BASS, BERRY & SIMS PLC
A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

R. DALE GRIMES
TEL: (615) 742-6244
FAX: (615) 742-2744
dgrimes@bassberry.com

AMSOUTH CENTER
315 DEADERICK STREET, SUITE 2700
NASHVILLE, TN 37238-3001
(615) 742-6200

www.bassberry.com

OTHER OFFICES
NASHVILLE MUSIC ROW
KNOXVILLE
MEMPHIS

2007 MAR 30 PM 1:54
T.R.A. DOCKET ROOM

March 30, 2007

VIA HAND-DELIVERY
Chairman Sara Kyle
c/o Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re: Petition Of Tennessee American Water Company To Change And Increase Certain Rates And Charges So As To Permit It To Earn A Fair And Adequate Rate Of Return On Its Property Used And Useful In Furnishing Water Service To Its Customers; Docket No. 06-00290

Dear Chairman Kyle:

Enclosed please find an original and sixteen (16) copies of Tennessee American Water Company's Responses to the Second Discovery Requests of the Consumer Advocate and Protection Division of the Attorney General for the State of Tennessee.

Please note that the compact discs enclosed herein contain only electronic copies of the responses. All attachments are filed in paper form only.

Please return three copies of the Discovery Requests, which I would appreciate your stamping as "filed," and returning to me by way of our courier.

Should you have any questions concerning any of the enclosed, please do not hesitate to contact me.

With kindest regards, I remain

Yours very truly,

R. D. Grimes

R. Dale Grimes

RDG/ms
Enclosures

cc: Hon. Pat Miller (*w/o enclosure*)
Hon. Ron Jones (*w/o enclosure*)
Hon. Eddie Roberson (*w/o enclosure*)
Ms. Darlene Standley, Chief of Utilities Division (*w/o enclosure*)
Richard Collier, Esq. (*w/o enclosure*)
Mr. Jerry Kettles, Chief of Economic Analysis & Policy Division (*w/o enclosure*)
Ms. Pat Murphy (*w/o enclosure*)
Michael A. McMahon, Esq. (*w/enclosure*)
Frederick L. Hitchcock, Esq. (*w/enclosure*)
Vance Broemel, Esq. (*w/enclosure*)
Henry Walker, Esq. (*w/enclosure*)
David Higney, Esq. (*w/enclosure*)
Mr. John Watson (*w/o enclosure*)
Mr. Michael A. Miller (*w/o enclosure*)

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 PERMIT IT TO EARN A FAIR AND	)	
ADEQUATE RATE OF RETURN ON ITS	)	**Docket No. 06-00290**
PROPERTY USED AND USEFUL IN	)	
FURNISHING WATER SERVICE TO ITS	)	
CUSTOMERS	)	

TENNESSEE AMERICAN WATER COMPANY'S RESPONSES TO CONSUMER ADVOCATE AND PROTECTION DIVISION'S SECOND DISCOVERY REQUESTS

The Tennessee American Water Company, while expressly reserving its prior objections, hereby provides the following responses to the Second Discovery Requests from the Consumer Advocate and Protection Division:

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

PETITION OF TENNESSEE AMERICAN WATER COMPANY TO CHANGE AND INCREASE CERTAIN RATES AND CHARGES SO AS TO PERMIT IT TO EARN A FAIR AND ADEQUATE RATE OF RETURN ON ITS PROPERTY USED AND USEFUL IN FURNISHING WATER SERVICE TO ITS CUSTOMERS	))))))))	**DOCKET NO. 06-00290**

AFFIDAVIT

STATE OF WEST VIRGINIA

COUNTY OF KANAWHA

I, MICHAEL MILLER, Treasurer/Comptoller for Tennessee American Water Company, do hereby certify that the foregoing responses to the Second Discovery Requests from the Consumer Advocate and Protection Division were prepared by me or under my supervision and are true and accurate to the best of my knowledge and information.

DATED this 29th day of March, 2007.

Michael A. Miller
(signature)

Michael A. Miller
(printed name)

Sworn to and subscribed before me this 29th day of March, 2007.

Vanessa S. Turner
NOTARY PUBLIC

My Commission Expires:
July 6, 2012

OFFICIAL SEAL
NOTARY PUBLIC
STATE OF WEST VIRGINIA
VANESSA S. TURNER
95 Oakwood Drive
Madison, WV 25130
My Commission Expires July 6, 2012

6386720.1

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Consumer Advocate and Protection Division Discovery Request No. 2

Responsible Witness: **Michael Miller/Sheila Miller/Dr. Spitznagel**

Question:

1. Provide the billing determinates in the format as shown on Exhibit No. 4 Schedule 2 for the normalized 12 months ended December 31, 2005 and the normalized 12 months ended December 31, 2006. (These amounts should reconcile to the total revenue amounts previously provided). Also, provide all documentation supporting any normalization adjustments for these test periods.

Response:

Please see the attached schedules identified as CAPD-02-Q001-ATTACHMENTS for the requested normalized bill analysis for calendar years 2005 and 2006, and the schedules producing revenue for the attrition year in this case based on the differing historical test-year information requested by the CAPD in this question (the historical test-year in this case is the 12 months ended July 2006). Please take note that the Company did not determine any change in the weather normalization factors provided by Dr. Spitanagel which would be different when using the differing historical test-years as requested by the CAPD in this question.

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

Tennessee Regulatory Authority
Company: Tennessee-American Water Company
Case No:

Base Year - 12 months ended December, 2006

Line No.	Description	Per Books 12 Months Ended 12/31/06	Test Year Adjustments Present Rates	Normalized Test Year	Attrition Year Adjustments	Attrition Year at Present Rates	Adjustments for Proposed Rates	Attrition Year at Proposed Rates
1	Sales of Water							
2								
3	Metered Sales to General Customers							
4								
5	Residential	$13,594,417	($122,558)	$13,471,859	$51,379	$13,523,238	$2,672,219	$16,195,457
6								
7	Commercial	10,221,939	(332,256)	9,889,683	80,261	9,969,944	$2,012,131	11,982,075
8								
9	Industrial	3,676,996	(96,965)	3,580,031	0	3,580,031	$674,505	4,254,536
10								
11	Other Public Authorities	2,358,263	81,345	2,439,608	0	2,439,608	$472,929	2,912,537
12								
13	Sales for Resale	1,404,971	(356,425)	1,048,546	0	1,048,546	$206,204	1,254,750
14								
15	Private Fire Service	1,353,093	6,949	1,360,042	0	1,360,042	270,373	1,630,415
16								
17	Public Fire Service	0	0	0	0	0	0	0
18								
19	Total Sales of Water	32,609,679	(819,910)	31,789,769	131,640	31,921,409	6,308,361	38,229,770
20								
21								
22	Other Operating Revenues							
23								
24	Activity / New Service Fees	331,744	0	331,744	0	331,744	0	331,744
25								
26	Late Payment Penalty	276,588	2,025	278,613	2,497	281,110	71,526	352,636
27								
28	Rents from Water Property	114,374	0	114,374	0	114,374	0	114,374
29								
30	Sewer Billing Revenues	478,067	2,966	481,033	2,405	483,438	0	483,438
31								
32	Miscellaneous	27,690	0	27,690	0	27,690	0	27,690
33								
34	Reconnection Fee	160,891	0	160,891	0	160,891	0	160,891
35								
36	Total Other Operating Revenues	1,389,354	4,991	1,394,345	4,902	1,399,247	71,526	1,470,773
37								
38								
39	Total Operating Revenues - Agrees to TRA surveillance report	33,999,033	(814,919)	33,184,114	136,542	33,320,656	6,379,887	39,700,543

Tennessee American Water Companyu
2006 Base Year - Adjustments to Attrition Year

Revenue Adjustments

	Residential	Commercial	Industrial	OPA	OWU	Public Fire	Private Fire	Other	Total
Adjustments to Base Year Revenue:									
Eliminate Walden's Ridge					(351,998)				(351,998)
Annualize 2006 Customer Growth	115,906	(41,402)					6,949		81,453
Routes Billed 13 times in 2006	(803,009)	(608,167)	(195,621)	(37,865)	(52,837)	0	0	0	(1,697,499)
Eliminate Unbilled Revenue	688,132	414,739	98,656	119,210	48,410				1,369,147
Assuming same Spitznagel Adjustment	(123,586)	(97,426)	0	0	0	0	0	0	(221,012)
Total Normalized Test-year Adj.	(122,558)	(332,256)	(96,965)	81,345	(356,425)	0	6,949	0	(819,909)
Attrition Year Adjustments:									
2007 Growth & 2008 Growth (thru Feb)	51,377	80,257							131,634

Tennessee Regulatory Authority
Summary
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Line No.	Class/Description	Per Book Sales (CCF)	Per Book Total Revenues	Normalized Sales (CCF)	Normalized Total Revenues	Current Rates Sales (CCF)	Attrition Total Revenues	Proposed Rates Sales (CCF)	Total Revenues	Total Revenue Difference	Total Revenue Percent Change
5	Residential	4,527,598	13,594,417	4,525,781	13,471,859	4,545,763	13,523,238	4,545,763	-	-	0.000%
6	Commercial	4,170,093	10,221,939	4,100,087	9,889,683	4,125,014	9,969,944	4,125,014	-	-	0.000%
7	Industrial	3,269,493	3,676,996	3,269,493	3,580,031	3,269,493	3,580,031	3,269,493	-	-	0.000%
8	Other Public Authority	1,206,670	2,358,263	1,230,303	2,439,608	1,230,303	2,439,608	1,230,303	-	-	0.000%
9	Other Water Utility	1,715,404	1,404,971	1,340,227	1,048,546	1,340,227	1,048,546	1,340,227	-	-	0.000%
10	Private Fire Service	0	1,353,093	0	1,360,042	0	1,360,042	0	-	-	0.000%
11	Public Fire Service	0	0	0	0	0	0	0	-	-	
12	Subtotal	14,889,258	32,609,679	14,465,871	31,789,769	14,510,800	31,921,409	14,510,800	-	6,308,361	19.762%
14	Other Operating Revenues		1,389,354		1,394,345		1,399,247		1,470,773	71,526	5.112%
16	Total		33,999,033		33,184,114		33,320,656		1,470,773	6,379,887	19.147%

20 Per book revenues include unbilled revenues.

ANALYSIS OF REVENUES AT PER BOOKS, NORMALIZED, AND THE ATTRITION YEAR AT PRESENT AND PROPOSED RATES

Tennessee Regulatory Authority
Residential Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2006
Exhibit No 4, Schedule 2

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
2		Billing			Billing			Billing			Billing		
3		Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues
4													
5	Chattanooga												
6	5/8 - inch meter	709,358	9.26	$6,568,658	712,598	9.26	$6,598,660	716,434	9.26	$6,634,181	716,434	0.00	$0
7	3/4 - inch meter	1,031	15.55	16,026	1,031	15.55	16,026	1,031	15.55	16,026	1,031	0.00	0
8	1 - inch meter	2,034	25.88	52,633	2,034	25.88	52,633	2,034	25.88	52,633	2,034	0.00	0
9	1 1/2 - inch meter	208	51.79	10,791	208	51.79	10,791	208	51.79	10,791	208	0.00	0
10	2 - inch meter	138	82.85	11,460	138	82.85	11,460	138	82.85	11,460	138	0.00	0
11	3 - inch meter	2	155.35	337	2	155.35	337	2	155.35	337	2	0.00	0
12	4 - inch meter	0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
13	6 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
14	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
15	Total Meters	712,771		6,659,905	716,011		6,689,907	719,847		8,725,428	719,847		0
16													
17	Volumetric												
18	First 400 Cubic Feet	2,285,174	0.172	393,050	2,298,134	0.172	395,279	2,313,478	0.172	397,918	2,313,478	0.00	0
19	Next 6,100 Cubic Feet	1,781,923	2.730	4,864,649	1,765,929	2.730	4,820,985	1,768,710	2.730	4,828,578	1,768,710	0.00	0
20	Next 43,500 Cubic Feet	62,639	1.715	107,425	62,639	1.715	107,425	62,639	1.715	107,425	62,639	0.00	0
21	Next 450,000 Cubic Feet	6,489	1.282	8,319	6,489	1.282	8,319	6,489	1.282	8,319	6,489	0.00	0
22	Next 1,000,000 Cubic Feet	131	0.980	128	131	0.980	128	131	0.980	128	131	0.00	0
23	All Over 1,500,000 Cubic Feet	0	0.582	0	0	0.582	-	-	0.582	-	-	0.00	0
24	Chattanooga Amount	4,136,356		12,033,476	4,133,322		12,022,043	4,151,447		12,067,796	4,151,447		0
25													
26	Lookout Mountain												
27	5/8 - inch meter	19,395	10.39	201,510	19,671	10.39	204,377	19,781	10.39	205,520	19,781	0.00	0
28	3/4 - inch meter	445	15.55	6,912	445	15.55	6,912	445	15.55	6,912	445	0.00	0
29	1 - inch meter	1,222	25.88	31,618	1,222	25.88	31,618	1,222	25.88	31,618	1,222	0.00	0
30	1 1/2 - inch meter	22	51.79	1,139	22	51.79	1,139	22	51.79	1,139	22	0.00	0
31	2 - inch meter	33	82.85	2,734	33	82.85	2,734	33	82.85	2,734	33	0.00	0
32	3 - inch meter	0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
33	4 - inch meter	0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
34	6 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
35	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
36	Total Meters	21,116		243,913	21,392		246,780	21,502		247,923	21,502		0
37													
38	Volumetric												
39	First 400 Cubic Feet	72,324	0.640	46,287	73,428	0.640	46,994	73,868	0.640	47,276	73,868	0.00	0
40	Next 6,100 Cubic Feet	156,326	3.516	549,643	156,117	3.516	548,909	156,568	3.516	550,494	156,568	0.00	0
41	Next 43,500 Cubic Feet	21,679	2.501	54,219	21,679	2.501	54,219	21,679	2.501	54,219	21,679	0.00	0
42	Next 450,000 Cubic Feet	343	1.749	599	343	1.749	599	343	1.749	599	343	0.00	0
43	Next 1,000,000 Cubic Feet	0	1.448	0	0	1.448	-	-	1.448	-	-	0.00	0
44	All Over 1,500,000 Cubic Feet	0	1.049	0	0	1.049	-	-	1.049	-	-	0.00	0
45	Lookout Mountain Amount	250,672		894,661	251,567		897,501	252,458		900,511	252,458		0
46													

Attrition Year Revenues at Current and Proposed Rates

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
1		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
2		Billing			Billing			Billing			Billing		
3		Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues
4													
5	Lakeview												
6	5/8 - inch meter	33,015	10.39	343,027	33,207	10.39	345,022	33,393	10.39	346,954	33,393	0.00	0
7	3/4 - inch meter	12	15.55	187	12	15.55	187	12	15.55	187	12	0.00	0
8	1 - inch meter	48	25.88	1,243	48	25.88	1,243	48	25.88	1,243	48	0.00	0
9	1 1/2 - inch meter	0	51.79	0	0	51.79	-	-	51.79	-	-	0.00	0
10	2 - inch meter	0	82.85	0	0	82.85	-	-	82.85	-	-	0.00	0
11	3 - inch meter	0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
12	4 - inch meter	0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
13	6 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
14	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
15	Total Meters	33,075		344,457	33,267		346,452	33,453		348,384	33,453		0
16													
17	Volumetric												
18	First 400 Cubic Feet	108,632	0.316	34,328	109,400	0.316	34,570	110,144	0.316	34,806	110,144	0.00	0
19	Next 6,100 Cubic Feet	84,165	3.008	253,168	83,724	3.008	251,842	83,873	3.008	252,290	83,873	0.00	0
20	Next 43,500 Cubic Feet	1,251	1.993	2,494	1,251	1.993	2,494	1,251	1.993	2,494	1,251	0.00	0
21	Next 450,000 Cubic Feet	0	1.425	0	0	1.425	-	-	1.425	-	-	0.00	0
22	Next 1,000,000 Cubic Feet	0	1.124	0	0	1.124	-	-	1.124	-	-	0.00	0
23	All Over 1,500,000 Cubic Feet	0	0.725	0	0	0.725	-	-	0.725	-	-	0.00	0
24	Lakeview Amount	194,049		634,447	194,376		635,358	195,269		637,974	195,269		0
25													
26	Lone Oak												
27	5/8 - inch meter	602	31.39	18,889	602	31.39	16,689	602	31.39	18,889	602	0.00	0
28	3/4 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
29	1 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
30	1 1/2 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
31	2 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
32	3 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
33	4 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
34	6 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
35	8 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
36	Total Meters	602		18,889	602		18,889	602		18,889	602		0
37													
38	Volumetric												
39	First 2.67 (100 CCF)	1,419	0.000	0	1,419	0.000	-	1,419	0.000	-	1,419	0.00	0
40	In Excess 2.67 (100 CCF)	1,993	3.9473	7,867	1,993	3.9473	7,867	1,993	3.9473	7,867	1,993	0.00	0
41													0
42													0
43													0
44													0
45	Lone Oak Amount	3,412		26,756	3,412		26,756	3,412		26,756	3,412		0
46													

Attrition Year Revenues at Current and Proposed Rates

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
2		Billing			Billing			Billing			Billing		
3		Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues
4													
5	Suck Creek												
6	5/8 - inch meter	2,617	22.85	59,794	2,617	22.85	59,794	2,617	22.85	59,794	2,617	0.00	0
7	3/4 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
8	1 - inch meter	13	22.85	297	13	22.85	297	13	22.85	297	13	0.00	0
9	1 1/2 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
10	2 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
11	3 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
12	4 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
13	8 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
14	8 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
15	Total Meters	2,630		60,091	2,630		60,091	2,630		60,091	2,630		0
16													
17	Volumetric												
18	First 2 (100 CCF)	4,782		0	4,782		-	4,782		-	4,782		0
19	Next 10.67 (100 CCF)	9,001	3.300	29,704	9,001	3.300	29,704	9,001	3.300	29,704	9,001	0.00	0
20	All Over 12.67 (100 CCF)	1,348	2.475	3,336	1,348	2.475	3,336	1,348	2.475	3,336	1,348	0.00	0
21													0
22													0
23													0
24	Suck Creek Amount	15,131		93,131	15,131		93,131	15,131		93,131	15,131		0
25													
26	Total Gross	4,599,619		13,682,471	4,597,807		13,674,789	4,617,716		13,726,168	4,617,716		0
27	Less: Correction & Allowances	88,473		202,930	88,473		202,930	88,473		202,930	88,473		0
28	Net Amount	4,511,146		13,479,541	4,509,334		13,471,859	4,529,243		13,523,238	4,529,243		0
29	Net Amt. Per Revenue Summary	4,527,598		13,512,141	4,525,781		13,504,445	4,545,763		13,555,949	4,545,763		0
30	Difference	(16,452)		(32,600)	(16,447)		(32,586)	(16,520)		(32,711)	(16,520)		0
31	Percent Difference	-0.3634%		-0.2413%	-0.3634%		-0.2413%	-0.3634%		-0.2413%	-0.3634%		#DIV/0!
32													
33													
34													
35													
36													
37													
38													
39													
40													
41													
42													
43													
44													
45													
46													

Attrition Year Revenues at Current and Proposed Rates

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
1													
2		Billing			Billing			Billing			Billing		
3		Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues
4													
5	Chattanooga												
6	5/8 - inch meter	71,353	9.26	$660,729	71,353	9.26	$660,729	71,353	9.26	$660,729	71,353	0.00	$0
7	3/4 - inch meter	1,490	15.55	23,163	1,490	15.55	23,163	1,490	15.55	23,163	1,490	0.00	0
8	1 - inch meter	15,815	25.88	409,299	15,443	25.88	399,872	16,184	25.88	418,849	16,184	0.00	0
9	1 1/2 - inch meter	3,646	51.79	188,850	3,646	51.79	188,850	3,646	51.79	188,850	3,646	0.00	0
10	2 - inch meter	11,557	82.85	957,479	11,557	82.85	957,479	11,557	82.85	957,479	11,557	0.00	0
11	3 - inch meter	494	155.35	76,791	494	155.35	76,791	494	155.35	76,791	494	0.00	0
12	4 - inch meter	214	258.92	55,310	214	258.92	55,310	214	258.92	55,310	214	0.00	0
13	6 - inch meter	121	517.85	62,784	121	517.85	62,784	121	517.85	62,784	121	0.00	0
14	8 - inch meter	11	828.55	9,114	11	828.55	9,114	11	828.55	9,114	11	0.00	0
15	Total Meters	104,701		2,443,519	104,329		2,433,892	105,070		2,453,069	105,070		0
16													
17	Volumetric												
18	First 400 Cubic Feet	269,357	0.172	46,329	267,869	0.172	46,073	270,833	0.172	46,583	270,833	0.00	0
19	Next 6,100 Cubic Feet	1,234,909	2.730	3,371,301	1,221,889	2.730	3,335,757	1,243,430	2.730	3,394,564	1,243,430	0.00	0
20	Next 43,500 Cubic Feet	1,676,142	1.715	2,874,584	1,820,473	1.715	2,779,112	1,620,473	1.715	2,779,112	1,620,473	0.00	0
21	Next 450,000 Cubic Feet	805,135	1.282	1,032,183	805,135	1.282	1,032,183	805,135	1.282	1,032,183	805,135	0.00	0
22	Next 1,000,000 Cubic Feet	75,468	0.980	73,959	75,468	0.980	73,959	75,468	0.980	73,959	75,468	0.00	0
23	All Over 1,500,000 Cubic Feet	46,861	0.582	27,273	46,861	0.582	27,273	46,861	0.582	27,273	46,861	0.00	0
24	Chattanooga Amount	4,107,873		9,869,148	4037695.65		9,728,249	4,062,201		9,806,743	4,062,201		0
25													
26	Lookout Mountain												
27	5/8 - inch meter	767	10.39	7,964	767	10.39	7,964	767	10.39	7,964	767	0.00	0
28	3/4 - inch meter	24	15.55	373	24	15.55	373	24	15.55	373	24	0.00	0
29	1 - inch meter	229	25.88	5,918	265	25.88	6,849	273	25.88	7,056	273	0.00	0
30	1 1/2 - inch meter	33	51.79	1,709	33	51.79	1,709	33	51.79	1,709	33	0.00	0
31	2 - inch meter	78	82.85	6,423	78	82.85	6,423	78	82.85	6,423	78	0.00	0
32	3 - inch meter	0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
33	4 - inch meter	0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
34	6 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
35	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
36	Total Meters	1,130		22,387	1165.69		23,318	1,174		23,525	1,174		0
37													
38	Volumetric												
39	First 400 Cubic Feet	3,149	0.640	2,015	3,293	0.640	2,107	3,325	0.640	2,128	3,325	0.00	0
40	Next 6,100 Cubic Feet	16,536	3.516	58,140	17,760	3.518	62,443	17,992	3.516	63,259	17,992	0.00	0
41	Next 43,500 Cubic Feet	15,542	2.501	38,871	15,054	2.501	37,651	15,054	2.501	37,651	15,054	0.00	0
42	Next 450,000 Cubic Feet	7,381	1.749	12,909	7,381	1.749	12,909	7,381	1.749	12,909	7,381	0.00	0
43	Next 1,000,000 Cubic Feet	0	1.448	0	0	1.448	-	-	1.448	-	-	0.00	0
44	All Over 1,500,000 Cubic Feet	0	1.049	0	0	1.049	-	-	1.049	-	-	0.00	0
45	Lookout Mountain Amount	42,608		134,322	43488		138,428	43,752		139,472	43,752		0
46													

