expenses as % of Payroll
Service Company Billings 7/05 - 6/06 (a) (b)	61,471	\$ 1,662,217	\$ 2,874,125	\$ 4,536,342	172.9%
Service Company Billings 2006 (b) (c)	66,792	1,735,850	3,508,825	5,244,675	202.1%
Service Company Billings 2005 (a)	55,202	1,638,257	2,855,776	4,494,033	174.3%
Service Company Billings 2004 (d)	51,314	2,023,014	2,016,526	4,039,540	99.7%
(a) TN-COC-01-Q18 & Q19 supplemental SCB 2005.pdf					
(b) TN-COC-01-Q18 & Q19 supplemental SCB Jan June 06.pdf					
(c) TN-COC-01-Q18 & Q19 -supplemental SCB July Dec 06.pdf					
(d) TN-COC-01-Q18 & Q19 supplemental SCB 2004.pdf					

Exhibit 3: Service Company's Monthly Expenses for 7/05 - 6/06 (a) (b)

Month	Hours	Payroll	Expense	Total	Expenses as % of Payroll
July	4,716	\$ 129,589	\$ 252,517	\$ 382,106	195%
August	4,625	134,769	219,545	354,314	163%
September	4,517	132,055	244,427	376,483	185%
October	4,588	139,849	223,280	363,130	160%
November	4,662	143,207	232,410	375,617	162%
December	4,801	152,811	349,282	502,093	229%
January	7,120	124,795	140,924	265,719	113%
February	4,729	122,202	259,984	382,186	213%
March	4,794	147,249	212,971	360,219	145%
April	4,656	124,694	201,414	326,109	162%
May	7,328	136,375	254,997	391,372	187%
June	4,935	174,623	282,373	456,996	162%
Total	61,471	\$ 1,662,217	\$ 2,874,125	\$ 4,536,342	173%

(a) TN-COC-01-Q18 & Q19 supplemental SCB 2005.pdf

(b) TN-COC-01-Q18 & Q19 supplemental SCB Jan June 06.pdf

Exhibit 4: Service Company's Customer Service Monthly Billings

	2005 (a)	Hours	Payroll	Expense	Total	Implied Hourly Rate
January		2,506	\$ 28,434	\$ 24,275	\$ 52,709	\$ 11.34
February		1,749	27,757	23,776	51,532	15.87
March		1,819	33,392	22,019	55,411	18.35
April		1,789	30,544	40,824	71,367	17.08
May		1,907	31,077	29,926	61,004	16.30
June		2,351	45,951	41,906	87,857	19.55
July		2,196	33,437	48,151	81,588	15.22
August		2,151	25,784	34,301	60,085	11.99
September		2,140	35,547	54,078	89,625	16.61
October		2,203	35,816	27,346	63,162	16.26
November		2,266	42,940	43,352	86,292	18.95
December		2,351	38,317	68,503	106,819	16.30
Total		25,429	\$ 408,995	\$ 458,456	\$ 867,451	\$ 16.08

	2006 (b) (c)	Hours	Payroll	Expense	Total	Implied Hourly Rate
January		3,456	\$ 37,275	\$ 12,880	\$ 50,155	\$ 10.79
February		2,331	36,958	55,577	92,535	15.85
March		2,298	38,704	22,527	61,231	16.84
April		2,245	34,651	60,565	95,216	15.43
May		3,488	36,053	45,432	81,485	10.34
June		2,351	45,951	41,906	87,857	19.55
July		2,429	38,240	41,054	79,293	15.74
August		2,354	35,777	38,859	74,636	15.20
September		3,612	47,989	49,408	97,396	13.29
October		2,446	38,003	40,223	78,226	15.54
November		2,443	48,052	41,512	89,564	19.67
December		2,556	40,279	41,015	81,294	15.76
Total		32,007	\$ 477,932	\$ 490,956	\$ 968,887	\$ 14.93