Tennessee Regulatory Authority
Commercial Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
1		Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues
2													
3													
4													
5	Lakeview												
6	5/8 - inch meter	1,839	10.39	19,106	1,839	10.39	19,106	1,839	10.39	19,106	1,839	0.00	0
7	3/4 - inch meter	0	15.55	0	0	15.55	-	-	15.55	-	-	0.00	0
8	1 - inch meter	228	25.88	5,903	204	25.88	5,282	220	25.88	5,696	220	0.00	0
9	1 1/2 - inch meter	0	51.79	0	0	51.79	-	-	51.79	-	-	0.00	0
10	2 - inch meter	88	82.85	7,285	88	82.85	7,285	88	82.85	7,285	88	0.00	0
11	3 - inch meter	0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
12	4 - inch meter	0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
13	6 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
14	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
15	Total Meters	2,155		32,294	2130.95		31,673	2,147		32,087	2,147		0
16													
17	Volumetric												
18	First 400 Cubic Feet	5,455	0.316	1,724	5,359	0.316	1,693	5,423	0.316	1,714	5,423	0.00	0
19	Next 6,100 Cubic Feet	15,068	3.008	45,324	14,852	3.008	44,675	14,948	3.008	44,963	14,948	0.00	0
20	Next 43,500 Cubic Feet	7,917	1.993	15,779	7,549	1.993	15,048	7,549	1.993	15,046	7,549	0.00	0
21	Next 450,000 Cubic Feet	228	1.425	324	228	1.425	324	228	1.425	324	228	0.00	0
22	Next 1,000,000 Cubic Feet	0	1.124	0	0	1.124	-	-	1.124	-	-	0.00	0
23	All Over 1,500,000 Cubic Feet	0	0.725	0	0	0.725	-	-	0.725	-	-	0.00	0
24	Lakeview Amount	28,668		95,445	27988.01		93,411	28,148		94,134	28,148		0
25													
26	Lone Oak												
27	5/8 - inch meter	12	31.39	377	12	31.39	377	12	31.39	377	12	0.00	0
28	3/4 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
29	1 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
30	1 1/2 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
31	2 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
32	3 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
33	4 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
34	6 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
35	8 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
36	Total Meters	12		377	12		377	12		377	12		0
37													
38	Volumetric												
39	First 2.67 (100 CCF)	25	0.000	0	25	0.000	-	25	0.000	-	25	0.00	0
40	In Excess 2.67 (100 CCF)	60	3.947	238	60	3.947	238	60	3.947	238	60	0.00	0
41													
42													
43													
44													
45	Lone Oak Amount	85		615	85		615	85		615	85		0
46													

Tennessee Regulatory Authority
Commercial Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2006
Exhibit No. 4, Schedule 2
Page No. 6 of 13

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
2		Billing			Billing			Billing			Billing		
3		Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues
4													
5	Suck Creek												
6	5/8 - inch meter	30	22.85	686	30	22.85	686	30	22.85	686	30	0.00	0
7	3/4 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
8	1 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
9	1 1/2 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
10	2 - inch meter	9	22.85	206	9	22.85	206	9	22.85	206	9	0.00	0
11	3 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
12	4 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
13	6 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
14	8 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
15	Total Meters	39		892	39		892	39		892	39		0
16													
17	Volumetric												
18	First 2 (100 CCF)	34	0.000	0	34	0.000	-	34	0.000	-	34	0.000	0
19	Next 10.67 (100 CCF)	51	3.300	169	51	3.300	169	51	3.300	169	51	0.000	0
20	All Over 12.67 (100 CCF)	20	2.475	49	20	2.475	49	20	2.475	49	20	0.000	0
21													
22													
23													
24	Suck Creek Amount	105		1,110	105		1,110	105		1,110	105		0
25													
26	Total Gross	4,179,339		10,100,640	4,109,362		9,961,813	4,134,291		10,042,074	4,134,291		0
27	Less: Correction & Allowances	12,263		72,130	12,263		72,130	12,263		72,130	12,263		0
28	Net Amount	4,167,076		10,028,510	4,097,099		9,889,683	4,122,028		9,969,944	4,122,028		0
29	Net Amt. Per Revenue Summary	4,170,093		10,067,747	4,100,067		9,928,374	4,125,014		10,008,949	4,125,014		0
30	Difference	(3,017)		(39,237)	(2,988)		(38,691)	(2,986)		(39,005)	(2,986)		0
31	Percent Difference	-0.0724%		-0.3897%	-0.0724%		-0.3897%	-0.0724%		-0.3897%	-0.0724%		#DIV/0!
32													
33													
34													
35													
36													
37													
38													
39													
40													
41													
42													
43													
44													
45													
46													

Attrition Year Revenues at Current and Proposed Rates

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
2		Billing			Billing			Billing			Billing		
3		Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues
4													
5	Chattanooga												
6	5/8 - inch meter	283	9.26	$2,624	283	9.26	$2,624	283	9.26	$2,624	283	0.00	$0
7	3/4 - inch meter	23	15.55	358	23	15.55	358	23	15.55	358	23	0.00	0
8	1 - inch meter	304	25.88	7,857	304	25.88	7,857	304	25.88	7,857	304	0.00	0
9	1 1/2 - inch meter	84	51.79	4,350	84	51.79	4,350	84	51.79	4,350	84	0.00	0
10	2 - inch meter	1,013	82.85	83,907	1,013	82.85	83,907	1,013	82.85	83,907	1,013	0.00	0
11	3 - inch meter	0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
12	4 - inch meter	276	258.92	71,532	276	258.92	71,532	276	258.92	71,532	276	0.00	0
13	6 - inch meter	83	517.85	32,495	63	517.85	32,495	63	517.85	32,495	63	0.00	0
14	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
15	Total Meters	2,046		203,123	2045.77		203,123	2,046		203,123	2,046		0
16													
17	Volumetric												
18	First 400 Cubic Feet	5,588	0.172	961	5,588	0.172	961	5,588	0.172	961	5,588	0.00	0
19	Next 6,100 Cubic Feet	56,123	2.730	153,217	56,123	2.730	153,217	56,123	2.730	153,217	56,123	0.00	0
20	Next 43,500 Cubic Feet	255,560	1.715	438,285	255,560	1.715	438,285	255,560	1.715	438,285	255,560	0.00	0
21	Next 450,000 Cubic Feet	1,021,497	1.282	1,309,559	1,021,497	1.282	1,309,559	1,021,497	1.282	1,309,559	1,021,497	0.00	0
22	Next 1,000,000 Cubic Feet	873,991	0.980	856,511	873,991	0.980	856,511	873,991	0.980	856,511	873,991	0.00	0
23	All Over 1,500,000 Cubic Feet	1,065,096	0.582	619,886	1,065,096	0.582	619,886	1,065,096	0.582	619,886	1,065,096	0.00	0
24	Chattanooga Amount	3,277,855		3,581,542	3,277,855		3,581,542	3,277,855		3,581,542	3,277,855		0
25													
26	Lookout Mountain												
27	5/8 - inch meter	0	10.39	0	0	10.39	0	-	10.39	-	-	0.00	0
28	3/4 - inch meter	0	15.55	0	0	15.55	0	-	15.55	-	-	0.00	0
29	1 - inch meter	0	25.88	0	0	25.88	0	-	25.88	-	-	0.00	0
30	1 1/2 - inch meter	0	51.79	0	0	51.79	0	-	51.79	-	-	0.00	0
31	2 - inch meter	0	82.85	0	0	82.85	0	-	82.85	-	-	0.00	0
32	3 - inch meter	0	155.35	0	0	155.35	0	-	155.35	-	-	0.00	0
33	4 - inch meter	0	258.92	0	0	258.92	0	-	258.92	-	-	0.00	0
34	6 - inch meter	0	517.85	0	0	517.85	0	-	517.85	-	-	0.00	0
35	8 - inch meter	0	828.55	0	0	828.55	0	-	828.55	-	-	0.00	0
36	Total Meters	0		0	0		0	-		-	-		0
37													
38	Volumetric												
39	First 400 Cubic Feet	0	0.640	0	0	0.640	0	-	0.640	-	-	0.00	0
40	Next 6,100 Cubic Feet	0	3.516	0	0	3.516	0	-	3.516	-	-	0.00	0
41	Next 43,500 Cubic Feet	0	2.501	0	0	2.501	0	-	2.501	-	-	0.00	0
42	Next 450,000 Cubic Feet	0	1.749	0	0	1.749	0	-	1.749	-	-	0.00	0
43	Next 1,000,000 Cubic Feet	0	1.448	0	0	1.448	0	-	1.448	-	-	0.00	0
44	All Over 1,500,000 Cubic Feet	0	1.049	0	0	1.049	0	-	1.049	-	-	0.00	0
45	Lookout Mountain Amount	0		0	0		0	-		-	-		0
46													

Tennessee Regulatory Authority
Industrial Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2006
Exhibit No. 4, Schedule 2

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
1		Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues
2													
3													
4													
5	Lakeview												
6	5/8 - inch meter	0	10.39	0	0	10.39	0	-	10.39	-	-	0.00	0
7	3/4 - inch meter	0	15.55	0	0	15.55	0	-	15.55	-	-	0.00	0
8	1 - inch meter	0	25.88	0	0	25.88	0	-	25.88	-	-	0.00	0
9	1 1/2 - inch meter	0	51.79	0	0	51.79	0	-	51.79	-	-	0.00	0
10	2 - inch meter	0	82.85	0	0	82.85	0	-	82.85	-	-	0.00	0
11	3 - inch meter	0	155.35	0	0	155.35	0	-	155.35	-	-	0.00	0
12	4 - inch meter	0	258.92	0	0	258.92	0	-	258.92	-	-	0.00	0
13	6 - inch meter	0	517.85	0	0	517.85	0	-	517.85	-	-	0.00	0
14	8 - inch meter	0	828.55	0	0	828.55	0	-	828.55	-	-	0.00	0
15	Total Meters	0		0	0		0	-		-	-		0
16													
17	Volumetric												
18	First 400 Cubic Feet	0	0.316	0	0	0.316	0	-	0.316	-	-	0.00	0
19	Next 6,100 Cubic Feet	0	3.008	0	0	3.008	0	-	3.008	-	-	0.00	0
20	Next 43,500 Cubic Feet	0	1.993	0	0	1.993	0	-	1.993	-	-	0.00	0
21	Next 450,000 Cubic Feet	0	1.425	0	0	1.425	0	-	1.425	-	-	0.00	0
22	Next 1,000,000 Cubic Feet	0	1.124	0	0	1.124	0	-	1.124	-	-	0.00	0
23	All Over 1,500,000 Cubic Feet	0	0.725	0	0	0.725	0	-	0.725	-	-	0.00	0
24	Lakeview Amount	0		0	0		0	-		-	-		0
25													
26	Total Gross	3,277,855		3,581,542	3,277,855		3,581,542	3,277,855		3,581,542	3,277,855		0
27	Less: Correction & Allowances	(718)		1,511	(718)		1,511	(718)		1,511	(718)		0
28	Net Amount	3,278,573		3,580,031	3,278,573		3,580,031	3,278,573		3,580,031	3,278,573		0
29	Net Amt. Per Revenue Summary	3,269,493		3,579,945	3,269,493		3,579,945	3,269,493		3,579,945	3,269,493		0
30	Difference	9,080		86	9,080		86	9,080		86	9,080		0
31	Percent Difference	0.2777%		0.0024%	0.2777%		0.0024%	0.2777%		0.0024%	0.2777%		#DIV/0!
32													
33													
34													
35													
36													
37													
38													
39													
40													
41													
42													
43													
44													
45													
46													

Tennessee Regulatory Authority
Other Public Authority Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
2		Billing			Billing			Billing			Billing		
3		Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues
4													
5	Chattanooga												
6	5/8 - inch meter	1,974	9.26	$18,282	1,974	9.26	$18,282	1,974	9.26	$18,282	1,974	0.00	$0
7	3/4 - inch meter	126	15.55	1,962	126	15.55	1,962	126	15.55	1,962	126	0.00	0
8	1 - inch meter	1,550	25.88	40,118	1,718	25.88	44,466	1,718	25.88	44,466	1,718	0.00	0
9	1 1/2 - inch meter	750	51.79	38,846	750	51.79	38,846	750	51.79	38,846	750	0.00	0
10	2 - inch meter	3,344	82.85	277,090	3,344	82.85	277,090	3,344	82.85	277,090	3,344	0.00	0
11	3 - inch meter	48	155.35	7,409	48	155.35	7,409	48	155.35	7,409	48	0.00	0
12	4 - inch meter	244	258.92	63,140	244	258.92	63,140	244	258.92	63,140	244	0.00	0
13	6 - inch meter	12	517.85	6,214	12	517.85	6,214	12	517.85	6,214	12	0.00	0
14	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
15	Total Meters	8,049		453,061	8216.79		457,409	8,217		457,409	8,217		0
16													
17	Volumetric												
18	First 400 Cubic Feet	21,568	0.172	3,710	22,240	0.172	3,825	22,240	0.172	3,825	22,240	0.00	0
19	Next 6,100 Cubic Feet	170,181	2.730	464,594	180,429	2.730	492,571	180,429	2.730	492,571	180,429	0.00	0
20	Next 43,500 Cubic Feet	336,199	1.715	576,581	349,471	1.715	599,343	349,471	1.715	599,343	349,471	0.00	0
21	Next 450,000 Cubic Feet	525,614	1.282	673,838	525,614	1.282	673,838	525,614	1.282	673,838	525,614	0.00	0
22	Next 1,000,000 Cubic Feet	107,676	0.980	105,522	107,676	0.980	105,522	107,676	0.980	105,522	107,676	0.00	0
23	All Over 1,500,000 Cubic Feet	0	0.582	0	0	0.582	-	-	0.582	-	-	0.00	0
24	Chattanooga Amount	1,161,238		2,277,306	1,185,430		2,332,508	1,185,430		2,332,508	1,185,430		0
25													
26	Lookout Mountain												
27	5/8 - inch meter	195	10.39	2,023	194.73	10.39	2,023	195	10.39	2,023	195	0.00	0
28	3/4 - inch meter	5	15.55	79	5.1	15.55	79	5	15.55	79	5	0.00	0
29	1 - inch meter	139	25.88	3,608	127	25.88	3,297	127	25.88	3,297	127	0.00	0
30	1 1/2 - inch meter	13	51.79	673	13	51.79	673	13	51.79	673	13	0.00	0
31	2 - inch meter	77	82.85	6,379	77	82.85	6,379	77	82.85	6,379	77	0.00	0
32	3 - inch meter	0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
33	4 - inch meter	0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
34	6 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
35	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
36	Total Meters	429		12,762	417.24		12,451	417		12,451	417		0
37													
38	Volumetric												
39	First 400 Cubic Feet	1,059	0.640	877	1,011	0.640	647	1,011	0.640	647	1,011	0.00	0
40	Next 6,100 Cubic Feet	6,887	3.516	24,216	6,539	3.516	22,993	6,539	3.516	22,993	6,539	0.00	0
41	Next 43,500 Cubic Feet	5,542	2.501	13,861	5,542	2.501	13,861	5,542	2.501	13,861	5,542	0.00	0
42	Next 450,000 Cubic Feet	814	1.749	1,424	814	1.749	1,424	814	1.749	1,424	814	0.00	0
43	Next 1,000,000 Cubic Feet	0	1.448	0	0	1.448	-	-	1.448	-	-	0.00	0
44	All Over 1,500,000 Cubic Feet	0	1.049	0	0	1.049	-	-	1.049	-	-	0.00	0
45	Lookout Mountain Amount	14,302		52,940	13906		51,376	13,906		51,378	13,906		0
46													

Tennessee Regulatory Authority
Other Public Authority Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2006
Exhibit No. 4, Schedule 2

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
1		Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues
4													
5	Lakeview												
6	5/8 - inch meter	48	10.39	499	48	10.39	499	48	10.39	499	48	0.00	0
7	3/4 - inch meter	0	15.55	0	0	15.55	-	-	15.55	-	-	0.00	0
8	1 - inch meter	20	25.88	528	20.4	25.88	528	20	25.88	528	20	0.00	0
9	1 1/2 - inch meter	10	51.79	518	10	51.79	518	10	51.79	518	10	0.00	0
10	2 - inch meter	20	82.85	1,657	20	82.85	1,657	20	82.85	1,657	20	0.00	0
11	3 - inch meter	0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
12	4 - inch meter	0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
13	6 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
14	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
15	Total Meters	98		3,202	98.4		3,202	98		3,202	98		0
16													
17	Volumetric												
18	First 400 Cubic Feet	171	0.316	54	171	0.316	54	171	0.316	54	171	0.00	0
19	Next 6,100 Cubic Feet	1,647	3.008	4,954	1,647	3.008	4,954	1,647	3.008	4,954	1,647	0.00	0
20	Next 43,500 Cubic Feet	1,214	1.993	2,420	1,214	1.993	2,420	1,214	1.993	2,420	1,214	0.00	0
21	Next 450,000 Cubic Feet	0	1.425	0	0	1.425	-	-	1.425	-	-	0.00	0
22	Next 1,000,000 Cubic Feet	0	1.124	0	0	1.124	-	-	1.124	-	-	0.00	0
23	All Over 1,500,000 Cubic Feet	0	0.725	0	0	0.725	-	-	0.725	-	-	0.00	0
24	Lakeview Amount	3,032		10,630	3032		10,630	3,032		10,630	3,032		0
25													
26	Total Gross	1,178,572		2,340,876	1202367.76		2,394,514	1,202,368		2,394,514	1,202,368		0
27	Less: Correction & Allowances	(36,426)		(45,094)	(36,426)		(45,094)	(36,426)		(45,094)	(36,426)		0
28	Net Amount	1,214,998		2,385,970	1238793.76		2,439,608	1,238,794		2,439,608	1,238,794		0
29	Net Amt. Per Revenue Summary	1,206,670		2,353,270	1230303		2,406,174	1,230,303		2,406,174	1,230,303		0
30	Difference	8,328		32,700	8490.76		33,434	8,491		33,434	8,491		0
31	Percent Difference	0.6901%		1.3895%	0.6901%		1.3895%	0.8901%		1.3895%	0.6901%		#DIV/0!
32													
33													
34													
35													
36													
37													
38													
39													
40													
41													
42													
43													
44													
45													
46													

Tennessee Regulatory Authority
Other Water Utility Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
2		Billing			Billing			Billing			Billing		
3		Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues
4													
5	Chattanooga												
6	5/8 - inch meter	0	9.26	$0	0	9.26	$0	-	9.26	$0	0	0.00	$0
7	3/4 - inch meter	0	15.55	0	0	15.55	0	-	15.55	-	-	0.00	0
8	1 - inch meter	0	25.88	0	0	25.88	-	-	25.88	-	-	0.00	0
9	1 1/2 - inch meter	0	51.79	0	0	51.79	-	-	51.79	-	-	0.00	0
10	2 - inch meter	11	82.85	911	11	82.85	911	11	82.85	911	11	0.00	0
11	3 - inch meter	0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
12	4 - inch meter	36	258.92	9,404	36	258.92	9,404	36	258.92	9,404	36	0.00	0
13	6 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
14	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
15	Total Meters	47		10,315	47.32		10,315	47		10,315	47		0
16													
17	Volumetric												
18	First 400 Cubic Feet	0	0.172	0	0	0.172	-	-	0.172	-	-	0.00	0
19	Next 6,100 Cubic Feet	0	2.730	0	0	2.730	-	-	2.730	-	-	0.00	0
20	Next 43,500 Cubic Feet	0	1.715	0	0	1.715	-	-	1.715	-	-	0.00	0
21	Next 450,000 Cubic Feet	0	1.282	0	0	1.282	-	-	1.282	-	-	0.00	0
22	Next 1,000,000 Cubic Feet	0	0.980	0	0	0.980	-	-	0.980	-	-	0.00	0
23	All Over 1,500,000 Cubic Feet	0	0.582	0	0	0.582	-	-	0.582	-	-	0.00	0
24	Ft. Oglethorpe	483,455	0.766	372,808	483,455	0.766	372,808	483,455	0.766	372,808	483,455	0.00	0
25	Catoosa Co	369,170	0.796	293,859	369,170	0.796	293,859	369,170	0.796	293,859	369,170	0.00	0
26	Signal Mtn	467,096	0.766	364,234	467,096	0.766	364,234	467,096	0.766	364,234	467,096	0.00	0
27	Walden's Ridge	376,073	0.9375	352,568	0	0.9375	-	-	0.9375	-	-	0.00	0
28	Chattanooga Amount	1,695,794		1,393,784	1,319,721		1,041,216	1,319,721		1,041,216	1,319,721		0
29													
30	Lookout Mountain		10.39			10.39			10.39				
31	5/8 - inch meter	0	15.55	0	0	15.55	-	-	15.55	-	-	0.00	0
32	3/4 - inch meter	0	25.88	0	0	25.88	-	-	25.88	-	-	0.00	0
33	1 - inch meter	0	51.79	0	0	51.79	-	-	51.79	-	-	0.00	0
34	1 1/2 - inch meter	0	82.85	0	0	82.85	-	-	82.85	-	-	0.00	0
35	2 - inch meter	0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
36	3 - inch meter	0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
37	4 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
38	6 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
39	8 - inch meter	0		0	0		-	-		-	-	0.00	0
40	Total Meters	0		0	0		-	-		-	-		0
41													
42	Volumetric		0.640			0.640			0.640				
43	First 400 Cubic Feet	0	3.516	0	0	3.516	-	-	3.516	-	-	0.00	0
44	Next 6,100 Cubic Feet	0	2.501	0	0	2.501	-	-	2.501	-	-	0.00	0
45	Next 43,500 Cubic Feet	0	1.749	0	0	1.749	-	-	1.749	-	-	0.00	0
46	Next 450,000 Cubic Feet	0	1.448	0	0	1.448	-	-	1.448	-	-	0.00	0
47	Next 1,000,000 Cubic Feet	0	1.049	0	0	1.049	-	-	1.049	-	-	0.00	0
48	All Over 1,500,000 Cubic Feet	0		0	0		-	-		-	-	0.00	0
49	Lookout Mountain Amount	0		0	0		-	-		-	-		0

Tennessee Regulatory Authority
Other Water Utility Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2006
Exhibit No. 4, Schedule 2

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
1		Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues
4													
5	Lakeview												
6	5/8 - inch meter	0	10.39	0	0	10.39	-	-	10.39	-	-	0.00	0
7	3/4 - inch meter	0	15.55	0	0	15.55	-	-	15.55	-	-	0.00	0
8	1 - inch meter	0	25.88	0	0	25.86	-	-	25.88	-	-	0.00	0
9	1 1/2 - inch meter	0	51.79	0	0	51.79	-	-	51.79	-	-	0.00	0
10	2 - inch meter	0	82.85	0	0	82.85	-	-	82.85	-	-	0.00	0
11	3 - inch meter	0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
12	4 - inch meter	0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
13	6 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
14	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
15	Total Meters	0		0	0		-	-		-	-		0
16													
17	Volumetric												
18	First 400 Cubic Feet	0	0.316	0	0	0.316	-	-	0.316	-	-	0.00	0
19	Next 6,100 Cubic Feet	0	3.008	0	0	3.008	-	-	3.008	-	-	0.00	0
20	Next 43,500 Cubic Feet	0	1.993	0	0	1.993	-	-	1.993	-	-	0.00	0
21	Next 450,000 Cubic Feet	0	1.425	0	0	1.425	-	-	1.425	-	-	0.00	0
22	Next 1,000,000 Cubic Feet	0	1.124	0	0	1.124	-	-	1.124	-	-	0.00	0
23	All Over 1,500,000 Cubic Feet	0	0.725	0	0	0.725	-	-	0.725	-	-	0.00	0
24	Lakeview Amount	0		0	0		-	-		-	-		0
25													
26	Total Gross	1,695,794		1,393,784	1,319,721		1,041,216	1,319,721		1,041,216	1,319,721		0
27	Less: Correction & Allowances	(23,709)		(7,330)	(23,709)		(7,330)	(23,709)		(7,330)	(23,709)		0
28	Net Amount	1,719,503		1,401,114	1,343,430		1,048,546	1,343,430		1,046,546	1,343,430		0
29	Net Amt. Per Revenue Summary	1,715,404		1,385,120	1,340,227		1,036,577	1,340,227		1,036,576	1,340,227		0
30	Difference	4,099		15,994	3,203		11,969	3,203		11,970	3,203		0
31	Percent Difference	0.2390%		1.1547%	0.2390%		1.1547%	0.2390%		1.1547%	0.2390%		#DIV/0!
32													
33													
34													
35													
36													
37													
38													
39													
40													
41													
42													
43													
44													
45													
46													

Tennessee Regulatory Authority
Private and Public Fire
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Line No.	Class/Description	Normalized Year at Present Rates			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
		Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues
5	Private Fire Service									
7	1 - Inch Service	0	$24.12	$0	0	$24.12	$0	0	0.00	$0
8	1 1/2 - Inch Service	2	54.40	109	2	$54.40	109	2	0.00	0
9	2 - Inch Service	14	96.75	1,355	14	$96.75	1,355	14	0.00	0
10	2 1/2 - Inch Service	2	147.53	295	2	$147.53	295	2	0.00	0
11	3 - Inch Service	4	217.48	870	4	$217.48	870	4	0.00	0
12	4 - Inch Service	80	435.50	34,840	80	$435.50	34,840	80	0.00	0
13	6 - Inch Service	814	870.32	708,465	814	$870.32	708,465	814	0.00	0
14	8 - Inch Service	292	1,742.11	508,696	292	$1,742.11	508,696	292	0.00	0
15	10 - Inch Service	15	2,613.37	39,201	15	$2,613.37	39,201	15	0.00	0
16	12 - Inch Service	19	3,484.78	66,211	19	$3,484.78	66,211	19	0.00	0
17	Total Private Fire Service	1,242		1,360,042	1,242		1,360,042	1,242		0
21	Public Fire Service									
23	Ridgeside	13	0.00	0	13	0.00	0	13	0.00	0
24	Public Fire	4,610	0.00	0	4,610	0.00	0	4,610	0.00	0
25	Total Public Fire Service	4,623		0	4,623		0	4,623		0
27	Total Private and Public Fire Service Revenues			$1,360,042			$1,360,042			$0

TENNESSEE-AMERICAN WATER COMPANY
ANNUALIZATION OF YEAR-END CUSTOMERS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Residential				Commercial				Other Public Authority			
	Chattanooga	Lookout Mtn.	Lakeview	Total	Chattanooga	Lookout Mtn.	Lakeview	Total	Chattanooga	Lookout Mtn.	Lakeview	Total
Dec-05	57,928	1,637	2,783	62,328	7,944	85	179	8,208	601	28	6	635
Jan-06	57,937	1,637	2,763	62,337	7,914	85	179	8,178	600	26	8	634
Feb-06	58,114	1,640	2,779	62,533	7,923	83	179	8,185	598	27	8	633
Mar-06	58,208	1,641	2,787	62,634	7,894	83	178	8,155	596	27	8	631
Apr-06	58,377	1,636	2,785	62,798	7,927	81	178	8,186	599	27	8	634
May-06	58,593	1,632	2,784	63,009	7,929	79	178	8,186	611	27	8	646
Jun-06	58,775	1,626	2,783	63,184	7,976	77	178	8,231	612	27	8	647
Jul-06	58,964	1,620	2,782	63,366	7,974	75	179	8,228	617	27	8	652
Aug-06	59,141	1,620	2,786	63,547	7,980	75	179	8,234	618	27	8	653
Sep-06	59,121	1,621	2,790	63,532	7,971	76	178	8,225	620	27	8	655
Oct-06	59,119	1,647	2,799	63,565	7,952	81	178	8,211	625	27	8	660
Nov-06	58,983	1,653	2,800	63,436	7,932	82	177	8,191	625	27	8	660
Dec-06	58,896	1,659	2,801	63,356	7,909	83	176	8,168	625	26	8	659
Thirteen Month Average	58,826	1,636	2,785	63,047	7,940	80	178	8,198	611	27	8	646
Additional Customers Difference Between the Customers at the End of the Calendar Year and the Thirteen Month Average	270	23	16	309	(31)	3	(2)	(30)	14	(1)	0	13

TENNESSEE-AMERICAN WATER COMPANY
ANNUALIZATION OF YEAR-END CUSTOMERS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Residential			
	Chattanooga	Lookout Mtn.	Lakeview	Total
Additional Customers Added	270	23	16	309
5/8-inch meter	3,240	276	192	3,708
Avg. Usage Per Month Per Customer	11.4	12.4	11.4	
First 400 cubic feet	12,960	1,104	768	14,832
Next 6,100 cubic feet	23,976	2,313	1,421	27,710
Next 43,500 cubic feet				
Next 450,000 cubic feet				
Next 1,000,000 Cubic Feet				
All Over 1,500,000 Cubic Feet				
Total Consumption	36,936	3,417	2,189	42,542
Revenues Generated	97,686	11,707	6,512	115,905

	Commercial			
	Chattanooga	Lookout Mtn.	Lakeview	Total
Additional Customers Added	(31)	3	(2)	(30)
1 -inch meter	(372)	36	(24)	(360)
Avg. Usage Per Month Per Customer	39.0	38.0	13.0	
First 400 cubic feet	(1,488)	144	(96)	(1,440)
Next 6,100 cubic feet	(13,020)	1,224	(216)	(12,012)
Next 43,500 cubic feet				
Next 450,000 cubic feet				
Next 1,000,000 Cubic Feet				
All Over 1,500,000 Cubic Feet				
Total Consumption	(14,508)	1,368	(312)	(13,452)
Revenues Generated Commercial	(45,428)	5,327	(1,301)	(41,402)

TENNESSEE-AMERICAN WATER COMPANY
ADDITIONAL CUSTOMERS ADDED THROUGH THE ATTRITION YEAR
2006 RATE FILING

	Residential	Commercial	Industrial	Other Public Authority	Other Water Utility	72770 Total Customers	Multiplier	Additional Bills
Dec-06	63,356	8,168	132	659	7	72,322	12	
Jan-07	27	5				32	12	384
Feb-07	27	5				32	12	384
Mar-07	27	5				32	12	384
Apr-07	27	5				32	12	384
May-07	27	5				32	12	384
Jun-07	27	5				32	12	384
Jul-07	27	5				32	12	384
Aug-07	27	5				32	12	384
Sep-07	27	5				32	12	384
Oct-07	27	5				32	11	352
Nov-07	27	5				32	10	320
Dec-07	27	5				32	9	288
Jan-08	27	5				32	8	256
Feb-08	27	5				32	7	224
						0	6	0
						0	5	0
						0	4	0
						0	3	0
						0	2	0
						0	1	0
Total Customers at the End of the Attrition Year	63,734	8,238	132	659	7	72,770		4,896
Customer Bills Added by Area Served	4,131	765	0	0	0	4,896		
Customer Bills Added by Area Served								
Chattanooga	3,836	741	0	0		4,577		
Lookout Mtn.	110	8				118		
Lakeview	186	16				202		
	4,132	765	0	0		4,897		
Consumption Added by Area Served								
Chattanooga	43,730	28,899		0		72,629		
Lookout Mtn.	1,362	304				1,666		
Lakeview	2,120	208				2,328		
	47,212	29,411		0		76,623		

TENNESSEE-AMERICAN WATER COMPANY
ADDITIONAL CUSTOMERS ADDED THROUGH THE ATTRITION YEAR
2006 RATE FILING

	Residential			
	Chattanooga	Lookout Mtn.	Lakeview	Total
Additional Customers Added	3,836	110	186	4,132
5/8-inch meter	3,836	110	186	4,132
Avg. Usage Per Month Per Customer	4.7	8.1	4.8	
First 400 cubic feet	15,344	440	744	16,528
Next 6,100 cubic feet	2,781	451	149	3,381
Next 43,500 cubic feet				
Next 450,000 cubic feet				
Next 1,000,000 Cubic Feet				
All Over 1,500,000 Cubic Feet				
Total Consumption	18,125	891	893	19,909
Revenues Generated	45,753	3,010	2,616	51,379

	Commercial			
	Chattanooga	Lookout Mtn.	Lakeview	Total
Additional Customers Added	741	8	16	765
1 -inch meter	741	8	16	765
Avg. Usage Per Month Per Customer	33.1	33.0	10.0	
First 400 cubic feet	2,964	32	64	3,060
Next 6,100 cubic feet	21,541	232	96	21,869
Next 43,500 cubic feet				
Next 450,000 cubic feet				
Next 1,000,000 Cubic Feet				
All Over 1,500,000 Cubic Feet				
Total Consumption	24,505	264	160	24,929
Revenues Generated Commercial	78,494	1,043	723	80,260

Tennessee-American Water Company
Summary of Weather Normalization Adjustment

		1,000 Gallons
Residential Customers	-44,353	0.14623
Commercial Customers	-56,525	1.05543

Refer to Workpapers for calculation.

			Usage	Rate	Adjustment	
Chattanooga	Residential					
	Next	6,100 Cubic Feet	(39,970)	2.730	(109,118)	
Lookout Mtn						
	Next	6,100 Cubic Feet	(2,522)	3.516	(8,867)	
Lakeview						
	Next	6,100 Cubic Feet	(1,862)	3.008	(5,601)	
			(44,354)		(123,586)	
Chattanooga	Commercial					
	Next	43,500 Cubic Feet	(55,669)	1.715	(95,472)	
Lookout Mtn						
	Next	43,500 Cubic Feet	(488)	2.501	(1,220)	
Lakeview						
	Next	43,500 Cubic Feet	(368)	1.993	(733)	
			(56,525)		(97,426)	(221,013)

Operating Revenues Pe ks for the Test Year and
for the Attrition Year under bocn Present and Proposed Rates

Base Period - 12 months ended December 2005

Tennessee Regulatory Authority
Company: Tennessee-American Water Company
Case No:

Line No.	Description	Per Books 12 Months Ended 12/31/05	Test Year Adjustments Present Rates	Normalized Test Year	Attrition Year Adjustments	Attrition Year at Present Rates	Adjustments for Proposed Rates	Attrition Year at Proposed Rates
4								
5	Residential	$13,213,682	$202,409	$13,416,091	$51,376	$13,467,467	$2,672,219	$16,139,686
6								
7	Commercial	9,895,304	25,000	9,920,304	80,259	10,000,563	$2,012,131	12,012,694
8								
9	Industrial	3,309,690	50,277	3,359,967	0	3,359,967	$674,505	4,034,472
10								
11	Other Public Authorities	2,323,288	31,712	2,355,000	0	2,355,000	$472,929	2,827,929
12								
13	Sales for Resale	1,031,243	(24,450)	1,006,793	0	1,006,792	$206,204	1,212,996
14								
15	Private Fire Service	1,276,974	9,168	1,286,142	0	1,286,142	270,373	1,556,515
16								
17	Public Fire Service	231,750	(231,750)	0	0	0	0	0
18								
19	Total Sales of Water	31,281,931	62,365	31,344,296	131,635	31,475,931	6,308,361	37,784,292
20								
21								
22	Other Operating Revenues							
23								
24	Activity / New Service Fees	7,200	0	7,200	0	7,200	0	7,200
25								
26	Late Payment Penalty	489,523	749	490,272	1,537	491,809	71,526	563,335
27								
28	Rents from Water Property	114,000	0	114,000	0	114,000	0	114,000
29								
30	Sewer Billing Revenues	396,765	2,966	399,731	2,405	402,136	0	402,136
31								
32	Miscellaneous	78,548	0	78,548	0	78,548	0	78,548
33								
34	Reconnection Fee	114,182	0	114,182	0	114,182	0	114,182
35								
36	Total Other Operating Revenues	1,200,218	3,715	1,203,933	3,942	1,207,875	71,526	1,279,401
37								
38								
39	Total Operating Revenues - Agrees to TRA Surveillance Report	32,482,149	66,080	32,548,229	135,577	32,683,806	6,379,887	39,063,693

Tennessee American Water Companyu
2005 Base Year - Adjustments to Attrition Year

Revenue Adjustments

	Residential	Commercial	Industrial	OPA	OWU	Public Fire	Private Fire	Other	Total
Adjustments to Base Year Revenue:									
Annualize 2005 rate increase	192,089	60,665	46,118	9,547	6,319	(231,750)	9,168		92,156
Eliminate Walden's Ridge					0				0
Annualize 2005 Customer Growth	67,510	11,522							79,032
2006 Growth	172,784	(52,023)							120,761
Eliminate Unbilled Revenue	(106,388)	102,262	4,159	22,165	(30,769)				(8,571)
Assuming same Spitznagel Adjustment	(123,586)	(97,426)	0	0	0	0	0	0	(221,012)
Total Normalized Test-year Adj.	202,409	25,000	50,277	31,712	(24,450)	(231,750)	9,168	0	62,366
Attrition Year Adjustments:									
2007 Growth & 2008 Growth (thru Feb)	51,377	80,257							131,634
Adjustments to Base Year Gallons:									
Annualize 2005 Customer Growth	17,075	7,507							24,582
2006 Growth	56,351	(16,136)							40,215
2007 Growth & 2008 Growth (thru Feb)	19,588	25,838							45,426
Weather Normalization	(44,354)	(56,525)							(100,879)
Total Adjustments	48,660	(39,317)	0	0	0	0	0	0	9,343
Adjustments to Base Year Customers:									
Annualize 2005 Customer Growth									
2006 Growth	1,028	(40)							
2007 Growth & 2008 Growth (thru Feb)	378	70							
Total Adjustments	1,406	30	0	0	0	0	0	0	1,436

Tennessee Regulatory Authority
Summary
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2005
Exhibit No. 4, Schedule 1
Page No. 1 of 1

Line No.	Class/Description	Per Book Sales (CCF)	Per Book Total Revenues	Normalized Sales (CCF)	Normalized Total Revenues	Current Rates Sales (CCF)	Attrition Total Revenues	Proposed Rates Sales (CCF)	Total Revenues	Total Revenue Difference	Total Revenue Percent Change
4											
5	Residential	4,560,085	13,213,682	4,605,912	13,416,091	4,625,815	13,467,467	4,625,815	13,467,467	-	0.000%
6	Commercial	4,213,591	9,895,304	4,143,985	9,920,304	4,168,862	10,000,563	4,168,862	10,000,563	-	0.000%
7	Industrial	2,966,175	3,309,690	2,966,174	3,359,967	2,966,174	3,359,967	2,966,174	3,359,967	-	0.000%
8	Other Public Authority	1,179,709	2,323,288	1,179,710	2,355,000	1,179,710	2,355,000	1,179,710	2,355,000	-	0.000%
9	Other Water Utility	1,298,408	1,031,243	1,291,355	1,006,793	1,291,355	1,006,792	1,291,355	1,006,792	-	0.000%
10	Private Fire Service	0	1,276,974	0	1,286,142	0	1,286,142	0	1,286,142	-	0.000%
11	Public Fire Service	0	231,750	0	0	0	0	0	-	-	
12	Subtotal	14,217,968	31,281,931	14,187,136	31,344,296	14,231,916	31,475,931	14,231,916	31,475,931	-	0.000%
13											
14	Other Operating Revenues		1,200,218		1,203,933		1,207,875		1,279,401	-	0.000%
15											
16	Total		32,482,149		32,548,229		32,683,806		32,755,332	-	0.000%
17											
18											
19											
20	Per book revenues include unbilled revenues.										
21											
22											
23											
24											
25											
26											
27											
28											
29											
30											
31											
32											
33											
34											
35											
36											
37											
38											
39											
40											
41											
42											
43											
44											
45											
46											

ANALYSIS OF REVENUES AT PER BOOKS, NORMALIZED, AND THE ATTRITION YEAR AT PRESENT AND PROPOSED RATES

Tennessee Regulatory Authority
Residential Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2005
Exhibit No 4, Schedule 2
Page No. 1 of 13

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
1													
2		Billing			Billing			Billing			Billing		
3		Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues
4													
5	Chattanooga												
6	5/8 - inch meter	696,639	9.26	$6,450,880	708,760	9.26	$6,563,120	712,596	9.26	$6,598,642	712,596	0.00	$0
7	3/4 - inch meter	965	15.55	15,004	965	15.55	15,004	965	15.55	15,004	965	0.00	0
8	1 - inch meter	1,955	25.88	50,597	1,955	25.88	50,597	1,955	25.88	50,597	1,955	0.00	0
9	1 1/2 - inch meter	226	51.79	11,706	226	51.79	11,706	226	51.79	11,706	226	0.00	0
10	2 - inch meter	177	82.85	14,680	177	82.85	14,680	177	82.85	14,680	177	0.00	0
11	3 - inch meter	8	155.35	1,243	8	155.35	1,243	8	155.35	1,243	8	0.00	0
12	4 - inch meter	0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
13	6 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
14	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
15	Total Meters	699,970		6,544,110	712,091		6,656,350	715,927		6,691,872	715,927		0
16													
17	Volumetric												
18	First 400 Cubic Feet	2,353,231	0.172	404,756	2,401,715	0.172	413,095	2,417,059	0.172	415,734	2,417,059	0.00	0
19	Next 6,100 Cubic Feet	1,791,219	2.730	4,890,028	1,781,025	2.730	4,862,199	1,783,815	2.730	4,869,815	1,783,815	0.00	0
20	Next 43,500 Cubic Feet	56,241	1.715	96,454	56,241	1.715	96,454	56,241	1.715	96,454	56,241	0.00	0
21	Next 450,000 Cubic Feet	3,520	1.282	4,513	3,520	1.282	4,513	3,520	1.282	4,513	3,520	0.00	0
22	Next 1,000,000 Cubic Feet	0	0.980	0	0	0.980	-	-	0.980	-	-	0.00	0
23	All Over 1,500,000 Cubic Feet	0	0.582	0	0	0.582	-	-	0.582	-	-	0.00	0
24	Chattanooga Amount	4,204,212		11,939,861	4,242,502		12,032,611	4,260,636		12,078,388	4,260,636		0
25													
26	Lookout Mountain												
27	5/8 - inch meter	19,070	10.39	198,135	19,648	10.39	204,141	19,758	10.39	205,283	19,758	0.00	0
28	3/4 - inch meter	401	15.55	6,243	401	15.55	6,243	401	15.55	6,243	401	0.00	0
29	1 - inch meter	1,155	25.88	29,885	1,155	25.88	29,885	1,155	25.88	29,885	1,155	0.00	0
30	1 1/2 - inch meter	24	51.79	1,243	24	51.79	1,243	24	51.79	1,243	24	0.00	0
31	2 - inch meter	36	82.85	2,983	36	82.85	2,983	36	82.85	2,983	36	0.00	0
32	3 - inch meter	0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
33	4 - inch meter	0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
34	6 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
35	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
36	Total Meters	20,686		238,489	21,264		244,495	21,374		245,637	21,374		0
37													
38	Volumetric												
39	First 400 Cubic Feet	71,378	0.640	45,682	73,690	0.640	47,161	74,130	0.640	47,443	74,130	0.00	0
40	Next 6,100 Cubic Feet	148,029	3.516	520,471	149,953	3.516	527,236	150,399	3.516	528,804	150,399	0.00	0
41	Next 43,500 Cubic Feet	14,225	2.501	35,576	14,225	2.501	35,576	14,225	2.501	35,576	14,225	0.00	0
42	Next 450,000 Cubic Feet	295	1.749	516	295	1.749	516	295	1.749	516	295	0.00	0
43	Next 1,000,000 Cubic Feet	0	1.448	0	0	1.448	-	-	1.448	-	-	0.00	0
44	All Over 1,500,000 Cubic Feet	0	1.049	0	0	1.049	-	-	1.049	-	-	0.00	0
45	Lookout Mountain Amount	233,927		840,734	238,163		854,984	239,049		857,976	239,049		0
46													

Tennessee Regulatory Authority
Residential Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2005
Exhibit No 4, Schedule 2
Page No. 2 of 13

Line No.		Per books Billing Determinate	Per books Rates	Per books Revenues	Normalized Billing Determinate	Normalized Rates	Normalized Revenues	Attrition Year at Present Rates Billing Determinate	Attrition Year at Present Rates Rates	Attrition Year at Present Rates Revenues	Attrition Year at Proposed Rates Billing Determinate	Attrition Year at Proposed Rates Rates	Attrition Year at Proposed Rates Revenues
1													
2													
3													
4													
5	Lakeview												
6	5/8 - inch meter	32,805	10.39	340,841	33,508	10.39	348,145	33,694	10.39	350,078	33,694	0.00	0
7	3/4 - inch meter	18	15.55	274	18	15.55	274	18	15.55	274	18	0.00	0
8	1 - inch meter	48	25.88	1,242	48	25.88	1,242	48	25.88	1,242	48	0.00	0
9	1 1/2 - inch meter	0	51.79	0	0	51.79	-	-	51.79	-	-	0.00	0
10	2 - inch meter	0	82.85	0	0	82.85	-	-	82.85	-	-	0.00	0
11	3 - inch meter	0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
12	4 - inch meter	0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
13	6 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
14	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
15	Total Meters	32,870		342,357	33,573		349,661	33,759		351,594	33,759		0
16													
17	Volumetric												
18	First 400 Cubic Feet	108,914	0.316	34,417	111,726	0.316	35,306	112,470	0.316	35,541	112,470	0.00	0
19	Next 6,100 Cubic Feet	88,005	3.008	264,718	88,509	3.008	266,234	88,655	3.008	266,673	88,655	0.00	0
20	Next 43,500 Cubic Feet	1,510	1.993	3,008	1,510	1.993	3,008	1,510	1.993	3,008	1,510	0.00	0
21	Next 450,000 Cubic Feet	0	1.425	0	0	1.425	-	-	1.425	-	-	0.00	0
22	Next 1,000,000 Cubic Feet	0	1.124	0	0	1.124	-	-	1.124	-	-	0.00	0
23	All Over 1,500,000 Cubic Feet	0	0.725	0	0	0.725	-	-	0.725	-	-	0.00	0
24	Lakeview Amount	198,428		644,500	201,744		654,209	202,634		656,816	202,634		0
25													
26	Lone Oak												
27	5/8 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
28	3/4 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
29	1 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
30	1 1/2 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
31	2 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
32	3 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
33	4 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
34	6 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
35	8 - inch meter	0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
36	Total Meters	0		0	0		-	-		-	-		0
37													
38	Volumetric												
39	First 2.67 (100 CCF)	0	0.000	0	0	0.000	-	-	0.000	-	-	0.00	0
40	In Excess 2.67 (100 CCF)	0	3.9473	0	0	3.9473	-	-	3.9473	-	-	0.00	0
41													0
42													0
43													0
44													0
45	Lone Oak Amount	0		0	0		-	-		-	-		0
46													

Tennessee Regulatory Authority
Residential Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2005
Exhibit No 4, Schedule 2

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
1													
2		Billing			Billing			Billing			Billing		
3		Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues
4													
5	Suck Creek												
6	5/8 - Inch meter	2,377	22.85	54,316	2,377	22.85	54,316	2,377	22.85	54,316	2,377	0.00	0
7	3/4 - Inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
8	1 - Inch meter	12	22.85	274	12	22.85	274	12	22.85	274	12	0.00	0
9	1 1/2 - Inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
10	2 - Inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
11	3 - Inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
12	4 - Inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
13	6 - Inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
14	8 - Inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
15	Total Meters	2,389		54,590	2,389		54,590	2,389		54,590	2,389		0
16													
17	Volumetric												
18	First 2 (100 CCF)	4,403		0	4,403		-	4,403		-	4,403		0
19	Next 10.67 (100 CCF)	8,660	3.300	28,577	8,660	3.300	28,577	8,660	3.300	28,577	8,660	0.00	0
20	All Over 12.67 (100 CCF)	1,547	2.475	3,829	1,547	2.475	3,829	1,547	2.475	3,829	1,547	0.00	0
21													0
22													0
23													0
24	Suck Creek Amount	14,610		86,996	14,610		86,996	14,610		86,996	14,610		0
25													
26	Total Gross	4,651,177		13,512,091	4,697,019		13,628,800	4,716,929		13,680,176	4,716,929		0
27	Less: Correction & Allowances	89,610		212,709	89,610		212,709	89,610		212,709	89,610		0
28	Net Amount	4,561,567		13,299,382	4,607,409		13,416,091	4,627,319		13,467,467	4,627,319		0
29	Net Amt. Per Revenue Summary	4,560,085		13,219,055	4,605,912		13,335,054	4,625,815		13,386,120	4,625,815		0
30	Difference	1,482		80,327	1,497		81,037	1,504		81,347	1,504		0
31	Percent Difference	0.0325%		0.6077%	0.0325%		0.6077%	0.0325%		0.6077%	0.0325%		#DIV/0!
32													
33													
34													
35													
36													
37													
38													
39													
40													
41													
42													
43													
44													
45													
46													