(a) TN-COC-01-Q18 & Q19 supplemental SCB 2005.pdf

(b) TN-COC-01-Q18 & Q19 supplemental SCB Jan June 06.pdf

(c) TN-COC-01-Q18 & Q19 -supplemental SCB July Dec 06.pdf

Exhibit 5: Call Center Costs/Savings

	2003	2004	2005	2006
TAWC Call Center Costs Eliminated (a)	\$ 748,642	\$ 771,101	\$ 794,234	\$ 818,061
National Call Center Allocated to TAWC (b)	616,858	782,034	773,218	866,606
Amortized Start-up Costs(c)	87,262	87,262	87,262	87,262
Total	\$ 704,120	\$ 869,296	\$ 860,480	\$ 953,868
Additional Cost (Savings)	\$ (44,522)	\$ 98,195	\$ 66,246	\$ 135,807
(a) TN-COC-01-Q01 CCC cost savings.xls for 2003; projected using 3% escalation				
(b) TN-COC-01-Q01 CCC cost projection in 2003; TN-COC-01-Q001,2,13.doc for 2004-2006				
(c) TN-COC-01-Q01 CCC				

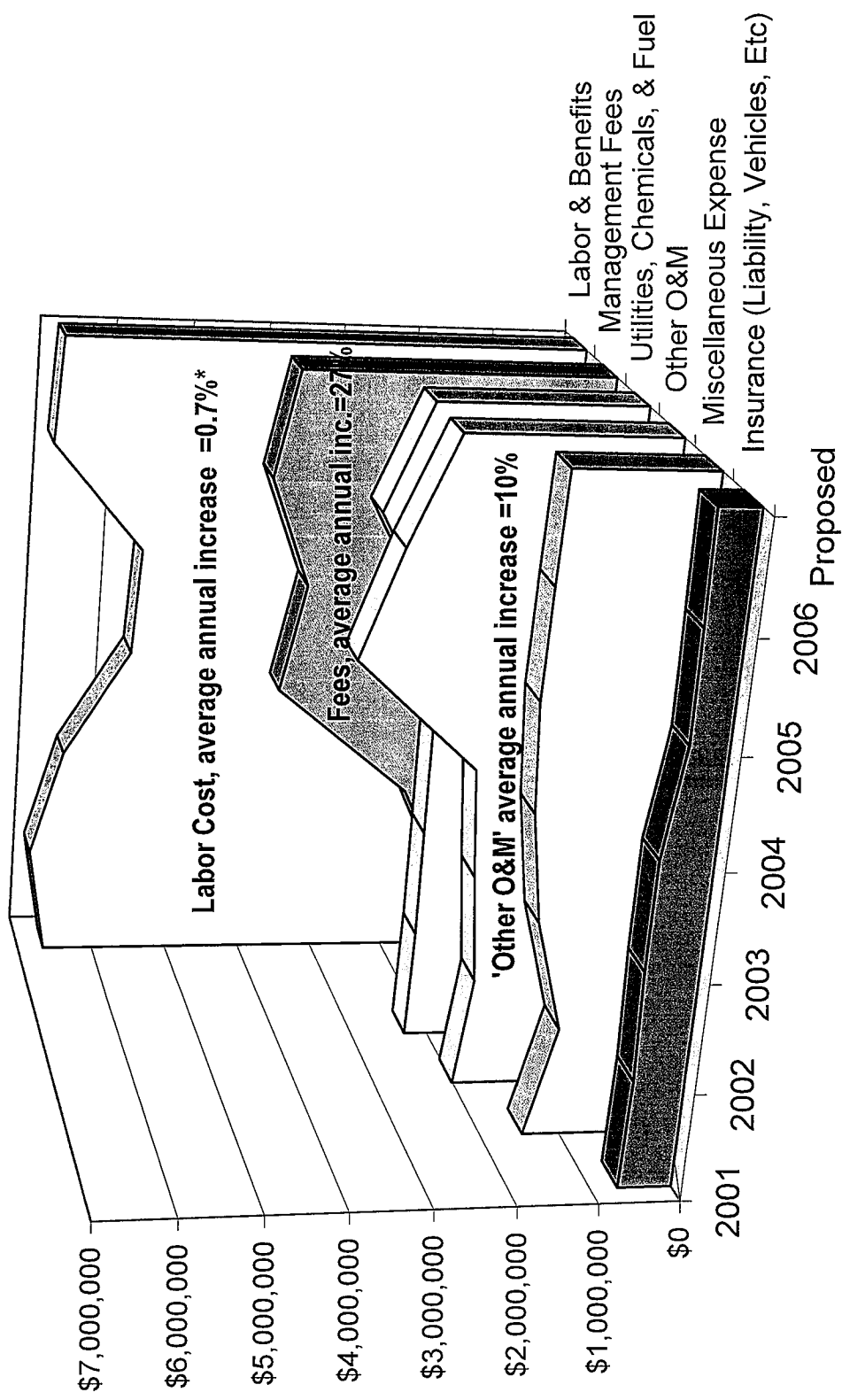
Exhibit 6: Customer Accounts Expense