Tennessee Regulatory Authority
Commercial Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2005
Exhibit No. 4, Schedule 2

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
1		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
2		Billing			Billing			Billing			Billing		
3		Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues
4													
5	Chattanooga												
6	5/8 - inch meter	63,679	9.26	$589,665	63,679	9.26	$589,665	63,679	9.26	$589,665	63,679	0.00	$0
7	3/4 - inch meter	1,342	15.55	20,869	1,342	15.55	20,869	1,342	15.55	20,869	1,342	0.00	0
8	1 - inch meter	15,667	25.88	405,467	15,373	25.88	397,858	16,114	25.88	417,035	16,114	0.00	0
9	1 1/2 - inch meter	3,746	51.79	193,990	3,746	51.79	193,990	3,746	51.79	193,990	3,746	0.00	0
10	2 - inch meter	12,161	82.85	1,007,502	12,161	82.85	1,007,502	12,161	82.85	1,007,502	12,161	0.00	0
11	3 - inch meter	489	155.35	75,934	489	155.35	75,934	489	155.35	75,934	489	0.00	0
12	4 - inch meter	239	258.92	61,848	239	258.92	61,848	239	258.92	61,848	239	0.00	0
13	6 - inch meter	113	517.85	58,750	113	517.85	58,750	113	517.85	58,750	113	0.00	0
14	8 - inch meter	12	828.55	9,943	12	828.55	9,943	12	828.55	9,943	12	0.00	0
15	Total Meters	97,447		2,423,968	97,153		2,416,359	97,894		2,435,536	97,894		0
16													
17	Volumetric												
18	First 400 Cubic Feet	272,171	0.172	46,813	270,995	0.172	46,611	273,959	0.172	47,121	273,959	0.00	0
19	Next 6,100 Cubic Feet	1,239,236	2.730	3,383,113	1,226,843	2.730	3,349,280	1,248,535	2.730	3,408,500	1,248,535	0.00	0
20	Next 43,500 Cubic Feet	1,667,429	1.715	2,859,641	1,611,760	1.715	2,764,169	1,611,760	1.715	2,764,169	1,611,760	0.00	0
21	Next 450,000 Cubic Feet	827,329	1.282	1,060,636	827,329	1.282	1,060,636	827,329	1.282	1,060,636	827,329	0.00	0
22	Next 1,000,000 Cubic Feet	129,573	0.980	126,981	129,573	0.980	126,981	129,573	0.980	126,981	129,573	0.00	0
23	All Over 1,500,000 Cubic Feet	75,700	0.582	44,057	75,700	0.582	44,057	75,700	0.582	44,057	75,700	0.00	0
24	Chattanooga Amount	4,211,438		9,945,209	4142199.76		9,808,093	4,166,856		9,887,000	4,166,856		0
25													
26	Lookout Mountain												
27	5/8 - inch meter	724	10.39	7,518	724	10.39	7,518	724	10.39	7,518	724	0.00	0
28	3/4 - inch meter	20	15.55	311	20	15.55	311	20	15.55	311	20	0.00	0
29	1 - inch meter	231	25.88	5,966	263	25.88	6,794	271	25.88	7,001	271	0.00	0
30	1 1/2 - inch meter	36	51.79	1,864	36	51.79	1,864	36	51.79	1,864	36	0.00	0
31	2 - inch meter	87	82.85	7,243	87	82.85	7,243	87	82.85	7,243	87	0.00	0
32	3 - inch meter	1	155.35	193	1	155.35	193	1	155.35	193	1	0.00	0
33	4 - inch meter	0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
34	6 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
35	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
36	Total Meters	1,099		23,095	1130.79		23,923	1,139		24,130	1,139		0
37													
38	Volumetric												
39	First 400 Cubic Feet	3,234	0.640	2,070	3,362	0.640	2,152	3,394	0.640	2,172	3,394	0.00	0
40	Next 6,100 Cubic Feet	16,536	3.516	58,139	17,138	3.516	60,256	17,283	3.516	60,766	17,283	0.00	0
41	Next 43,500 Cubic Feet	11,073	2.501	27,693	10,585	2.501	26,472	10,585	2.501	26,472	10,585	0.00	0
42	Next 450,000 Cubic Feet	99	1.749	173	99	1.749	173	99	1.749	173	99	0.00	0
43	Next 1,000,000 Cubic Feet	0	1.448	0	0	1.448	-	-	1.448	-	-	0.00	0
44	All Over 1,500,000 Cubic Feet	0	1.049	0	0	1.049	-	-	1.049	-	-	0.00	0
45	Lookout Mountain Amount	30,941		111,170	31183.35		112,976	31,360		113,713	31,360		0
46													

Tennessee Regulatory Authority
Commercial Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2005
Exhibit No. 4, Schedule 2

Line No.			Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
1														
2			Billing			Billing			Billing			Billing		
3			Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues
4														
5	Lakeview													
6	5/8 - inch meter		1,832	10.39	19,035	1,832	10.39	19,035	1,832	10.39	19,035	1,832	0.00	0
7	3/4 - inch meter		0	15.55	0	0	15.55	-	-	15.55	-	-	0.00	0
8	1 - inch meter		216	25.88	5,591	184	25.88	4,763	200	25.88	5,177	200	0.00	0
9	1 1/2 - inch meter		0	51.79	0	0	51.79	-	-	51.79	-	-	0.00	0
10	2 - inch meter		96	82.85	7,954	96	82.85	7,954	96	82.85	7,954	96	0.00	0
11	3 - inch meter		0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
12	4 - inch meter		0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
13	6 - inch meter		0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
14	8 - inch meter		0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
15	Total Meters		2,144		32,580	2112.11		31,752	2,128		32,166	2,128		0
16														
17	Volumetric													
18	First	400 Cubic Feet	5,648	0.316	1,785	5,520	0.316	1,744	5,584	0.316	1,765	5,584	0.00	0
19	Next	6,100 Cubic Feet	16,411	3.008	49,364	16,076	3.008	48,357	16,136	3.008	48,537	16,136	0.00	0
20	Next	43,500 Cubic Feet	7,296	1.993	14,541	6,928	1.993	13,808	6,928	1.993	13,808	6,928	0.00	0
21	Next	450,000 Cubic Feet	84	1.425	120	84	1.425	120	84	1.425	120	84	0.00	0
22	Next	1,000,000 Cubic Feet	0	1.124	0	0	1.124	-	-	1.124	-	-	0.00	0
23	All Over	1,500,000 Cubic Feet	0	0.725	0	0	0.725	-	-	0.725	-	-	0.00	0
24	Lakeview Amount		29,439		98,390	28608.09		95,781	28,732		96,396	28,732		0
25														
26	Lone Oak													
27	5/8 - inch meter		0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
28	3/4 - inch meter		0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
29	1 - inch meter		0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
30	1 1/2 - inch meter		0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
31	2 - inch meter		0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
32	3 - inch meter		0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
33	4 - inch meter		0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
34	6 - inch meter		0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
35	8 - inch meter		0	31.39	0	0	31.39	-	-	31.39	-	-	0.00	0
36	Total Meters		0		0	0		-	-		-	-		0
37														
38	Volumetric													
39	First	2.67 (100 CCF)	0	0.000	0	0	0.000	-	-	0.000	-	-	0.00	0
40	In Excess	2.67 (100 CCF)	0	3.947	0	0	3.947	-	-	3.947	-	-	0.00	0
41														
42														
43														
44														
45	Lone Oak Amount		0		0	0		-	-		-	-		0
46														

Tennessee Regulatory Authority
Commercial Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2005
Exhibit No. 4, Schedule 2

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
2		Billing			Billing			Billing			Billing		
3		Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues
4													
5	Suck Creek												
6	5/8 - inch meter	36	22.85	823	36	22.85	823	36	22.85	823	36	0.00	0
7	3/4 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
8	1 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
9	1 1/2 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
10	2 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
11	3 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
12	4 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
13	6 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
14	8 - inch meter	0	22.85	0	0	22.85	-	-	22.85	-	-	0.00	0
15	Total Meters	36		823	36		823	36		823	36		0
16													
17	Volumetric												
18	First 2 (100 CCF)	23	0.000	0	23	0.000	-	23	0.000	-	23	0.000	0
19	Next 10.67 (100 CCF)	44	3.300	145	44	3.300	145	44	3.300	145	44	0.000	0
20	All Over 12.67 (100 CCF)	2	2.475	5	2	2.475	5	2	2.475	5	2	0.000	0
21													
22													
23													
24	Suck Creek Amount	69		973	69		973	69		973	69		0
25													
26	Total Gross	4,271,887		10,155,742	4,202,060		10,017,823	4,227,017		10,098,082	4,227,017		0
27	Less: Correction & Allowances	44,802		97,519	44,802		97,519	44,802		97,519	44,802		0
28	Net Amount	4,227,085		10,058,223	4,157,258		9,920,304	4,182,215		10,000,563	4,182,215		0
29	Net Amt. Per Revenue Summary	4,213,591		9,985,840	4,143,985		9,848,909	4,168,862		9,928,590	4,168,862		0
30	Difference	13,494		72,382	13,273		71,395	13,353		71,973	13,353		0
31	Percent Difference	0.3203%		0.7249%	0.3203%		0.7249%	0.3203%		0.7249%	0.3203%		#DIV/0!
32													
33													
34													
35													
36													
37													
38													
39													
40													
41													
42													
43													
44													
45													
46													

Tennessee Regulatory Authority
Industrial Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2005
Exhibit No. 4, Schedule 2

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
2		Billing			Billing			Billing			Billing		
3		Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues
4													
5	Chattanooga												
6	5/8 - inch meter	276	9.26	$2,555	276	9.26	$2,555	276	9.26	$2,555	276	0.00	$0
7	3/4 - inch meter	34	15.55	532	34	15.55	532	34	15.55	532	34	0.00	0
8	1 - inch meter	329	25.88	8,511	329	25.88	8,511	329	25.88	8,511	329	0.00	0
9	1 1/2 - inch meter	83	51.79	4,278	83	51.79	4,278	83	51.79	4,278	83	0.00	0
10	2 - inch meter	1,059	82.85	87,740	1,059	82.85	87,740	1,059	82.85	87,740	1,059	0.00	0
11	3 - inch meter	2	155.35	311	2	155.35	311	2	155.35	311	2	0.00	0
12	4 - inch meter	292	258.92	75,550	292	258.92	75,550	292	258.92	75,550	292	0.00	0
13	6 - inch meter	59	517.85	30,755	59	517.85	30,755	59	517.85	30,755	59	0.00	0
14	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
15	Total Meters	2,134		210,232	2133.82		210,232	2,134		210,232	2,134		0
16													
17	Volumetric												
18	First 400 Cubic Feet	5,663	0.172	974	5,663	0.172	974	5,663	0.172	974	5,663	0.00	0
19	Next 6,100 Cubic Feet	56,337	2.730	153,799	56,337	2.730	153,799	56,337	2.730	153,799	56,337	0.00	0
20	Next 43,500 Cubic Feet	254,468	1.715	436,413	254,468	1.715	436,413	254,468	1.715	436,413	254,468	0.00	0
21	Next 450,000 Cubic Feet	1,000,627	1.282	1,282,804	1,000,627	1.282	1,282,804	1,000,627	1.282	1,282,804	1,000,627	0.00	0
22	Next 1,000,000 Cubic Feet	791,350	0.980	775,523	791,350	0.980	775,523	791,350	0.980	775,523	791,350	0.00	0
23	All Over 1,500,000 Cubic Feet	869,307	0.582	505,937	869,307	0.582	505,937	869,307	0.582	505,937	869,307	0.00	0
24	Chattanooga Amount	2,977,752		3,365,682	2,977,752		3,365,682	2,977,752		3,365,682	2,977,752		0
25													
26	Lookout Mountain												
27	5/8 - inch meter	0	10.39	0	0	10.39	0	-	10.39	-	-	0.00	0
28	3/4 - inch meter	0	15.55	0	0	15.55	0	-	15.55	-	-	0.00	0
29	1 - inch meter	0	25.88	0	0	25.88	0	-	25.88	-	-	0.00	0
30	1 1/2 - inch meter	0	51.79	0	0	51.79	0	-	51.79	-	-	0.00	0
31	2 - inch meter	0	82.85	0	0	82.85	0	-	82.85	-	-	0.00	0
32	3 - inch meter	0	155.35	0	0	155.35	0	-	155.35	-	-	0.00	0
33	4 - inch meter	0	258.92	0	0	258.92	0	-	258.92	-	-	0.00	0
34	6 - inch meter	0	517.85	0	0	517.85	0	-	517.85	-	-	0.00	0
35	8 - inch meter	0	828.55	0	0	828.55	0	-	828.55	-	-	0.00	0
36	Total Meters	0		0	0		0	-		-	-		0
37													
38	Volumetric												
39	First 400 Cubic Feet	0	0.640	0	0	0.640	0	-	0.640	-	-	0.00	0
40	Next 6,100 Cubic Feet	0	3.516	0	0	3.516	0	-	3.516	-	-	0.00	0
41	Next 43,500 Cubic Feet	0	2.501	0	0	2.501	0	-	2.501	-	-	0.00	0
42	Next 450,000 Cubic Feet	0	1.749	0	0	1.749	0	-	1.749	-	-	0.00	0
43	Next 1,000,000 Cubic Feet	0	1.448	0	0	1.448	0	-	1.448	-	-	0.00	0
44	All Over 1,500,000 Cubic Feet	0	1.049	0	0	1.049	0	-	1.049	-	-	0.00	0
45	Lookout Mountain Amount	0		0	0		0	-		-	-		0
46													

Tennessee Regulatory Authority
Industrial Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2005
Exhibit No. 4, Schedule 2

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
2		Billing			Billing			Billing			Billing		
3		Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues
4													
5	Lakeview												
6	5/8 - inch meter	0	10.39	0	0	10.39	0	-	10.39	-	-	0.00	0
7	3/4 - inch meter	0	15.55	0	0	15.55	0	-	15.55	-	-	0.00	0
8	1 - inch meter	0	25.88	0	0	25.88	0	-	25.88	-	-	0.00	0
9	1 1/2 - inch meter	0	51.79	0	0	51.79	0	-	51.79	-	-	0.00	0
10	2 - inch meter	0	82.85	0	0	82.85	0	-	82.85	-	-	0.00	0
11	3 - inch meter	0	155.35	0	0	155.35	0	-	155.35	-	-	0.00	0
12	4 - inch meter	0	258.92	0	0	258.92	0	-	258.92	-	-	0.00	0
13	6 - inch meter	0	517.85	0	0	517.85	0	-	517.85	-	-	0.00	0
14	8 - inch meter	0	828.55	0	0	828.55	0	-	828.55	-	-	0.00	0
15	Total Meters	0		0	0		0	-		-	-		0
16													
17	Volumetric												
18	First 400 Cubic Feet	0	0.316	0	0	0.316	0	-	0.316	-	-	0.00	0
19	Next 6,100 Cubic Feet	0	3.008	0	0	3.008	0	-	3.008	-	-	0.00	0
20	Next 43,500 Cubic Feet	0	1.993	0	0	1.993	0	-	1.993	-	-	0.00	0
21	Next 450,000 Cubic Feet	0	1.425	0	0	1.425	0	-	1.425	-	-	0.00	0
22	Next 1,000,000 Cubic Feet	0	1.124	0	0	1.124	0	-	1.124	-	-	0.00	0
23	All Over 1,500,000 Cubic Feet	0	0.725	0	0	0.725	0	-	0.725	-	-	0.00	0
24	Lakeview Amount	0		0	0		0	-		-	-		0
25													
26	Total Gross	2,977,752		3,365,682	2,977,752		3,365,682	2,977,752		3,365,682	2,977,752		0
27	Less: Correction & Allowances	2,910		5,715	2,910		5,715	2,910		5,715	2,910		0
28	Net Amount	2,974,842		3,359,967	2,974,842		3,359,967	2,974,842		3,359,967	2,974,842		0
29	Net Amt. Per Revenue Summary	2,966,175		3,339,175	2,966,174		3,339,174	2,966,174		3,339,174	2,966,174		0
30	Difference	8,667		20,792	8,668		20,793	8,668		20,793	8,668		0
31	Percent Difference	0.2922%		0.6227%	0.2922%		0.6227%	0.2922%		0.6227%	0.2922%		#DIV/0!
32													
33													
34													
35													
36													
37													
38													
39													
40													
41													
42													
43													
44													
45													
46													

Line No.			Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
2			Billing			Billing			Billing			Billing		
3			Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues	Determinate	Rates	Revenues
4														
5	Chattanooga													
6	5/8 - Inch meter		1,953	9.26	$18,085	1,953	9.26	$18,085	1,953	9.26	$18,085	1,953	0.00	$0
7	3/4 - Inch meter		132	15.55	2,045	132	15.55	2,045	132	15.55	2,045	132	0.00	0
8	1 - Inch meter		1,548	25.88	40,060	1,548	25.88	40,060	1,548	25.88	40,060	1,548	0.00	0
9	1 1/2 - Inch meter		771	51.79	39,929	771	51.79	39,929	771	51.79	39,929	771	0.00	0
10	2 - Inch meter		3,199	82.85	265,006	3,199	82.85	265,006	3,199	82.85	265,006	3,199	0.00	0
11	3 - Inch meter		47	155.35	7,252	47	155.35	7,252	47	155.35	7,252	47	0.00	0
12	4 - Inch meter		250	258.92	64,849	250	258.92	64,849	250	258.92	64,849	250	0.00	0
13	6 - Inch meter		12	517.85	6,214	12	517.85	6,214	12	517.85	6,214	12	0.00	0
14	8 - Inch meter		1	828.55	895	1	828.55	895	1	828.55	895	1	0.00	0
15	Total Meters		7,912		444,335	7912.25		444,335	7,912		444,335	7,912		0
16														
17	Volumetric													
18	First	400 Cubic Feet	20,895	0.172	3,594	20,895	0.172	3,594	20,895	0.172	3,594	20,895	0.00	0
19	Next	6,100 Cubic Feet	169,772	2.730	463,478	169,772	2.730	463,478	169,772	2.730	463,478	169,772	0.00	0
20	Next	43,500 Cubic Feet	373,400	1.715	640,382	373,400	1.715	640,382	373,400	1.715	640,382	373,400	0.00	0
21	Next	450,000 Cubic Feet	544,891	1.282	698,551	544,891	1.282	698,551	544,891	1.282	698,551	544,891	0.00	0
22	Next	1,000,000 Cubic Feet	74,105	0.980	72,623	74,105	0.980	72,623	74,105	0.980	72,623	74,105	0.00	0
23	All Over	1,500,000 Cubic Feet	0	0.582	0	0	0.582	-	-	0.582	-	-	0.00	0
24	Chattanooga Amount		1,183,064		2,322,963	1,183,064		2,322,963	1,183,064		2,322,963	1,183,064		0
25														
26	Lookout Mountain													
27	5/8 - Inch meter		137	10.39	1,423	136.99	10.39	1,423	137	10.39	1,423	137	0.00	0
28	3/4 - Inch meter		0	15.55	0	0	15.55	-	-	15.55	-	-	0.00	0
29	1 - Inch meter		108	25.88	2,799	108	25.88	2,799	108	25.88	2,799	108	0.00	0
30	1 1/2 - Inch meter		12	51.79	621	12	51.79	621	12	51.79	621	12	0.00	0
31	2 - Inch meter		83	82.85	6,876	82.99	82.85	6,876	83	82.85	6,876	83	0.00	0
32	3 - Inch meter		0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
33	4 - Inch meter		0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
34	6 - Inch meter		0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
35	8 - Inch meter		0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
36	Total Meters		340		11,719	340.14		11,719	340		11,719	340		0
37														
38	Volumetric													
39	First	400 Cubic Feet	757	0.640	484	757	0.640	484	757	0.640	484	757	0.00	0
40	Next	6,100 Cubic Feet	4,974	3.516	17,489	4,974	3.516	17,489	4,974	3.516	17,489	4,974	0.00	0
41	Next	43,500 Cubic Feet	3,834	2.501	9,589	3,834	2.501	9,589	3,834	2.501	9,589	3,834	0.00	0
42	Next	450,000 Cubic Feet	0	1.749	0	0	1.749	-	-	1.749	-	-	0.00	0
43	Next	1,000,000 Cubic Feet	0	1.448	0	0	1.448	-	-	1.448	-	-	0.00	0
44	All Over	1,500,000 Cubic Feet	0	1.049	0	0	1.049	-	-	1.049	-	-	0.00	0
45	Lookout Mountain Amount		9,565		39,281	9564.85		39,281	9,565		39,281	9,565		0
46														

Tennessee Regulatory Authority
Other Public Authority Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2005
Exhibit No. 4, Schedule 2

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
1		Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues
4													
5	Lakeview												
6	5/8 - inch meter	48	10.39	495	47.67	10.39	495	48	10.39	495	48	0.00	0
7	3/4 - inch meter	0	15.55	0	0	15.55	-	-	15.55	-	-	0.00	0
8	1 - inch meter	12	25.88	311	12	25.88	311	12	25.88	311	12	0.00	0
9	1 1/2 - inch meter	12	51.79	621	12	51.79	621	12	51.79	621	12	0.00	0
10	2 - inch meter	24	82.85	1,988	24	82.85	1,988	24	82.85	1,988	24	0.00	0
11	3 - inch meter	0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
12	4 - inch meter	0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
13	6 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
14	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
15	Total Meters	96		3,415	95.67		3,415	96		3,415	96		0
16													
17	Volumetric												
18	First 400 Cubic Feet	189	0.316	60	189	0.316	60	189	0.316	60	189	0.00	0
19	Next 6,100 Cubic Feet	2,119	3.008	6,374	2,119	3.008	6,374	2,119	3.008	6,374	2,119	0.00	0
20	Next 43,500 Cubic Feet	2,026	1.993	4,038	2,026	1.993	4,038	2,026	1.993	4,038	2,026	0.00	0
21	Next 450,000 Cubic Feet	0	1.425	0	0	1.425	-	-	1.425	-	-	0.00	0
22	Next 1,000,000 Cubic Feet	0	1.124	0	0	1.124	-	-	1.124	-	-	0.00	0
23	All Over 1,500,000 Cubic Feet	0	0.725	0	0	0.725	-	-	0.725	-	-	0.00	0
24	Lakeview Amount	4,334		13,887	4333.89		13,887	4,334		13,887	4,334		0
25													
26	Total Gross	1,196,963		2,376,131	1,196,963		2,376,131	1,196,963		2,376,131	1,196,963		0
27	Less: Correction & Allowances	11,855		21,131	11,855		21,131	11,855		21,131	11,855		0
28	Net Amount	1,185,108		2,355,000	1,185,108		2,355,000	1,185,108		2,355,000	1,185,108		0
29	Net Amt. Per Revenue Summary	1,179,709		2,341,314	1179710		2,341,315	1,179,710		2,341,315	1,179,710		0
30	Difference	5,399		13,686	5397.88		13,685	5,398		13,685	5,398		0
31	Percent Difference	0.4576%		0.5845%	0.4576%		0.5845%	0.4576%		0.5845%	0.4576%		#DIV/0!
32													
33													
34													
35													
36													
37													
38													
39													
40													
41													
42													
43													
44													
45													
46													

Tennessee Regulatory Authority
Other Water Utility Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2005
Exhibit No. 4, Schedule 2
Page No. 11 of 13

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
2		Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues
4													
5	Chattanooga												
6	5/8 - inch meter	0	9.26	$0	0	9.26	$0	-	9.26	$0	0	0.00	$0
7	3/4 - inch meter	0	15.55	0	0	15.55	0	-	15.55	-	-	0.00	0
8	1 - inch meter	0	25.88	0	0	25.88	-	-	25.88	-	-	0.00	0
9	1 1/2 - inch meter	0	51.79	0	0	51.79	-	-	51.79	-	-	0.00	0
10	2 - inch meter	12	82.85	994	12	82.85	994	12	82.85	994	12	0.00	0
11	3 - inch meter	0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
12	4 - inch meter	36	258.92	9,321	36	258.92	9,321	36	258.92	9,321	36	0.00	0
13	6 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
14	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
15	Total Meters	48		10,315	48		10,315	48		10,315	48		0
16													
17	Volumetric												
18	First 400 Cubic Feet	0	0.172	0	0	0.172	-	-	0.172	-	-	0.00	0
19	Next 6,100 Cubic Feet	0	2.730	0	0	2.730	-	-	2.730	-	-	0.00	0
20	Next 43,500 Cubic Feet	0	1.715	0	0	1.715	-	-	1.715	-	-	0.00	0
21	Next 450,000 Cubic Feet	0	1.282	0	0	1.282	-	-	1.282	-	-	0.00	0
22	Next 1,000,000 Cubic Feet	0	0.980	0	0	0.980	-	-	0.980	-	-	0.00	0
23	All Over 1,500,000 Cubic Feet	0	0.582	0	0	0.582	-	-	0.582	-	-	0.00	0
24	Ft. Oglethorpe	107,906	0.766	82,656	100,849	0.766	77,250	100,849	0.766	77,250	100,849	0.00	0
25	Catoosa Co	35,411	0.796	28,187	35,411	0.796	28,187	35,411	0.796	28,187	35,411	0.00	0
26	Signal Mtn	81,561	0.766	62,476	81,561	0.766	62,476	81,561	0.766	62,476	81,561	0.00	0
27	SFR	1,046,319	0.766	801,480	1,046,319	0.766	801,480	1,046,319	0.766	801,480	1,046,319	0.00	0
28	Chattanooga Amount	1,271,197		985,114	1,264,140		979,708	1,264,140		979,708	1,264,140		0
29													
30	Lookout Mountain		10.39			10.39			10.39				
31	5/8 - inch meter	0	15.55	0	0	15.55	-	-	15.55	-	-	0.00	0
32	3/4 - inch meter	0	25.88	0	0	25.88	-	-	25.88	-	-	0.00	0
33	1 - inch meter	0	51.79	0	0	51.79	-	-	51.79	-	-	0.00	0
34	1 1/2 - inch meter	0	82.85	0	0	82.85	-	-	82.85	-	-	0.00	0
35	2 - inch meter	0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
36	3 - inch meter	0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
37	4 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
38	6 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
39	8 - inch meter	0		0	0		-	-		-	-	0.00	0
40	Total Meters	0		0	0		-	-		-	-		0
41													
42	Volumetric		0.640			0.640			0.640				
43	First 400 Cubic Feet	0	3.516	0	0	3.516	-	-	3.516	-	-	0.00	0
44	Next 6,100 Cubic Feet	0	2.501	0	0	2.501	-	-	2.501	-	-	0.00	0
45	Next 43,500 Cubic Feet	0	1.749	0	0	1.749	-	-	1.749	-	-	0.00	0
46	Next 450,000 Cubic Feet	0	1.448	0	0	1.448	-	-	1.448	-	-	0.00	0
47	Next 1,000,000 Cubic Feet	0	1.049	0	0	1.049	-	-	1.049	-	-	0.00	0
48	All Over 1,500,000 Cubic Feet	0		0	0		-	-		-	-	0.00	0
49	Lookout Mountain Amount	0		0	0		-	-		-	-		0

Tennessee Regulatory Authority
Other Water Utility Class
Company : Tennessee-American Water Company
Case No. :

Attrition Year Revenues at Current and Proposed Rates

Test Year Twelve Months Ending December 31, 2005
Exhibit No. 4, Schedule 2

Line No.		Per books			Normalized			Attrition Year at Present Rates			Attrition Year at Proposed Rates		
1		Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues	Billing Determinate	Rates	Revenues
2													
3													
4													
5	Lakeview												
6	5/8 - inch meter	0	10.39	0	0	10.39	-	-	10.39	-	-	0.00	0
7	3/4 - inch meter	0	15.55	0	0	15.55	-	-	15.55	-	-	0.00	0
8	1 - inch meter	0	25.88	0	0	25.88	-	-	25.88	-	-	0.00	0
9	1 1/2 - inch meter	0	51.79	0	0	51.79	-	-	51.79	-	-	0.00	0
10	2 - inch meter	0	82.85	0	0	82.85	-	-	82.85	-	-	0.00	0
11	3 - inch meter	0	155.35	0	0	155.35	-	-	155.35	-	-	0.00	0
12	4 - inch meter	0	258.92	0	0	258.92	-	-	258.92	-	-	0.00	0
13	6 - inch meter	0	517.85	0	0	517.85	-	-	517.85	-	-	0.00	0
14	8 - inch meter	0	828.55	0	0	828.55	-	-	828.55	-	-	0.00	0
15	Total Meters	0		0	0		-	-		-	-		0
16													
17	Volumetric												
18	First 400 Cubic Feet	0	0.316	0	0	0.316	-	-	0.316	-	-	0.00	0
19	Next 6,100 Cubic Feet	0	3.008	0	0	3.008	-	-	3.008	-	-	0.00	0
20	Next 43,500 Cubic Feet	0	1.993	0	0	1.993	-	-	1.993	-	-	0.00	0
21	Next 450,000 Cubic Feet	0	1.425	0	0	1.425	-	-	1.425	-	-	0.00	0
22	Next 1,000,000 Cubic Feet	0	1.124	0	0	1.124	-	-	1.124	-	-	0.00	0
23	All Over 1,500,000 Cubic Feet	0	0.725	0	0	0.725	-	-	0.725	-	-	0.00	0
24	Lakeview Amount	0		0	0		-	-		-	-		0
25													
26	Total Gross	1,271,197		985,114	1,264,140		979,708	1,264,140		979,708	1,264,140		0
27	Less: Correction & Allowances	(27,853)		(27,084)	(27,853)		(27,084)	(27,853)		(27,084)	(27,853)		0
28	Net Amount	1,299,050		1,012,198	1,291,993		1,006,793	1,291,993		1,006,792	1,291,993		0
29	Net Amt. Per Revenue Summary	1,298,408		1,012,188	1,291,355		1,006,783	1,291,355		1,006,782	1,291,355		0
30	Difference	642		10	638		10	638		10	638		0
31	Percent Difference	0.0494%		0.0010%	0.0494%		0.0010%	0.0494%		0.0010%	0.0494%		#DIV/0!
32							0.43						
33													
34													
35													
36													
37													
38													
39													
40													
41													
42													
43													
44													
45													
46													

Line No.	Class/Description	Normalized Year at Present Rates Billing Determinate	Normalized Year at Present Rates Rates	Normalized Year at Present Rates Revenues	Attrition Year at Present Rates Billing Determinate	Attrition Year at Present Rates Rates	Attrition Year at Present Rates Revenues	Attrition Year at Proposed Rates Billing Determinate	Attrition Year at Proposed Rates Rates	Attrition Year at Proposed Rates Revenues
5	Private Fire Service									
7	1 - Inch Service	0	$24.12	$0	0	$24.12	$0	0	0.00	$0
8	1 1/2 - Inch Service	1	54.40	54	1	$54.40	54	1	0.00	0
9	2 - Inch Service	13	96.75	1,258	13	$96.75	1,258	13	0.00	0
10	2 1/2 - Inch Service	1	147.53	148	1	$147.53	148	1	0.00	0
11	3 - Inch Service	2	217.48	435	2	$217.48	435	2	0.00	0
12	4 - Inch Service	80	435.50	34,840	80	$435.50	34,840	80	0.00	0
13	6 - Inch Service	730	870.32	635,299	730	$870.32	635,299	730	0.00	0
14	8 - Inch Service	292	1,742.11	508,696	292	$1,742.11	508,696	292	0.00	0
15	10 - Inch Service	15	2,613.37	39,201	15	$2,613.37	39,201	15	0.00	0
16	12 - Inch Service	19	3,484.78	66,211	19	$3,484.78	66,211	19	0.00	0
17	Total Private Fire Service	1,153		1,286,142	1,153		1,286,142	1,153		0
21	Public Fire Service									
23	Ridgeside	13	0.00	0	13	0.00	0	13	0.00	0
24	Public Fire	4,610	0.00	0	4,610	0.00	0	4,610	0.00	0
25	Total Public Fire Service	4,623		0	4,623		0	4,623		0
27	Total Private and Public Fire Service Revenues			$1,286,142			$1,286,142			$0

TENNESSEE-AMERICAN WATER COMPANY
ANNUALIZATION OF YEAR-END CUSTOMERS
FOR THE YEAR ENDED DECEMBER 31, 2005

	Residential				Commercial				Other Public Authority			
	Chattanooga	Lookout Mtn.	Lakeview	Total	Chattanooga	Lookout Mtn.	Lakeview	Total	Chattanooga	Lookout Mtn.	Lakeview	Total
Dec-04	57,288	1,637	2,763	61,688	7,925	85	179	8,189	601	26	8	635
5-Jan	57,081	1,637	2,763	61,481	7,884	85	179	8,148	602	26	8	636
5-Feb	57,207	1,640	2,779	61,626	7,891	83	179	8,153	600	27	8	635
5-Mar	57,414	1,641	2,787	61,842	7,899	83	178	8,160	601	27	8	636
5-Apr	57,544	1,636	2,785	61,965	7,932	81	178	8,191	599	27	8	634
5-May	57,645	1,632	2,784	62,061	7,931	79	178	8,188	602	27	8	637
5-Jun	57,853	1,626	2,783	62,262	7,968	77	178	8,223	600	27	8	635
5-Jul	57,956	1,620	2,782	62,358	7,967	75	179	8,221	599	27	8	634
5-Aug	58,187	1,620	2,786	62,593	7,979	75	179	8,233	598	27	8	633
5-Sep	58,317	1,621	2,790	62,728	7,990	76	178	8,244	596	27	8	631
5-Oct	58,194	1,647	2,799	62,640	7,975	81	178	8,234	599	27	8	634
5-Nov	58,021	1,653	2,800	62,474	7,960	82	177	8,219	611	27	8	646
5-Dec	57,868	1,659	2,801	62,328	7,949	83	176	8,208	613	26	8	647
Thirteen Month Average	57,737	1,636	2,785	62,158	7,942	80	178	8,200	602	27	8	637
Additional Customers Difference Between the Customers at the End of the Calendar Year and the Thirteen Month Average	131	23	16	170	7	3	(2)	8	11	(1)	0	10

TENNESSEE-AMERICAN WATER COMPANY
ANNUALIZATION OF YEAR-END CUSTOMERS
FOR THE YEAR ENDED DECEMBER 31, 2005

	Residential			
	Chattanooga	Lookout Mtn.	Lakeview	Total
Additional Customers Added	131	23	16	170
5/8-Inch meter	1,572	276	192	2,040
Avg. Usage Per Month Per Customer	12.0	12.1	11.0	
First 400 cubic feet	6,288	1,104	768	8,160
Next 6,100 cubic feet	12,505	2,241	1,344	16,090
Next 43,500 cubic feet				
Next 450,000 cubic feet				
Next 1,000,000 Cubic Feet				
All Over 1,500,000 Cubic Feet				
Total Consumption	18,793	3,345	2,112	24,250
Revenues Generated	49,777	11,454	6,280	67,511

	Commercial			
	Chattanooga	Lookout Mtn.	Lakeview	Total
Additional Customers Added	7	3	(2)	8
1 -Inch meter	84	36	(24)	96
Avg. Usage Per Month Per Customer	35.4	23.2	13.7	
First 400 cubic feet	336	144	(96)	384
Next 6,100 cubic feet	2,633	891	(233)	3,091
Next 43,500 cubic feet				
Next 450,000 cubic feet				
Next 1,000,000 Cubic Feet				
All Over 1,500,000 Cubic Feet				
Total Consumption	2,969	835	(329)	3,475
Revenues Generated Commercial	9,420	3,453	(1,352)	11,521

TENNESSEE-AMERICAN WATER COMPANY
ADDITIONAL CUSTOMERS ADDED THROUGH DECEMBER 2006
2006 RATE FILING

	Residential	Commercial	Industrial	Other Public Authority	Other Water Utility	Total Customers	Multiplier	Additional Bills
Dec-05	62,328	8,208	132	647	7	71,322	12	
Jan-06	1	10				11	12	132
Feb-06	20	5				25	12	300
Mar-06	20	5				25	12	300
Apr-06	20	5				25	12	300
May-06	20	5				25	12	300
Jun-06	37	0				37	12	444
Jul-06	140	(5)				135	12	1,620
Aug-06	140	(5)				135	12	1,620
Sep-06	150	(15)				135	12	1,620
Oct-06	150	(15)				135	11	1,485
Nov-06	165	(15)				150	10	1,500
Dec-06	165	(15)				150	9	1,350
Jan-07	0	0				0	8	0
Feb-07	0	0				0	7	0
Mar-07	0	0				0	6	0
Apr-07	0	0				0	5	0
May-07	0	0				0	4	0
Jun-07	0	0				0	3	0
Jul-07	0	0				0	2	0
Aug 2007-Feb 2006	0	0				0	1	0
Total Customers at the End of the Attrition Year	63,356	8,168	132	647	7	72,310		10,971
Customer Bills Added by Area Served	11,361	(390)	0	0	0	10,971		
Customer Bills Added by Area Served								
Chattanooga	10,549	(378)	0	0		10,171		
Lookout Mtn.	302	(4)				298		
Lakeview	511	(8)				503		
	11,362	(390)	0	0		10,972		
Consumption Added by Area Served								
Chattanooga	126,113	(13,362)		0		112,751		
Lookout Mtn.	3,660	(93)				3,567		
Lakeview	5,621	(110)				5,511		
	135,394	(13,565)		0		121,829		

TENNESSEE-AMERICAN WATER COMPANY
ADDITIONAL CUSTOMERS ADDED THROUGH DECEMBER 2006
2006 RATE FILING

	Residential			
	Chattanooga	Lookout Mtn.	Lakeview	Total
Additional Customers Added	10,549	302	511	11,362
5/8-inch meter	10,549	302	511	11,362
Avg. Usage Per Month Per Customer	5.8	11.3	6.0	
First 400 cubic feet	42,196	1,208	2,044	45,448
Next 6,100 cubic feet	17,271	2,205	1,022	20,498
Next 43,500 cubic feet				
Next 450,000 cubic feet				
Next 1,000,000 Cubic Feet				
All Over 1,500,000 Cubic Feet				
Total Consumption	59,467	3,413	3,066	65,946
Revenues Generated	152,091	11,664	9,029	172,784

	Commercial			
	Chattanooga	Lookout Mtn.	Lakeview	Total
Additional Customers Added	(378)	(4)	(8)	(390)
1 -inch meter	(378)	(4)	(8)	(390)
Avg. Usage Per Month Per Customer	43.8	26.2	16.7	
First 400 cubic feet	(1,512)	(16)	(32)	(1,560)
Next 6,100 cubic feet	(15,026)	(89)	(102)	(15,217)
Next 43,500 cubic feet				
Next 450,000 cubic feet				
Next 1,000,000 Cubic Feet				
All Over 1,500,000 Cubic Feet				
Total Consumption	(16,538)	(105)	(134)	(16,777)
Revenues Generated Commercial	(51,064)	(427)	(524)	(52,015)

TENNESSEE-AMERICAN WATER COMPANY
ADDITIONAL CUSTOMERS ADDED THROUGH THE ATTRITION YEAR
2006 RATE FILING

	Residential	Commercial	Industrial	Other Public Authority	Other Water Utility	Total Customers	Multiplier	Additional Bills
Dec-06	63,356	8,168	132	647	7	72,310	12	
Jan-07	27	5				32	12	384
Feb-07	27	5				32	12	384
Mar-07	27	5				32	12	384
Apr-07	27	5				32	12	384
May-07	27	5				32	12	384
Jun-07	27	5				32	12	384
Jul-07	27	5				32	12	384
Aug-07	27	5				32	12	384
Sep-07	27	5				32	12	384
Oct-07	27	5				32	11	352
Nov-07	27	5				32	10	320
Dec-07	27	5				32	9	288
Jan-08	27	5				32	8	256
Feb-08	27	5				32	7	224
						0	6	0
						0	5	0
						0	4	0
						0	3	0
						0	2	0
						0	1	0
Total Customers at the End of the Attrition Ye	63,734	8,238	132	647	7	72,758		4,896
Customer Bills Added by .	4,131	765	0	0	0	4,896		
Customer Bills Added by Area Served								
Chattanooga	3,836	741	0	0		4,577		
Lookout Mtn.	110	8				118		
Lakeview	186	16				202		
	4,132	765	0	0		4,897		
Consumption Added by Area Served								
Chattanooga	45,859	26,194		0		72,053		
Lookout Mtn.	1,333	186				1,519		
Lakeview	2,046	219				2,265		
	49,238	26,599		0		75,837		

TENNESSEE-AMERICAN WATER COMPANY
ADDITIONAL CUSTOMERS ADDED THROUGH THE ATTRITION YEAR
2006 RATE FILING

	Residential			
	Chattanooga	Lookout Mtn.	Lakeview	Total
Additional Customers Added	3,836	110	186	4,132
5/8-inch meter	3,836	110	186	4,132
Avg. Usage Per Month Per Customer	4.7	8.1	4.8	
First 400 cubic feet	15,344	440	744	16,528
Next 6,100 cubic feet	2,790	446	146	3,382
Next 43,500 cubic feet				
Next 450,000 cubic feet				
Next 1,000,000 Cubic Feet				
All Over 1,500,000 Cubic Feet				
Total Consumption	18,134	886	890	19,910
Revenues Generated	45,777	2,993	2,607	51,377

	Commercial			
	Chattanooga	Lookout Mtn.	Lakeview	Total
Additional Customers Added	741	8	16	765
1 -inch meter	741	8	16	765
Avg. Usage Per Month Per Customer	33.3	22.2	7.7	
First 400 cubic feet	2,964	32	84	3,080
Next 6,100 cubic feet	21,692	145	60	21,897
Next 43,500 cubic feet				
Next 450,000 cubic feet				
Next 1,000,000 Cubic Feet				
All Over 1,500,000 Cubic Feet				
Total Consumption	24,656	177	124	24,957
Revenues Generated Commercial	78,906	737	615	80,258

Tennessee-American Water Company
Summary of Weather Normalization Adjustment

		1,000 Gallons
Residential Customers	-44,353	0.14623
Commercial Customers	-56,525	1.05543

Refer to Workpapers for calculation.

			Usage	Rate	Adjustment
Chattanooga	Residential				
	Next	6,100 Cubic Feet	(39,970)	2.730	(109,118)
Lookout Mtn					
	Next	6,100 Cubic Feet	(2,522)	3.516	(8,867)
Lakeview					
	Next	6,100 Cubic Feet	(1,862)	3.008	(5,601)
			(44,354)		(123,586)
Chattanooga	Commercial				
	Next	43,500 Cubic Feet	(55,669)	1.715	(95,472)
Lookout Mtn					
	Next	43,500 Cubic Feet	(488)	2.501	(1,220)
Lakeview					
	Next	43,500 Cubic Feet	(368)	1.993	(733)
			(56,525)		(97,426)

[09214] - T/B by Object Account

Functions Options Tools Help

Thru Date/Period	12/10/04
Company	00026
Object/Sub	900003
Ledger Type	ST
Subledger	*
Scaling Factor	
Cum/Period(C/P)	C

O P	Account Number	L D	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	61,660.00
	260305.900003.1302	5	Customers-Residential	197.00
	260405.900003.1302	5	Customers-Residential	67.00
	260205.900003.1303	5	Customers Commercial	8,189.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	135.00
	260205.900003.1305	5	Customers-Fire Service	1,078.00
	260205.900003.1306	5	Customers-OPA	627.00
	260205.900003.1307	5	Customers-Sales for Res	6.00
			** TOTAL	72,013.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

unctions Options Tools Help

Thru Date/Period 01/21/05
Company 00026
Object/Sub 900003
Ledger Type ST
Subledger *
Scaling Factor
Cum/Period(C/P) C

OP	Account Number	LD	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	61,401.00
	260305.900003.1302	5	Customers-Residential	196.00
	260405.900003.1302	5	Customers-Residential	87.00
	260205.900003.1303	5	Customers Commercial	8,148.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	134.00
	260205.900003.1305	5	Customers-Fire Service	1,078.00
	260205.900003 1306	5	Customers-OPR	626.00
	260205.900003.1307	5	Customers-Sales for Res	6.00
			** TOTAL	71,762.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

		Thru Date/Period	02/18/05
		Company	00026
Object/Sub	900003	Ledger Type	ST
Subledger	*	Scaling Factor	
		Cum/Period(C/P)	C

O P	Account Number	L D	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	61,626.00
	260305.900003.1302	5	Customers-Residential	198.00
	260405.900003.1302	5	Customers-Residential	87.00
	260205.900003.1303	5	Customers Commercial	8,153.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	133.00
	260205.900003.1305	5	Customers-Fire Service	1,074.00
	260205.900003.1306	5	Customers-OPA	626.00
	260205.900003.1307	5	Customers-Sales for Res	6.00
			** TOTAL	71,909.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

		Thru Date/Period	03/25/05
		Company	00026
Object/Sub	900003	Ledger Type	ST
Subledger	*	Scaling Factor	
		Curr/Period(C/P)	C

OP	Account Number	LD	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	61,642.00
	260305.900003.1302	5	Customers-Residential	196.00
	260405.900003.1302	5	Customers-Residential	87.00
	260205.900003.1303	5	Customers Commercial	8,160.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	133.00
	260205.900003 1305	5	Customers-Fire Service	1,065.00
	260205.900003.1306	5	Customers-OPA	632.00
	260205.900003.1307	5	Customers-Sales for Res	6.00
			** TOTAL	72,129.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

		Thru Date/Period	04/22/05
		Company	00026
Object/Sub	900003	Ledger Type	ST
Subledger	*	Scaling Factor	
		Curr/Period(C/P)	C

O P	Account Number	L D	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	61,965.00
	260305.900003.1302	5	Customers-Residential	198.00
	260405.900003.1302	5	Customers-Residential	98.00
	260205.900003.1303	5	Customers Commercial	8,191.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	131.00
	260205.900003.1305	5	Customers-Fire Service	1,067.00
	260205.900003.1306	5	Customers-OPA	632.00
	260205.900003.1307	5	Customers-Sales for Res	6.00
			** TOTAL	72,286.00

Opt: 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[D9214] - T/B by Object Account

Functions Options Tools Help

		Thru Date/Period	05/20/05
		Company	00026
Object/Sub	900003	Ledger Type	ST
Subledger	*	Scaling Factor	
		Cum/Period(C/P)	C

O P	Account Number	L D	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	62,061.00
	260305.900003 1302	5	Customers-Residential	195.00
	260405.900003 1302	5	Customers-Residential	90.00
	260205.900003.1303	5	Customers Commercial	8,180.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	131.00
	260205.900003.1305	5	Customers-Fire Service	1,069.00
	260205.900003.1306	5	Customers-OPA	634 00
	260205.900003.1307	5	Customers-Sales for Res	6.00
			** TOTAL	72,380.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