	2002	2003	2004	2005
Customer Accounts Expense				
Salaries and Wages - Employees	\$ 527,287	\$ 427,603	\$ 214,616	\$ 329,782
Bad Debt Expense	268,867	276,948	516,167	663,754
Other Customer Accounts Expenses	559,237	669,315	638,642	672,865
Total Customer Accounts Expense	\$ 1,355,392	\$ 1,373,866	\$ 1,369,426	\$ 1,666,401
% Change Total Customer Accounts Exp.		1.4%	-0.3%	21.7%
% Change in Bad Debt Expense Between 2002 and 2005				147%

Exhibit 7: Call Volume

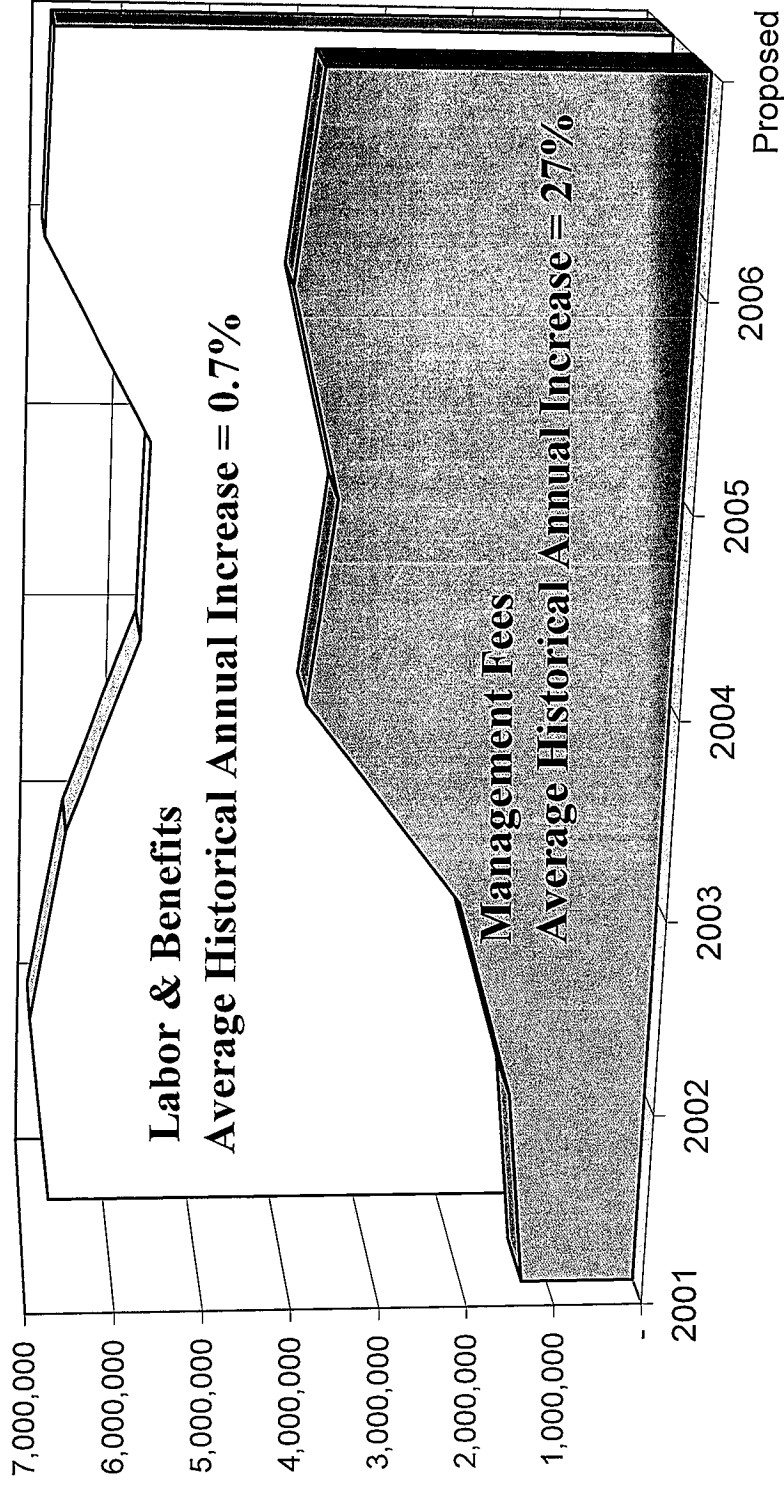
	2003	2004	2005	2006
Call Center Volume (a)	55,910	64,791	78,272	101,363
% Change between 2003 and 2006				81.3%
Number of Accounts (b)	71,059	72,013	72,660	73,567
% Change between 2003 and 2006				3.5%
(a) TN-COC-01-Q017-ATTACHMENT.pdf (2003 extrapolated for full year)				
(b) TN-TRA-01-Q020-ATTACHMENT.pdf				