Thru Date/Period 06/24/05
Company 00026
Object/Sub 900003 Ledger Type ST
Subledger * Scaling Factor
Cum/Period(C/P) C

O P	Account Number	L D	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	62,262.00
	260305.900003.1302	5	Customers-Residential	201.00
	260405.900003.1302	5	Customers-Residential	91.00
	260205.900003.1303	5	Customers Commercial	8,223.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	132.00
	260205.900003.1305	5	Customers-Fire Service	1,067.00
	260205.900003.1306	5	Customers-OPA	635.00
	260205.900003.1307	5	Customers-Sales for Res	6.00
			** TOTAL	72,623.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[D9214] - T/B by Object Account

Functions Options Tools Help

Thru Date/Period 07/22/05
Company 00026
Object/Sub 900003
Ledger Type ST
Subledger *
Scaling Factor
Cum/Period(C/P) C

O P	Account Number	L D	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	62,358.00
	260305.900003.1302	5	Customers-Residential	202.00
	260405.900003.1302	5	Customers-Residential	91.00
	260205.900003.1303	5	Customers Commercial	8,221.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	131.00
	260205.900003.1305	5	Customers-Fire Service	1,068.00
	260205.900003.1306	5	Customers-OPA	636.00
	260205.900003.1307	5	Customers-Sales for Res	6.00
			** TOTAL	72,719.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

Thru Date/Period 08/19/05
Company 00026
Object/Sub 900003 Ledger Type ST
Subledger * Scaling Factor
Cum/Period(C/P) C

O P	Account Number	L D	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	62,593.00
	260305.900003.1302	5	Customers-Residential	203.00
	260405.900003.1302	5	Customers-Residential	93.00
	260205.900003.1303	5	Customers Commercial	8,233.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	131.00
	260205.900003.1305	5	Customers-Fire Service	1,068.00
	260205.900003.1306	5	Customers-OPA	635.00
	260205.900003.1307	5	Customers-Sales for Res	6.00

			** TOTAL	72,968.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

		Thru Date/Period	09/23/05
		Company	00026
Object/Sub	900003	Ledger Type	ST
Subledger	*	Scaling Factor	
		Cum/Period(C/P)	C

OP	Account Number	LD	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	62,728.00
	260305.900003.1302	5	Customers-Residential	203.00
	260405.900003.1302	5	Customers-Residential	92.00
	260205.900003.1303	5	Customers Commercial	8,244.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003 1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	131.00
	260205.900003.1305	5	Customers-Fire Service	1,066 00
	260205.900003.1306	5	Customers-OPA	636.00
	260205.900003.1307	5	Customers-Sales for Res	6.00
			** TOTAL	73,112.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

		Thru Date/Period	10/21/05
		Company	00026
Object/Sub	900003	Ledger Type	ST
Subledger	*	Scaling Factor	
		Cum/Period(C/P)	C

OP	Account Number	LD	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	62,640.00
	260305.900003.1302	5	Customers-Residential	203.00
	260405.900003.1302	5	Customers-Residential	94.00
	260205.900003.1303	5	Customers Commercial	8,234.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	130.00
	260205.900003 1305	5	Customers-Fire Service	1,059.00
	260205.900003 1306	5	Customers-OPA	634.00
	260205.900003.1307	5	Customers-Sales for Res	6.00

			** TOTAL	73,006.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

Thru Date/Period 11/18/05
Company 00026
Object/Sub 900003
Ledger Type ST
Subledger *
Scaling Factor
Cum/Period(C/P) C

O P	Account Number	L D	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	62,474.00
	260305.900003.1302	5	Customers-Residential	282.00
	260405.900003.1302	5	Customers-Residential	93.00
	260205.900003.1303	5	Customers Commercial	8,219.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	129.00
	260205.900003 1305	5	Customers-Fire Service	1,057.00
	260205.900003.1306	5	Customers-OPA	637.00
	260205.900003.1307	5	Customers-Sales for Res	6.00
			** TOTAL	72,823.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

		Thru Date/Period	12/09/05
		Company	00026
Object/Sub	900003	Ledger Type	ST
Subledger	*	Scaling Factor	
		Cum/Period(C/P)	C

OP	Account Number	LD	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	62,328.00
	260305.900003.1302	5	Customers-Residential	201.00
	260405.900003.1302	5	Customers-Residential	92.00
	260205.900003.1303	5	Customers Commercial	8,208.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003 1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	130.00
	260205.900003.1305	5	Customers-Fire Service	1,054.00
	260205.900003.1306	5	Customers-OPA	635.00
	260205.900003.1307	5	Customers-Sales for Res	6.00
			** TOTAL	72,660.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[D09214] - T/B by Object Account

Functions Options Tools Help

Object/Sub	900003	Thru Date/Period	01/20/06
Subledger	*	Company	00026
		Ledger Type	ST
		Scaling Factor	
		Cum/Period(C/P)	C

OP	Account Number	LD	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	62,337.00
	260305.900003.1302	5	Customers-Residential	202.00
	260405.900003.1302	5	Customers-Residential	92.00
	260205.900003.1303	5	Customers Commercial	8,178.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	130.00
	260205.900003 1305	5	Customers-Fire Service	1,053.00
	260205.900003 1306	5	Customers-OPA	634.00
	260205.900003.1307	5	Customers-Sales for Res	6.00
			** TOTAL	72,638.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

Thru Date/Period 02/17/06
Company 00026
Object/Sub 900003 Ledger Type ST
Subledger * Scaling Factor
Cum/Period(C/P) C

O P	Account Number	L D	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	62,533.00
	260305.900003.1302	5	Customers-Residential	202.00
	260405.900003.1302	5	Customers-Residential	91.00
	260205.900003.1303	5	Customers Commercial	8,185.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	130.00
	260205.900003.1305	5	Customers-Fire Service	1,057.00
	260205.900003.1306	5	Customers-OPA	633.00
	260205.900003.1307	5	Customers-Sales for Res	6.00
			** TOTAL	72,843.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

		Thru Date/Period	03/24/06
		Company	00026
Object/Sub	900003	Ledger Type	ST
Subledger	*	Scaling Factor	
		Cum/Period(C/P)	C

OP	Account Number	LD	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	62,634.00
	260305.900003.1302	5	Customers-Residential	282.00
	260405.900003.1302	5	Customers-Residential	93.00
	260205.900003 1303	5	Customers Commercial	8,155.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	130.00
	260205.900003.1305	5	Customers-Fire Service	1,057.00
	260205.900003.1306	5	Customers-OPA	631.00
	260205.900003.1307	5	Customers-Sales for Res	6.00
	260405.900003.1307	5	Customers-Sales for Res	1.00
			** TOTAL	72,915.00

Opt: 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[D9214] - T/B by Object Account

Functions Options Tools Help

Object/Sub	900003
Subledger	*
Thru Date/Period	04/21/06
Company	00026
Ledger Type	ST
Scaling Factor	
Cum/Period(C/P)	C

O P	Account Number	L D	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	62,798.00
	260305.900003.1302	5	Customers-Residential	201.00
	260405.900003.1302	5	Customers-Residential	96.00
	260205.900003.1303	5	Customers Commercial	8,186.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	131.00
	260205.900003.1305	5	Customers-Fire Service	1,058.00
	260205.900003.1306	5	Customers-OPA	634.00
	260205.900003.1307	5	Customers-Sales for Res	7.00
	260405.900003.1307	5	Customers-Sales for Res	1.00
			** TOTAL	73,118.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

		Thru Date/Period	05/26/06
		Company	00026
Object/Sub	900003	Ledger Type	ST
Subledger	*	Scaling Factor	
		Cum/Period(C/P)	C

OP	Account Number	LD	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	63,089.00
	260305.900003.1302	5	Customers-Residential	200.00
	260405.900003.1302	5	Customers-Residential	98.00
	260205.900003.1303	5	Customers Commercial	8,166.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003 1304	5	Customers Industrial	131.00
	260205.900003.1305	5	Customers-Fire Service	1,056.00
	260205.900003.1306	5	Customers-OPA	646.00
	260205.900003.1307	5	Customers-Sales for Res	7.00
	260405.900003.1307	5	Customers-Sales for Res	1.00
			** TOTAL	73,340.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

		Thru Date/Period	06/30/06
		Company	00026
Object/Sub	900003	Ledger Type	ST
Subledger	*	Scaling Factor	
		Cum/Period(C/P)	C

O P	Account Number	L D	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	63,184.00
	260305.900003.1302	5	Customers-Residential	201.00
	260405.900003.1302	5	Customers-Residential	98.00
	260205.900003 1303	5	Customers Commercial	8,231.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	132.00
	260205.900003.1305	5	Customers-Fire Service	1,060.00
	260205.900003.1306	5	Customers-OPA	647.00
	260205.900003.1307	5	Customers-Sales for Res	7.00
	260405.900003.1307	5	Customers-Sales for Res	1.00
			** TOTAL	73,567.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

Object/Sub	900003	Thru Date/Period	07/28/06
Subledger	*	Company	00026
		Ledger Type	ST
		Scaling Factor	
		Cum/Period(C/P)	C

OP	Account Number	LD	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	63,356.00
	260305.900003.1302	5	Customers-Residential	204.00
	260405.900003.1302	5	Customers-Residential	98.00
	260205.900003.1303	5	Customers Commercial	8,228.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	131.00
	260205.900003.1305	5	Customers-Fire Service	1,057.00
	260205.900003.1306	5	Customers-OPR	652.00
	260205.900003.1307	5	Customers-Sales for Res	7.00
	260405.900003.1307	5	Customers-Sales for Res	1.00
			** TOTAL	73,740.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

		Thru Date/Period	08/25/06
		Company	00026
Object/Sub	900003	Ledger Type	ST
Subledger	*	Scaling Factor	
		Cum/Period(C/P)	C

OP	Account Number	LD	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	63,547.00
	260305.900003.1302	5	Customers-Residential	203.00
	260405.900003.1302	5	Customers-Residential	98.00
	260205.900003 1303	5	Customers Commercial	8,234.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	131.00
	260205.900003.1305	5	Customers-Fire Service	1,063.00
	260205.900003.1306	5	Customers-OPA	653.00
	260205.900003.1307	5	Customers-Sales for Res	7.00
	260405.900003 1307	5	Customers-Sales for Res	1.00
			** TOTAL	73,943.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

		Thru Date/Period	09/29/06
		Company	00026
Object/Sub	900003	Ledger Type	ST
Subledger	*	Scaling Factor	
		Cum/Period(C/P)	C

O P	Account Number	L D	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	63,532.00
	260305.900003.1302	5	Customers-Residential	206.00
	260405.900003.1302	5	Customers-Residential	96.00
	260205.900003.1303	5	Customers Commercial	8,225.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	130.00
	260205.900003.1305	5	Customers-Fire Service	1,069.00
	260205.900003 1306	5	Customers-OPR	655.00
	260205.900003.1307	5	Customers-Sales for Res	9.00
	260405.900003.1307	5	Customers-Sales for Res	1.00
			** TOTAL	73,931.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

		Thru Date/Period	10/27/06
		Company	00025
Object/Sub	900003	Ledger Type	ST
Subledger	*	Scaling Factor	
		Cum/Period(C/P)	C

OP	Account Number	LD	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	63,565.00
	260305.900003.1302	5	Customers-Residential	206.00
	260405.900003.1302	5	Customers-Residential	98.00
	260205.900003.1303	5	Customers Commercial	8,211.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	129.00
	260205.900003.1305	5	Customers-Fire Service	1,069.00
	260205.900003.1306	5	Customers-OPR	660.00
	260205.900003.1307	5	Customers-Sales for Res	8.00
	260405.900003.1307	5	Customers-Sales for Res	1.00
			** TOTAL	73,953.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[D9214] - T/B by Object Account

Functions Options Tools Help

		Thru Date/Period	12/01/06
		Company	00026
Object/Sub	900003	Ledger Type	ST
Subledger	*	Scaling Factor	
		Curr/Period(C/P)	C

OP	Account Number	LD	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	63,436.00
	260305.900003.1302	5	Customers-Residential	204.00
	260405.900003.1302	5	Customers-Residential	100.00
	260205.900003.1303	5	Customers Commercial	8,191.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	129.00
	260205.900003.1305	5	Customers-Fire Service	1,070.00
	260205.900003.1306	5	Customers-OPA	660.00
	260205.900003.1307	5	Customers-Sales for Res	8.00
	260405.900003.1307	5	Customers-Sales for Res	1.00
			** TOTAL	73,805.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

[09214] - T/B by Object Account

Functions Options Tools Help

		Thru Date/Period	12/31/06
		Company	00026
Object/Sub	900003	Ledger Type	ST
Subledger	*	Scaling Factor	
		Cum/Period(C/P)	C

O P	Account Number	L D	Description	Balance
	.900003	3	Customers - Total	
	260205.900003.1302	5	Customers-Residential	63,356.00
	260305.900003.1302	5	Customers-Residential	205.00
	260405.900003.1302	5	Customers-Residential	100.00
	260205.900003 1303	5	Customers Commercial	8,168.00
	260305.900003.1303	5	Customers Commercial	4.00
	260405.900003.1303	5	Customers Commercial	2.00
	260205.900003.1304	5	Customers Industrial	129.00
	260205.900003.1305	5	Customers-Fire Service	1,069.00
	260205.900003.1306	5	Customers-OPA	659.00
	260205.900003.1307	5	Customers-Sales for Res	8.00
	260405.900003.1307	5	Customers-Sales for Res	1.00
			** TOTAL	73,701.00

Opt 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Consumer Advocate and Protection Division Discovery Request No. 2

Responsible Witness: **Michael Miller**

Question:

2. Provide the amount of Goodwill impairment charges allocated, directly charged, or booked to Tennessee American for the twelve months ended October 31, 2006 and the twelve months ended December 31, 2006 by month, by JDE Account. Also, provide the amount of forecasted Goodwill impairment charges for Tennessee American for the attrition year.

Response:

The amount of Goodwill Impairment charged to TAWC for each period identified in the question is zero. Also please see the response to CMA-01-Q005 and the supplemental response (hand written) provided to Mr. Walker who in turn provided the supplemental response to all parties to this case.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Consumer Advocate and Protection Division Discovery Request No. 2

Responsible Witness: **Michael Miller/or others**

Question:

3. Provide a narrative for the accounting of Goodwill impairment as disclosed in Footnote 16 of the PricewaterhouseCoopers LLP audit report of Thames Water Aqua US Holdings, Inc. and Subsidiary Companies dated January 11, 2007. Specifically, document who pays for the costs of Goodwill impairment as "recorded in Impairment charges in the Company's statement of operations."

Response:

Footnote 16 itself contains a detailed explanation of the impairment accounting related to Thames Water Aqua US Holding, Inc. for 2005 and 2004 respectively. Attached to this response identified as CAPD-02-Q003-FAS142,144-ATTACHMENT is FASB Summaries for FAS 142 and 144 along with accounting guideline summaries for each. As outlined in the footnotes and the FAS 142 and FAS 143 documentation, the impairment test is performed based on business segments as outlined in the footnote itself. The recording of the impairment occurs at the corporate entity where the goodwill or long-lived intangible asset is recorded by charging income and recording the lower fair market value of the asset. Specific to TAWC, please see the response to CAPD-02-Q002.

Summary of Statement No. 142

Goodwill and Other Intangible Assets (Issued 6/01)

Summary

This Statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, *Intangible Assets.* It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements.

Reasons for Issuing This Statement

Analysts and other users of financial statements, as well as company managements, noted that intangible assets are an increasingly important economic resource for many entities and are an increasing proportion of the assets acquired in many transactions. As a result, better information about intangible assets was needed. Financial statement users also indicated that they did not regard goodwill amortization expense as being useful information in analyzing investments.

Differences between This Statement and Opinion 17

This Statement changes the unit of account for goodwill and takes a very different approach to how goodwill and other intangible assets are accounted for subsequent to their initial recognition. Because goodwill and some intangible assets will no longer be amortized, the reported amounts of goodwill and intangible assets (as well as total assets) will not decrease at the same time and in the same manner as under previous standards. There may be more volatility in reported income than under previous standards because impairment losses are likely to occur irregularly and in varying amounts

This Statement changes the subsequent accounting for goodwill and other intangible assets in the following significant respects:

- Acquiring entities usually integrate acquired entities into their operations, and thus the acquirers' expectations of benefits from the resulting synergies usually are reflected in the premium that they pay to acquire those entities. However, the transaction-based approach to accounting for goodwill under Opinion 17 treated the acquired entity as if it remained a stand-alone entity rather than being integrated with the acquiring entity; as a result, the portion of the premium related to expected synergies (goodwill) was not accounted for appropriately. This Statement adopts a more aggregate view of goodwill and bases the accounting for goodwill on the units of the combined entity into which an acquired entity is integrated (those units are referred to as reporting units).
- Opinion 17 presumed that goodwill and all other intangible assets were wasting assets (that is, finite lived), and thus the amounts

assigned to them should be amortized in determining net income; Opinion 17 also mandated an arbitrary ceiling of 40 years for that amortization. This Statement does not presume that those assets are wasting assets. Instead, goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, but without the constraint of an arbitrary ceiling.

- Previous standards provided little guidance about how to determine and measure goodwill impairment; as a result, the accounting for goodwill impairments was not consistent and not comparable and yielded information of questionable usefulness. This Statement provides specific guidance for testing goodwill for impairment. Goodwill will be tested for impairment at least annually using a two-step process that begins with an estimation of the fair value of a reporting unit. The first step is a screen for potential impairment, and the second step measures the amount of impairment, if any. However, if certain criteria are met, the requirement to test goodwill for impairment annually can be satisfied without a remeasurement of the fair value of a reporting unit.

- In addition, this Statement provides specific guidance on testing intangible assets that will not be amortized for impairment and thus removes those intangible assets from the scope of other impairment guidance. Intangible assets that are not amortized will be tested for impairment at least annually by comparing the fair values of those assets with their recorded amounts.

- This Statement requires disclosure of information about goodwill and other intangible assets in the years subsequent to their acquisition that was not previously required. Required disclosures include information about the changes in the carrying amount of goodwill from period to period (in the aggregate and by reportable segment), the carrying amount of intangible assets by major intangible asset class for those assets subject to amortization and for those not subject to amortization, and the estimated intangible asset amortization expense for the next five years.

This Statement carries forward without reconsideration the provisions of Opinion 17 related to the accounting for internally developed intangible assets. This Statement also does not change the requirement to expense the cost of certain acquired research and development assets at the date of acquisition as required by FASB Statement No. 2, *Accounting for Research and Development Costs,* and FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method.*

How the Changes in This Statement Improve Financial Reporting

The changes included in this Statement will improve financial reporting because the financial statements of entities that acquire goodwill and other intangible assets will better reflect the underlying economics of those assets. As a result, financial statement users will be better able to understand the investments made in those assets and the subsequent performance of those investments. The enhanced disclosures about goodwill and intangible assets subsequent to their acquisition also will provide users with a better understanding of the expectations about and changes in those assets over time, thereby improving their ability to assess future profitability and cash flows.

How the Conclusions in This Statement Relate to the Conceptual Framework

The Board concluded that amortization of goodwill was not consistent with the concept of representational faithfulness, as discussed in FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*. The Board concluded that nonamortization of goodwill coupled with impairment testing *is* consistent with that concept. The appropriate balance of both relevance and reliability and costs and benefits also was central to the Board's conclusion that this Statement will improve financial reporting.

This Statement utilizes the guidance in FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements,* for estimating the fair values used in testing both goodwill and other intangible assets that are not being amortized for impairment.

The Effective Date of This Statement

The provisions of this Statement are required to be applied starting with fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not previously been issued. This Statement is required to be applied at the beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date. Impairment losses for goodwill and indefinite-lived intangible assets that arise due to the initial application of this Statement (resulting from a transitional impairment test) are to be reported as resulting from a change in accounting principle.

There are two exceptions to the date at which this Statement becomes effective:

- Goodwill and intangible assets acquired after June 30, 2001, will be subject immediately to the nonamortization and amortization provisions of this Statement.
- The provisions of this Statement will not be applicable to goodwill and other intangible assets arising from combinations between mutual enterprises or to not-for-profit organizations until the Board completes its deliberations with respect to application of the purchase method by those entities.

INTANGIBLE
ASSET
VALUATIONS LLC

Implementing FAS 142

A Guide for Controllers, CFO's and Others in Financial Management

With Specific Focus on Appraisals

December, 2001

Contents

INTANGIBLE
ASSET
VALUATIONS LLC

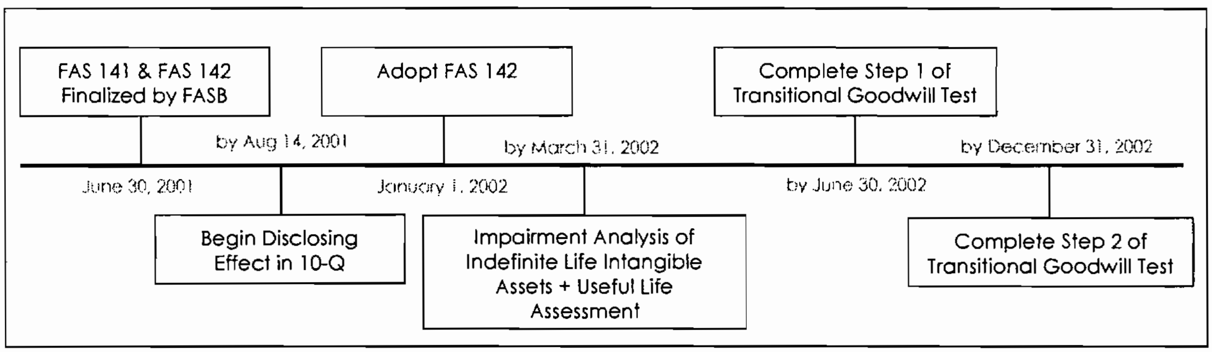
Implementing FAS 142

December, 2001

When fully implemented on January 1, 2002, the FASB's Statement 142 will result in the elimination of goodwill amortization. Implementation of this Statement will also be a momentous nuisance for many finance staffs. The tasks involved in compliance has already forced many CFO's - who could have early adopted FAS 142 - to put it off until next year. However, now is the time to begin the process of implementing FAS 142. This guide was created to provide implementation guidance to controllers, CFO's and other internal finance staff with a specific focus on valuation.

The implementation timeline below illustrates those significant events that company management should remember. However, there are several critical action items that require resource planning and attention now. The action item checklist below highlights the major events required by the new Statement.

Implementation Timeline- (Major Items) for a Calendar Year-End Company



Critical Action Check List - for FAS 142

- ❑ Identify reporting units.. see Par. 30-31 FAS 142[1]
- ❑ Allocate corporate assets & liabilities and goodwill to reporting units..................... Par. 32-35 & 54 FAS 142
- ❑ Adopt FAS 142
- ❑ Reassess the remaining useful lives of intangible assets by end of Q1 2002......................... Par. 53 FAS 142
- ❑ Reclassify intangible assets that don't meet recognition criteria............................... Par. 49 a&b FAS 142
- ❑ Perform transitional impairment test.. Par. 54-58 FAS 142
- ❑ If impairment is indicated, perform allocation appraisal of reporting unit(s).................... Par. 55-56 FAS 142
- ❑ Consider these new rules when structuring acquisitions

What is a Reporting Unit?

The reporting unit is possibly the most debated – and despised – element of implementation. Commonly referred to as "131 minus 1", a reporting unit is considered by FASB to be an operating segment or one level below an operating segment (referred to as a component). The FASB suggests that reporting units should be determined based on "*the organizational structure that the company has in place at the transition date.*"[2] The debate lies in determining if a component is to be treated as a reporting unit for impairment testing. In fact, the FASB staff held

1 See also *Proposed FASB Staff Announcement*, clarification of reporting unit guidance in paragraph 30 of FAS 142.
2 Source: *Statement of Financial Accounting Standards No. 142*, paragraph 30.

follow-on meetings in October 2001 to discuss the reporting unit guidance in paragraph 30 of FAS 142 as a result of the many inquiries about the subject - and has released a proposed staff announcement. The Emerging Issues Task Force (EITF) is scheduled to discuss the subject at its November 15, 2001 meeting. Reporting units are despised because of the labor involved in allocating assets and liabilities to these levels.

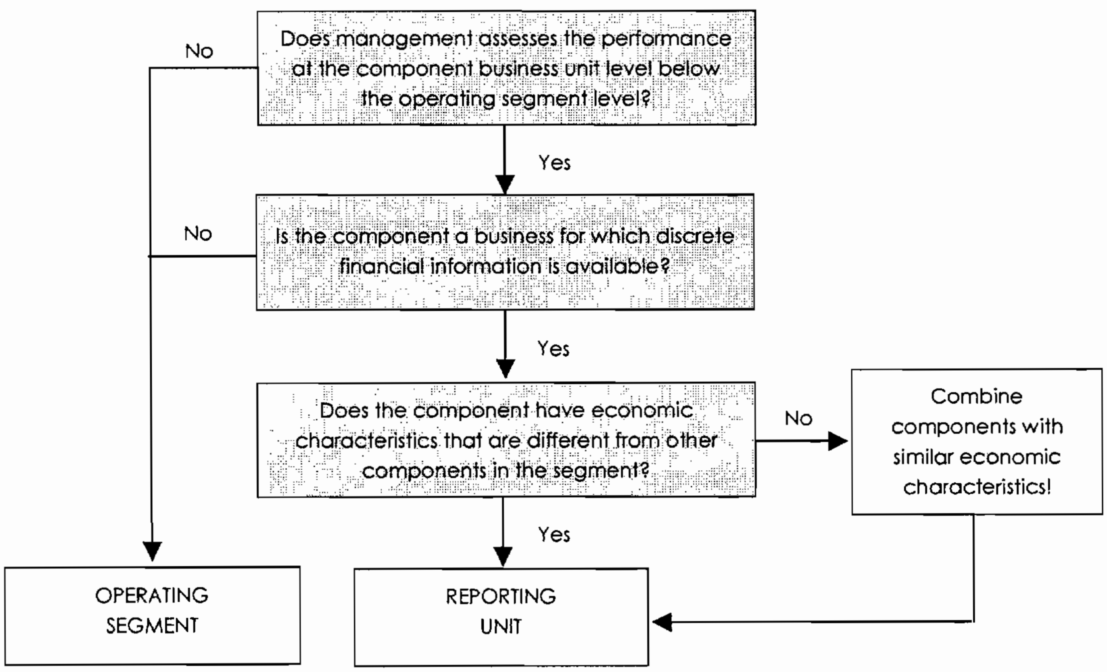
Components

A reporting unit is a component business unit if discrete financial information exists (determined to be only a P&L by FASB) and their economic characteristics are dissimilar, among other things (see the reporting unit decision guide below). There appears to be some room for interpretation here: the proposed staff announcement states that, *"determining whether a component of an operating segment is a reporting unit is a matter of judgment based on an entity's individual facts and circumstance,"* and, *"the assessment should be more qualitative than quantitative."* Three characteristics that must be present for a component to be considered a reporting unit are:

1. The component constitutes a business[3]
2. Discrete financial information is available[4]
3. The component's performance is reviewed by segment management[5]

Also, the fact that a component extensively shares assets and other resources with other components of the operating segment may be an indication that the component either is not a business or may be economically similar to those other components.[6]

Reporting Unit Decision Guide – for Components[7]



3 EITF Issue No 98-3 includes guidance on determining whether an asset group constitutes a business. Also see the *Proposed FASB Staff Announcement* which clarifies the reporting unit guidance of paragraph 30 of FAS 142.

4 The *Proposed FASB Staff Announcement* (on paragraph 30 of FAS 142) states that, "the term discrete financial information should be applied in the same manner as it is in determining operating segments in accordance with paragraph 10 of Statement 131. Discrete financial information can constitute as little as operating information.

5 Segment management consists of one or more segment managers, as the term is defined in paragraph 14 of Statement 131. Also see the *Proposed FASB Staff Announcement* (on paragraph 30 of FAS 142).

6 Source: *Proposed FASB Staff Announcement*, which clarifies the reporting unit guidance of paragraph 30 of FAS 142

7 Source: KPMG Consulting, Valuation Services Practice, *Get the Goods on Goodwill* teleconference material, September 5, 2001

AN EXAMPLE

The following international computer technology company sells both hardware products (mostly servers & routers) and software products. As illustrated in the organizational chart below, the company's reportable segments are partitioned into Hardware, Software and All Other. The All Other segment includes the company's international operations and its professional services business.

Two years ago, the company acquired a mainframe entity with the intention of entering the mainframe market in order to serve Eastern US clients who had no intention of transitioning from their mainframe computer technology to an open server-type technology. After reviewing the company's organizational structure and existing guidance, management determined that the segments, components and reporting units were as follows:

The operating segments:

Western US	Corporate	International
Eastern US	Small Business	Prof. Services

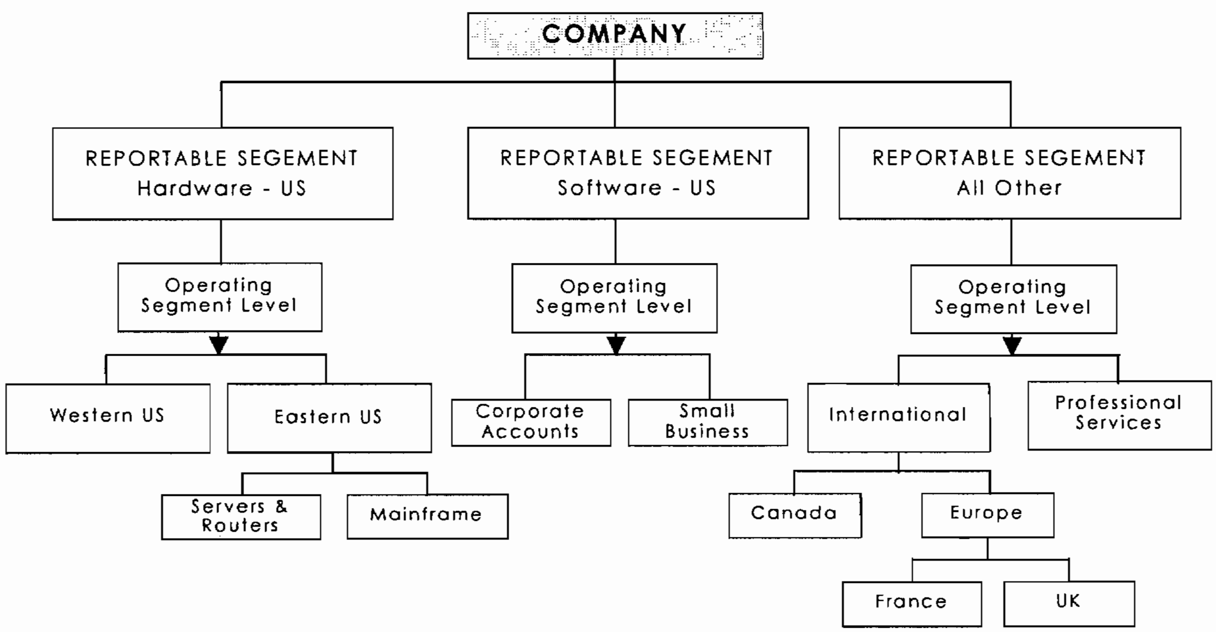
The component level consists of:

Servers/Routers	Canada
Mainframes	Europe

The reporting units, highlighted in yellow, were determined to be:

Western US	Corporate	Prof. Services
Servers/Routers	Small Business	Canada
Mainframe		Europe

Because the Servers/Routers and Mainframe components in the Eastern US operating segment did not have similar economic characteristics, they were judged to be reporting units. It was also determined that the Canada and Europe components of the International operating segment had dissimilar economic characteristics and met the other criteria for component recognition. France and UK are 2 levels below the operating segment level - not the one level below described in FAS 142 - so should not be considered.



How Do I Allocate Goodwill to Reporting Units?

For purposes of testing goodwill for impairment, paragraph 34 of FAS 142 states, *"all goodwill acquired in a business combination shall be assigned to one or more reporting units as of the acquisition date. Goodwill shall be assigned to reporting units of the acquiring entity that are expected to benefit form the synergies of the combination even though other assets or liabilities of the acquired entity may not be assigned to that reporting unit."* Management should also refer to paragraph 54 of FAS 142 when allocating goodwill.

FAS 142 further states that the methodology that you utilize in allocating goodwill must be "*reasonable and supportable*" and it must be applied in a "*consistent manner*." A company should assign goodwill to its reporting units based on the sources of previously recognized goodwill, as well as the reporting units to which the related acquired net assets were assigned. Management's expectations about which reporting units would benefit from the synergies of the acquired businesses should also be considered.

While such an approach appears reasonable for business segments that have remained fairly well segmented since acquisition, the process becomes more complicated when previously acquired businesses have been fully integrated into the acquiring entity....what then?

Goodwill Allocation Methods

Several methods have been suggested for resolving a challenging goodwill allocation problem.[8] First, consider that the Board observed that if some portion of goodwill is deemed to relate to the entity as a whole, that portion of goodwill should be assigned to all of the reporting units of the entity in a....you guessed it, "*reasonable and supportable*" manner. And, remember that FAS 142 also requires that the amount of goodwill in each segment be disclosed in the notes to the financial statements. Several pro-rata allocation methods may suffice in meeting this criteria.

1. Allocate Based on Net Tangible Assets
2. Allocate Using an Estimate of Fair Value
3. Allocate on the Basis of Implied Goodwill
4. Allocate using Acquired Net Assets as a Basis

1. Net Tangible Assets Method – This method assumes that entity-level assets and liabilities have already been allocated to reporting units and certain corporate accounts. The resulting net tangible asset amounts, (current + fixed assets less total liabilities) are then compared to the total entity amount; goodwill is then allocated on a pro-rata basis.

Net Tangible Asset GW Allocation	*Total Entity*	*Reporting Unit 1*	*Reporting Unit 2*	*Corporate*
Total Current Assets	2,500	1,300	1,050	150
Net Fixed Assets	10,000	7,500	2,500	-
Goodwill	**4,000**	?	?	n/a
Total Assets......................................	16,500			150
Total Current Liabilities	1,500	500	900	100
LT Debt	4,000	2,500	1,500	-
Total Liabilities.................................	5,500	3,000	2,400	100
Shareholders' Equity..........................	11,000	-	-	50
Total Liabilities & Equity.....................	16,500	-	-	150
Net Tangible Assets...........................	7,000	5,800	1,150	50
Percent of Total Entity...		*83%*	*16%*	*1%*
Goodwill Allocation Result.................	**n/a**	**3,334**	**665**	**n/a**

8 Mercer Capital has created an outstanding article, *Goodwill Hunting*, which is to appear in the January/February, 2002 issue of *Valuation Strategies*. This article is the source of many of the goodwill allocation methods described in this report.

2. Fair Value Estimate Method – An estimate of fair value – perhaps using an earnings multiple derived from each reporting unit's growth rate and required return – could yield another relative estimate of the goodwill assignable to each reporting unit. Such an approach would require a determination of the reporting units' profit margins. The Gordon Growth Model is useful here as a means of determining a viable capitalization rate.[9]

Gordon Growth Model

Value = CF/(k-g)

where: *CF* = Expected Cash Flow
k = company's discount rate
g = company's long-term growth rate

Estimated Fair Value GW Allocation	*Total Entity*	*Reporting Unit 1*	*Reporting Unit 2*
Sales	25,000	15,000	10,000
Net Income	2,525	1,700	825
Net Cash Flow..................................	2,075	1,438	638
CF % of Sales	*8%*	*10%*	*6%*
Fair Value Calulation (GGM)			
Required Return..		20.0%	18.0%
Expected LT Growth Rate..		5.0%	3.5%
Capitalization Rate (k-g)		15%	15%
Debt Free Net Cash Flow		1,438	638
Estimated Fair Value...		**9,583**	**4,397**
Goodwill Allocation Result.................	**n/a**	**2,742**	**1,258**

3. Implied Goodwill Method – This method uses the conclusions from the two previous methods and assumes that the fair value of a reporting unit less its identified net assets roughly equates to the implied fair value of the reporting unit's goodwill. Reporting unit goodwill amounts are then allocated on a pro-rata basis.

4. Net Acquired Assets Basis – If management can estimate the percentages allocated to reporting units at the time of acquisition, these could be applied to the enterprise-level goodwill amount.

Goodwill Allocation Considerations

The selection of the allocation method could significantly impact the likelihood and extent of future impairment charges. Large amounts of assigned goodwill will probably portend future impairment charges in the event of deteriorating business conditions in a reporting unit.

While the new Statements, and accounting concepts in general, do not allow for the step up of goodwill value, it is possible that companies will effectively capitalize internally generated goodwill. This is possible if a reporting unit performs beyond its fair value expectations, therefore providing more of a cushion against future impairment charges.

In short, how a company determines its reporting units and allocates its enterprise-level goodwill to those reporting units will likely determine future impairment.

[9] Care should be taken in the use of the Market Approach, including development of the required return and expected growth rates for reporting units. The Capital Asset Pricing Model (CAPM) is one tool that could be used when determining a reporting unit's Weighted Average Cost of Capital. The Market Approach to business valuation, including the Gordon Growth Model, rates of return and the use of capitalization rates can be reviewed in *Valuing a Business. The Analysis and Appraisal of Closely Held Companies*. Shannon Pratt, Robert Reilly, Robert Schweihs. 3rd Edition, 1996.

Reassessing the Remaining Useful Lives of Intangible Assets

The useful lives of previously recognized intangible assets must be reassessed *"prior to the first interim period of the fiscal year in which [FAS 142] is initially applied."*[10] This is the point where you must determine if certain of your long-lived acquired intangible assets – tradename with a 40 year life, for example – can be judged to have indefinite lives. Those acquired intangible assets with indefinite lives must undergo impairment testing as of the beginning of the fiscal year – this test must be completed by the end of the first quarter (for a calendar year-end company).

Guidance for Determining Intangible Asset Useful Lives

FAS 142 suggests that the useful life of an intangible asset is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of the entity. Paragraph 11of FAS 142 includes several factors that management should review during this step of implementation. Also see Appendix A (of FAS 142) for intangible useful life and accounting examples and see Appendix B, paragraphs B44 through B48.[11]

In addition to the guidance provided by FAS 142, valuation methods exist that can assist in determining the life estimate of intangible assets. These methods range from rigorous analytical approaches called survivor curve analysis to a form of qualitative life cycle analysis. In all cases, an informed judgment must be made that considers a number of factors or 'determinants'.

Valuing Intangible Assets by Reilly & Schwiehs[12] describes eight determinants of the useful life of intangible assets. Reilly & Schwiehs suggest that the appraiser consider the following table when developing useful life conclusions.

Life Determinant	Information Required	Nature of Analysis
Legal	Document	Definite (but consider externalities)
Contractual	Document	Definite ""
Judicial	Document	Definite ""
Physical	Engineering / Experience	Qualitative
Technological	Engineering / Technical	Qualitative
Functional	Engineering / Professional	Qualitative
Economic	Engineering / Economic	Quantitative
Analytical	Age Data	Quantitative

In order to qualify as indefinite lived, an asset should have a relatively stable cash flow forecast and a history of stable cash flows. Other support could include having a low risk of obsolescence and having been on the market for a significant period of time.

A Word of Caution

The current useful life of an intangible asset can impact whether the asset qualifies as an indefinite-lived intangible. It may not be a surprise if some attempts are made to change the useful life of a previously acquired customer list from 5 years to indefinite. Such determinations are fraught with danger of review and restatement...be wary. Also be prepared to justify your intangible asset life determinations with sound evidence and plenty of documentation.

10 *Statement of Financial Accounting Standards No. 142*, paragraphs 11 and 53.

11 Paragraph 11 of FAS 142 states that if no legal, regulatory, contractual, competitive, economic or other factors limit the useful life of an intangible asset to the reporting entity, the useful life of the asset shall be considered to be indefinite. Indefinite does not mean infinite, but instead suggests that there is an assumption that the life of the asset will someday become determinable (finite).

12 Reilly, Robert F./ Robert P. Schweihs. *Valuing Intangible Assets*, McGraw-Hill, 1999, Chapter 11.

Reclassifying Previously Recognized Acquired Intangibles

FAS 142 also requires that entities review their previously recognized intangible assets in light of the new recognition criteria in paragraph 39 of FAS 141. To date, the FASB has determined that workforce in-place does not meet the criteria. The carrying amount of these acquired intangibles must be reclassified as goodwill as of the date that FAS 142 is applied.

Paragraph 61b

Paragraph 61b of FAS 142 states that if a portion of a previous purchase price had been assigned to intangibles - but reported in aggregate as goodwill - and meets the recognition criteria, those intangible assets must be reclassified and accounted for as an asset apart from goodwill as of the date that FAS 142 is applied. There has been some confusion about this point: many have wondered if previously unrecognized separate intangibles would require a retroactive appraisal and recognition.

Confusion has resulted from an August 16, 2001 letter issued by the former Chief Accountant of the SEC. That letter calls for retroactive recognition of a banks core deposit intangibles (CDI). The question: will the SEC broaden its CDI directive to other unrecognized intangibles! In response to the SEC letter, the FASB staff outlined what it believed to be the Board's intent with respect to the transition provisions of paragraph 61. Intangible assets identified in the purchase price allocation and combined into a single general ledger account (goodwill) - at the date the business combination was recorded - and amortized using a composite useful life, may not qualify for disaggregation. It is best to consult your auditor on this issue. Also, see the SEC Comment section at the end of this report for more information on this subject.

Recognition Criteria

FAS 141 outlines the new recognition criteria for separately recognized criteria. This guidance should be used when reclassifying previously acquired intangible assets. The recognition criteria are:

1. Contractual or Legal Rights
2. Separable – capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged (regardless of whether there is an intent to do so)

As the diagram below illustrates, separability triggers recognition regardless of the results from the contractual or legal right test.

		Contractual or Other Legal Right?	
		Yes	No
Asset Separable from Goodwill?	Yes	Identifiable Intangible Asset	Identifiable Intangible Asset
	No	Identifiable Intangible Asset	Subsume into Goodwill

Impairment Testing of Indefinite-Lived Intangible Assets

After the entity has disaggregated its previously acquired intangible assets between those that are indefinite-lived and those that are finite-lived, it must determine the proper accounting treatment for each type of intangible asset. See the chart below.

Indefinite-Lived Intangibles

If an intangible asset is determined to have an indefinite useful life, it is not amortized until its useful life is determined to be no longer indefinite. Further, the company must evaluate the remaining useful life of such assets to determine whether events and circumstances continue to support an indefinite life.

Also, indefinite-lived intangible assets must be tested for impairment annually (at the beginning of the fiscal year in which FAS 142 is applied) or more frequently if events or changes in circumstances indicate that the asset might be impaired. This test will consist of a comparison of the fair value of an intangible asset with its carrying amount.

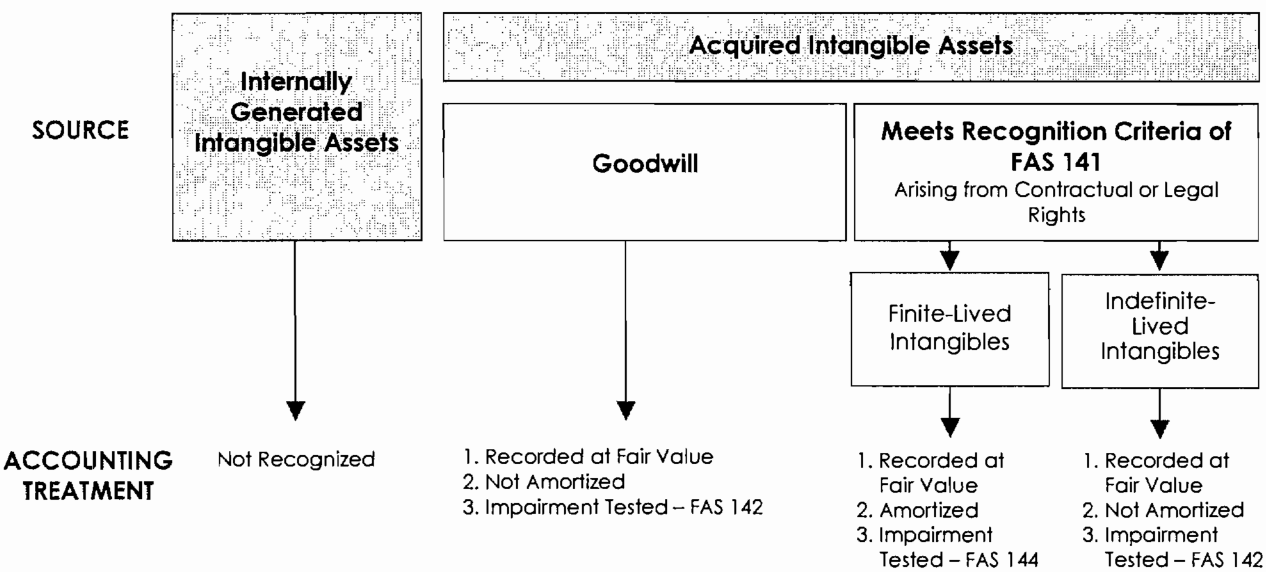
Finite-Lived Intangibles

These assets are not subject to the transitional impairment-testing provisions of FAS 142. Instead, they must be tested for impairment using FAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

An example: Consider a previously acquired customer list that has an 18-month useful life. Suppose that FAS 142 is applied six months after the acquisition which gave rise to the recognition of the customer list. Company management must perform the following steps in the first quarter after implementing FAS 142:

1. Re-assess the remaining useful life of the customer list
2. Reclassify to goodwill if customer list does not meet FAS 142's recognition criteria
3. Impairment test the customer list using FAS 144 – assuming that the list is determined to have a finite life[13]

In assessing the remaining useful life of the intangible asset, management must consider what FASB calls the 'closed-group notion.' Although the acquiring company may intend to add customer names to the acquired list for the foreseeable future after the acquisition, the expected benefits of the list relate only to the customers on that list at the date of acquisition. In this example, it is possible that the customers on the list have all 'turned-over' to another competing company, perhaps resulting in a subsequent write-off of the remaining carrying value of the customer list. Alternatively, the listing (as it existed at acquisition) may have experienced less turn-over than was anticipated originally, perhaps resulting in an extended remaining useful life – an additional 18 months perhaps.



A Not-So-Unique Situation

We have seen situations where a finite-lived intangible asset is part of a reporting unit – the reporting unit shows preliminary signs of impairment. The first question that arises is: If the reporting unit is likely impaired, then is the finite-lived intangible asset also impaired? The answer is that it depends on impairment indicators described in FAS 121/144. The second question then is: What implications, if any, exist in the event that the FAS 121/144 impairment test results in a different value than the FAS 142 step 2 appraisal of the intangible.[14]

13 This assumes that 12-31 companies will also have impairment tested all intangible assets as prior to 1/01/02.

14 Recall that step 2 of the goodwill impairment test requires that an entity perform a purchase allocation-like exercise of the reporting unit, which requires that the fair value of the reporting unit be allocated to all of the assets and liabilities of that reporting unit. Therefore, the finite-lived intangible asset in this example would require an appraisal during the step 2 evaluation. A difference in values could arise if the appraisals were conducted by different persons – internal management for the FAS 121/144 test and an independent appraiser for the FAS 142 test.