Graph 1: TAWC Operating and Maintenance Costs, by Category



* Average annual increases are based on historical data from 2001 to 2006.

Graph 2: TAWC Management Fees and Labor Costs



**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

**PETITION OF TENNESSEE AMERICAN WATER
COMPANY TO CHANGE AND INCREASE CERTAIN
RATES AND CHARGES SO AS TO PERMIT IT TO
EARN FAIR AND ADEQUATE RATE OF RETURN
ON ITS PROPERTY USED AND USEFUL IN FURNISHING
WATER SERVICE TO ITS CUSTOMERS**

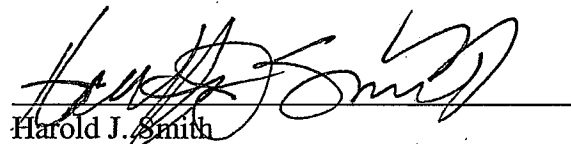
**DOCKET NO.
06-00290**

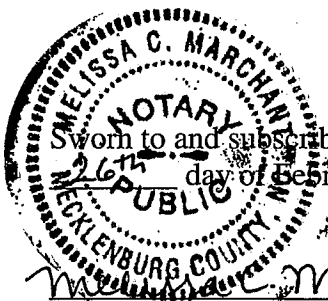
AFFIDAVIT OF HAROLD J. SMITH

**STATE OF NORTH CAROLINA:
COUNTY OF MECKLENBURG:**

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Harold J. Smith, being by me first duly sworn, who deposed and said as follows:

He is appearing as a witness on behalf of the City of Chattanooga before the Tennessee Regulatory Authority in the matter captioned above, and, if present before the Authority and duly sworn, his testimony would be as set forth in the transcript attached hereto, consisting of eleven pages.


Harold J. Smith



Sworn to and subscribed before me this
26th day of February, 2007.


Notary Public

My Commission Expires: September 15, 2007.