All finite-lived intangibles that show impairment will likely be tested and adjusted as a part of year-end adjustments – and therefore, before implementation of FAS 142. Step 2 appraisals of intangible assets are to be used only for determining the implied fair value of goodwill, not for adjusting the book values of any assets or liabilities. It is possible that the revised book value of FAS 121/144 reviewed finite-lived intangible assets could be used in the FAS 142 test, since the presumption is that FAS 121/141 results equal fair value. In this situation, a second - FAS 142 - appraisal of that particular asset might not be necessary.

The 'closed-group notion' must be considered here. For example, assume that the customer list noted earlier has been determined to be impaired and is subsequently written-down to a new book value. Also suppose that the reporting unit has internally developed another customer list since the acquisition that gave rise to the first list. This internally developed customer list will require recognition and appraisal as part of the step 2 goodwill impairment test, but it will not be reported.

This process could become complex if the intangible in question is developed technology, and very complex if the reporting unit has internally generated any IPR&D. As always, such a condition must consider the facts and circumstances existing at the time.

Goodwill Impairment Testing

The Nature of Goodwill – The FASB's Perspective

As this step in your implementation process is probably the most intense, it is useful to reflect on the FASB's basis for concluding that goodwill be tested for impairment. The Board, and many others, observed that the useful life of goodwill cannot be predicted with a satisfactory level of reliability and the pattern in which goodwill diminishes cannot be clearly forecasted. Also, it was acknowledged that not all goodwill declines in value and that goodwill that does decline in value rarely does so on a straight-line basis. The Board concluded that this amortization method does not reflect economic reality and thus does not provide useful information.

The goodwill impairment testing model assumes that a portion of what is recognized as goodwill (a purchase premium) may have an indefinite useful life that could last as long as the business is considered a going concern. However, there is most likely a portion of goodwill that might have a finite life. In addition, the Board concluded that it is appropriate to assume that acquired goodwill is being replaced by internally generated goodwill provided that an entity is able to maintain the overall value of goodwill.

The Board considered testing goodwill for impairment at the entity level, but concluded that synergies occur below the combined entity level and that management is often held accountable for acquisitions at a lower level – thus the reporting unit level impairment test was chosen. Finally, the Board decided that an impairment test is adequate for measuring aggregate goodwill (not just acquired) and that nonamortization of goodwill coupled with a fair-value-based impairment test would result in more representationally faithful and decision-useful financial information.

The Two-Step Transitional Impairment Test

The methodology for testing goodwill for impairment has evolved since the FASB's Exposure Draft was released in February 2001. Impairment is a condition that exists when the carrying amount of goodwill exceeds its implied fair value. Testing goodwill for impairment involves two steps; the first is mandatory, while the second is conditional on failure of the first.

Step 1: <u>*A Reporting Unit's Fair Value*</u>

Determine the fair value and the carrying amount of the reporting unit, and then compare the two. First, determine which non-goodwill assets and liabilities constitute the reporting unit's carrying amount by building a balance sheet for the reporting unit. This balance sheet should include the company's recognized assets (including goodwill) and liabilities that relate to the reporting unit's operations and that a willing buyer would acquire if it bought the reporting unit.

Second, identify the methods for determining the fair value of the reporting unit. The FASB has not established rigid guidance for valuation methodologies. The method for determining fair value of a reporting unit should be consistent with the methodology used by the entity in the transaction giving rise to the goodwill. This is likely to be some sort of discounted cash flow exercise. A market approach – involving the use of market multiples – is also viable, in certain circumstances, for fair value measurements.

Step 2: *The Implied Fair Value of Goodwill*

If the fair value of the reporting unit is less than its carrying amount, impairment is indicated and the company must "drill down" to the goodwill amounts, comparing the implied fair value of goodwill with the carrying amount of that goodwill.

At this point, the entity is required to perform a purchase price allocation of the reporting unit. This exercise will serve to determine how much of the fair value of the entire reporting unit relates to its individual assets and liabilities and how much represents the implied fair value of goodwill.

The Reporting Unit's Fair Value – Step One

What is Fair Value?

Paragraphs 23 through 25 of FAS 142 discuss fair value measurements. The Standard defines fair value as:

> *"The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale."*

So then, the fair value of a reporting unit is the amount that the unit could be sold in a current transaction between willing parties. For a business appraiser, such a definition raises more questions than it answers. For example, while the statement explicitly precludes the consideration of negative compulsion, does the FASB intend to also exclude positive compulsion? In short, negative compulsion refers to the motivation of the buyer; forced or liquidation scenario – while positive compulsion signifies return potential to a 'specific' buyer.[15]

The issue is important because if the FASB's definition does allow for positive compulsion, then it could be argued that such a definition resembles that of synergistic or strategic control value, as that term is used - and applied - in business valuation.[16] This conclusion, in turn, means that management's budgets and plans are likely equivalent to such a control value. It also implies that additional control premiums should not be applied to DCF results. One fall out of the argument, if accepted in practice, is that the projections used in both reporting unit fair value assessments and purchase allocation appraisals will not require the 'adjusting out' of synergies to comply with Fair Market Value[17]. At the moment, this matter is perhaps too subtle for considerable debate, but it is an issue that deserves mention here. All of the appraisers that we've contacted intend to continue excluding synergies from intangible asset projections and follow the fair market value standard in purchase allocation appraisals.

FAS 142 also suggests a hierarchy of fair value measurement methods, stating that quoted market prices in active markets are the best measure of fair value.[18] If such prices are not available (and for multiple-reporting-unit entities, it is most definitely not available) then prices for similar assets should be considered – this is considered to be the Cost Approach in business valuation. If similar asset prices are not available (they most likely won't be), then a present value technique – the Income Approach - should be used.

The table below contains guidance, from the FASB and the SEC, on application of the present value technique for measuring the fair value of a reporting unit.

15 Source: *Goodwill Hunting*, Mercer Capital, 2001.

16 For more information on the subject of standards of value, see *Valuing a Business, The Analysis and Appraisal of Closely Held Companies*. Shannon Pratt, Robert Reilly, Robert Schweihs, 3rd Edition, 1996.

17 The American Society of Appraisers, in its *Business Valuation Standards – Definitions* considers Fair Market Value to be "the amount at which property would change hands between a willing seller and a willing buyer when neither is acting under compulsion and when both have reasonable knowledge of the relevant facts."

18 The Board does acknowledge that individual equity securities (a marketable minority interest) may not represent the fair value of the reporting unit as a whole because such an interest lacks the control that the buyer of a reporting unit would have. In other words, the control premium may cause the fair value of a reporting unit to exceed its market capitalization. FAS 142, page 9, Footnote 16.

Present Value Techniques - Requirements & Guidance for Developing Cash Flow Estimates

Specific Guidance	Source	Suggested Actions
Estimates of future cash flows shall be consistent with the objectives of measuring fair value.	FAS 142	Check for consistency with the five elements in paragraph 23 of Concept Statement 7.[19]
The cash flow estimates shall incorporate assumptions that marketplace participants would use in their estimates of fair value, or,	FAS 142	Determine the cost-benefit of researching P&L assumptions of others in the industry – seek out analyst reports.
The company can use its own estimates if marketplace participant data is not available "without undue cost and effort."	FAS 142	We suggest a combination of both internal estimates and analyst report estimates.
Shall be based on reasonable and supportable assumptions and shall consider all available evidence.	FAS 142	Review reporting unit budgets or plans and compare to industry trends. Review projections that supported initial acquisition and explain variance. Gather and assess documentation.
A range can be estimated and the likelihood of possible outcomes shall be considered – reference Concept Statement 7.	FAS 142, CON 7	Reference Concept Statement No. 7.
Multiples may be used if the technique is consistent with the objective of measuring fair value.	FAS 142	FAS 142: "Comparable operations and economic characteristics is observable and the relevant multiples of the comparable entity are known." Use multiples only with other techniques.
SEC staff will challenge cash flow assumptions that are inconsistent with other cash flow assumptions used for internal budgeting and forecasting, BOD reports, external reports etc.	SEC	Explain cash flow variances between the sources as a routine part of FAS 142 testing. Keep documentation of such.
SEC staff will also challenge cash flow projections which extend for an unreasonably long period.	SEC	We recommend that you be prepared to justify DCF analysis' that extend beyond 5-7 years.
SEC staff will also challenge the use of trend rates that are inconsistent with historical and budgeted trend rates and those projections for the industry and product lines.	SEC	Again, be prepared to justify any such variances if they occur. Consider historical trend rates from comparable companies. Reference you budgets and plans.

19 Paragraph 23 of Concept Statement 7 describes these five elements as: 1) an estimate of the future cash flow, or in more complex cases, series of future cash flows at different times; 2) expectations about possible variations in the amount or timing of those cash flows; 3) the time value of money, represented by the risk-free rate of interest; 4) the price for bearing the uncertainty inherent in the asset or liability; and 5) other, sometimes unidentifiable, factors including liquidity and market imperfections.

Reporting Unit Fair Value Example – Step One

The FASB is not prescriptive with respect to particular valuation methodologies because one valuation method can't encompass all entities or circumstances. Recall that step one requires that the company determine the carrying amount and fair value of the reporting unit, and then compare the two results. The DCF and balance sheet example below provides one suggested method for determining a reporting unit's fair value.

Assume that the net-tangible-asset methodology, discussed previously, was used to allocate enterprise goodwill to the two reporting units at approximately 83% for unit 1 and 17% for unit 2. Note below that reporting unit 1 indicates impairment, while unit 2 does not; thus, step 2 is required to be performed only for reporting unit 1.

Net Tangible Asset GW Allocation	*Total Entity*	*Reporting Unit 1*	*Reporting Unit 2*	*Corporate*
Total Current Assets	2,500	1,300	1,050	150
Net Fixed Assets	10,000	7,500	2,500	-
Goodwill	4,000	3,334	665	n/a
Total Assets...	16,500	12,134	4,215	150
Total Current Liabilities	1,500	500	900	100
LT Debt	4,000	2,500	1,500	-
Total Liabilities..	5,500	3,000	2,400	100
Shareholders' Equity..................................	11,000	9,134	1,815	50
Total Liabilities & Equity............................	16,500	12,134	4,215	150

Reporting Unit 1 Fair Value (DCF Method)	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*
Revenue	15,000	17,250	19,838	21,821	24,003
Cost of revenue	9,000	10,350	10,911	12,002	13,202
Gross margin	6,000	6,900	8,927	9,820	10,802
Operating expenses	3,000	2,243	2,976	2,837	3,120
Operating income (EBIT)	3,000	4,658	5,951	6,983	7,681
Interest expense	250	250	250	250	250
Income tax expense	1,050	1,630	2,083	2,444	2,688
Net income...	1,700	2,777	3,618	4,289	4,743
Calculation of Net Cash Flow to Invested Capital					
Net income	1,700	2,777	3,618	4,289	4,743
+Depreciation	100	90	80	70	60
- Capital Expenditures	200	180	160	100	50
+ Increase in Working Capital	200	180	170	150	100
+ Interest Expense (net of tax)	163	163	163	163	163
Cash flow adjustments	263	253	253	283	273
Net Cash Flow to Invested Capital................	1,438	2,525	3,366	4,006	4,470
Discount Rate	*20%*				
Present value of cash flows..........................	8,628				
- Interest Bearing Debt	2,500				
Fair Value of Reporting Unit 1.........................	**6,128**				

Example Continued on Next Page........................

Reporting Unit 2 Fair Value (DCF Method)	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*
Revenue	10,000	11,000	12,100	12,705	13,340
Cost of revenue	6,500	7,150	7,260	6,988	7,337
Gross margin	3,500	3,850	4,840	5,717	6,003
Operating expenses	2,000	1,980	2,178	1,906	2,001
Operating income (EBIT)	1,500	1,870	2,662	3,812	4,002
Interest expense	150	150	150	150	150
Income tax expense	525	655	932	1,334	1,401
Net Income	825	1,066	1,580	2,327	2,451
Calculation of Net Cash Flow to Invested Capital					
Net income	825	1,066	1,580	2,327	2,451
+Depreciation	40	35	30	25	20
- Capital Expenditures	50	45	45	40	25
+ Increase in Working Capital	100	95	95	80	60
+ Interest Expense (net of tax)	98	98	98	98	98
Cash flow adjustments	188	183	178	163	153
Net Cash Flow to Invested Capital	638	883	1,403	2,165	2,299
Discount Rate	*18%*				
Present value of cash flows	4,150				
- Interest Bearing Debt	1,500				
Fair Value of Reporting Unit 2	**2,650**				

STEP ONE GOODWILL IMPAIRMENT TESTING RESULTS	*Reporting Unit 1*	*Reporting Unit 2*
Carrying Value of Reporting Units	9,134	1,815
Fair Value of Reporting Units	6,128	2,650
Difference	**(3,007)**	**835**

The Implied Fair Value of Goodwill – Step Two

For step 2 of the impairment test, the implied fair value of the reporting unit's goodwill is compared to the book value of the reporting unit's goodwill. In determining the implied fair value of goodwill, the fair values of the reporting unit's individual assets and liabilities are needed to determine how much of the fair value of the entire reporting unit relates to those items and to the reporting unit's goodwill. This goodwill allocation method follows the steps involved in a purchase price allocation, including the appropriate recognition and appraisal of the reporting unit's intangible assets – both previously acquired and internally generated.

Intangible assets will be measured (at fair value) for step 2 testing purposes. FAS 142, paragraph 21 states that, "an entity shall not write up or write down a recognized asset or liability, nor should it recognize a previously unrecognized intangible asset as a result of that allocation process.[20]"

The schedule below summarizes the results of step 2 testing for reporting unit 1, an impairment of 2,207 - which is also considered the write-down amount of the unit's goodwill.

Implied Fair Value of Goodwill - Reporting Unit 1

Fair Value of reporting unit	6,128
less fair value of tangible net assets	(4,500)
less fair value of intangible assets	(500)
Implied fair value of goodwill	1,128
less BV of goodwill	(3,334)
Goodwill Impairment Loss	(2,207)

20 See the *Recent SEC Comment* section of this report for additional information regarding the recognition of previously unrecognized intangible assets.

The process of determining the implied fair value of goodwill involves considerable analysis and may overwhelm the abilities of most internal finance organizations. Consider that such a determination requires a purchase allocation appraisal of the impaired reporting unit, including value opinions for all of the reporting unit's intangible assets.

The Timing of Impairment Testing

The assessment of fair value must be measured as of January 1, 2002 (for calendar year-end companies). This means that a company that postpones the step 2 goodwill impairment measurement until...say November of 2002 will be required to measure fair value from market, risk, rate and growth assumptions that are 11 months old.

Also consider that both the FASB and many investor relations firms are encouraging companies to disclose the results of their tests - and any write-downs associated with it - in the first quarter following adoption. Although the rules allow companies to measure the impairment charge within the first year as a change in accounting, companies that recognize those charges after the first quarter of adoption will have to restate their financial statements for preceding quarters. In the period that a goodwill impairment charge is taken, companies are required to disclose the business unit that has taken the loss, the amount of the loss, and the remaining goodwill balance.

Recent SEC Comments

As noted previously, an August 16, 2001 letter from the Securities and Exchange Commission ("SEC") to the EITF requested the EITF consider addressing certain issues with respect to the implementation of FAS 141 and FAS 142. A response and additional guidance was provided by the FASB in the form staff announcements. The issues raised in the SEC letter include:

1. Determination of Fair Value – The SEC requested further guidance on how to measure fair value when quoted market prices are not available, including maximum years for cash flow analysis, guidance on selecting a terminal growth rate and interest rates to be used. The Staff expressed concern that the setting of arbitrary limits in projecting cash flows would conflict with the objectives of estimating fair value as discussed in FASB Concept Statement 7.

   The SEC did state, however that the staff (at the SEC) will continue to challenge the following three practices:

   - Cash flow assumptions that are inconsistent with other cash flow assumptions used for internal budgeting and forecasting, presentation to the company management and the Board of Directors, presentations to lenders in conjunction with obtaining financing, and shared with analysts and others outside the company.
   - Cash flow projections which extend for an unreasonably long period, and
   - The use of trend rates in fair value measurements that are inconsistent with historical and budgeted trend rates, and those projected for the industry and product lines.

2. Recognition of a Control Premium – FAS 141 and 142 both suggest that the market price of an individual share of publicly traded stock may not be representative of the fair value of the reporting unit as a whole. The related footnote discussion in SFAS No. 142 emphasizes that an acquiring entity often is willing to pay more for shares that give it a controlling interest than an investor would pay for a nominal number of shares and, as a consequence, such a "control premium" may cause the fair value of the reporting unit to exceed its market capitalization. At the same time, others have argued a "blockage" discount is appropriate.

   The SEC appears suspicious of control premiums and blockage discounts, stating that, "If a price other than the market price is used to determine the fair value of the reporting unit as a whole, which the staff believes will be rare, registrants will be required to have contemporaneously created documentation clearly supporting any deviation from the market price, and the basis for concluding the market price is incorrect. Auditors will be expected to have audited this information." The FASB staff appears to concur and suggested that additional guidance is forthcoming as a result of an AcSEC project.

3. FAS 142 Transitional Issue: Subsuming Intangible Assets Into Goodwill – Paragraph 61a of FAS 141 indicates that previously recognized intangible assets that do not meet the criteria in paragraph 39 should be reclassified to goodwill as of the date FAS 142 is adopted. The SEC staff believes that the only previously recognized intangible asset that has been brought to its attention for which such treatment is appropriate is workforce-in-place.

4. FAS 142 Transitional Issue: Intangibles Previously Included in Goodwill – Paragraph 61b. of FAS 141 indicates that if a portion of the purchase price had been assigned to an intangible asset that meets one of the criteria in paragraph 39 and that intangible asset was included in the amount displayed as goodwill for financial reporting purposes, the carrying value of that identifiable asset shall be reclassified and reported separately from goodwill as of the date FAS 142 is adopted.

   The SEC staff has expressed its views relative to core deposit intangibles (CDI) acquired as a result of the acquisition of a banking or thrift institution, in short, requiring financial institutions to retroactively recognize CDI's that were not properly separated under APB 16.

   THE CONCERN: Will the SEC extend such treatment to other intangibles that were not historically recognized! In response to this SEC comment, the FASB staff outlined what it believed to be the Board's intent with respect to the transition provisions of paragraph 61b. Specifically, the staff outlined three criteria that it believed to be consistent with that guidance. These criteria are:

   i. The asset meets the recognition criteria in paragraph 39 of FAS 141,
   ii. The asset has been assigned an amount equal to its measured fair value at the date that the business combination was initially recorded, and
   iii. Separate general ledger or other accounting records have been maintained for the asset. At issue, however, was the meaning of the phrases "assigned to" and "accounting records have been maintained."

   The Board further clarified the meaning of separate accounting records at it October 10th meeting. This clarification and the SEC letter with FASB staff response can be reviewed at www.fasb.org or by requesting information from your auditor.

5. Other topics of the SEC letter included:

   - The period for determining fair value of securities as this relates to an acquisition measurement date – related more to FAS 141 implementation.
   - The determination of an acquirer
   - Disclosure issues related to the assumptions used in the valuation and fair value measurements, and
   - Other miscellaneous issues.

Independent Appraiser Assistance – When and Why

As the implementation date for 12-31 companies approaches, we hear a variety of responses to our service inquiries. Some controllers and CFOs have already preliminarily completed step 1 of the impairment test and suggest that their reporting units are far from being impaired. Others are just now focusing on the implementation after wrapping up Q3 reporting. All are interested in knowing what others are doing to comply with the Standard.

As reported in a recent CFO.com poll, the number one concern among financial managers and executives is the high cost of fair value assessments. It is natural, particularly in this difficult economy, that most staff are conducting step one testing internally. But, the question still remains: who should be conducting these fair value assessments.

Step 1 Reporting Unit Fair Value Assessments – Prepare Internally or Hire-Out

It is our opinion that most companies are capable of conducting step one testing internally, assuming that they have some knowledge of basic valuation methodologies and discounted cash flow techniques, and are aware of the red flag issues surrounding reporting unit fair value determinations. Also, auditors have told us that they will make an assessment of the internal staff's capabilities in this regard.

However, we believe that management should consider hiring an independent appraiser if initial reporting unit fair value assessment results "almost" indicate impairment, i.e. a reporting unit is currently net income positive but cash flow negative or the fair value differs from the carrying value by a slim margin.

Listed below are some basic 'Income Approach' valuation questions that we may ask if we were to review a company's step one transitional goodwill impairment test. These items are critical in step two testing.

1. Does the analysis utilize appropriate CAPM (Capital Asset Pricing Model) inputs when determining WACC (Weighted Average Cost of Capital) or is the reporting unit discount rate so high that venture capital rates should be considered? Is the reporting unit's capital structure 'actual' or 'hypothetical' and have the WACC weightings been adjusted to suit the choice? Are there any internally inconsistent capital structure projections?

2. Does the analysis use the most recent budget or financial planning projections for the reporting unit? Has management sufficiently explained how these amounts may materially differ from the original acquisition projections? Do the margin, OPEX, depreciation, CAPEX and tax rate expense amounts match what can be observed from market participant data – if not, why? Are revenue and income growth projections in line with historical amounts, management's various projections and available market participant data?

3. Is the residual/terminal value reasonable? What type of formula was used in this calculation? If residual value is a significant percentage of total reporting unit value, has the entity appropriately used market multiples for corroboration of the amount? Are near-term growth rates projected to continue in perpetuity?

4. Is the fair value amount based on cash flows to total invested capital or cash flows to equity? Is the WACC appropriately calculated as a result? Are accounting earnings appropriately adjusted to reflect cash flow?

5. Does the resulting fair value of the reporting unit represent a control value or a minority value? Which is the appropriate level of value for GAAP fair value?

Step 2 Goodwill Impairment Test – Prepare Internally or Hire-Out

We can think of almost no instances where a company should conduct step 2 impairment tests. One exception is where internal management has experience conducting purchase allocation appraisals – including the appraisal of many types of intangible assets – in the past, and the company has received consent from their auditor. The work required to value intangible assets is likely too intense for most internal finance departments.

INTANGIBLE
ASSET
VALUATIONS LLC

About Us

Intangible Asset Valuations LLC is a small firm with large minds. We are called "boutique" by larger firms, and that is OK with us, because we believe that our size facilitates outstanding service. My name is Mark Krickovich. I recently founded Intangible Asset Valuations LLC in order to provide specialized financial reporting appraisal services for small to mid-sized companies. I have learned that many controllers and CFO's are searching for an alternative to the indifference that sometimes accompanies other big-name (and big fee) companies.

Experienced

I was trained by – and worked alongside – a former 'Big-5' valuation manager. I have conducted purchase allocation appraisals in nearly every technology sector. These projects involved the determination of In-process research and development (IPR&D) amounts, and the valuation of intangibles such as: workforce in-place, tradenames & trademarks, databases, customer lists/relationships, Internet domain names, developed technology, royalty agreements and others.

Qualified

I am 'up to the minute current' on the appraisal nuances surrounding business combination allocations and goodwill impairment testing. I also regularly communicate with auditors and appraisers from most major accounting firms. I continue to seek and gain legitimacy and recognition for my models, reports and processes.

Capable

I limit the number of concurrent engagements so that we can spend the necessary time and energy in providing professional service to our clients. I have seen others operate in high project-turnover environments - while such an approach results in multiple billings, it ultimately limits people and results in service problems. Before I even present an engagement letter, I make certain that you will receive from us only the best attention and most thorough analysis and report.

Service remains a priority here - our analysis and reports are more comprehensive than you might find elsewhere, at an affordable rate - I think it is a great value!

Levels of Service

Fair Value Opinions - If your organization has a policy of using outside, independent appraisers for purchase allocation appraisals, you may find that reporting unit fair-value opinions are priced in the same range: a recent article contained an estimated range of $15K to $20K per reporting unit.

Consulting - In a recent CFO.com poll, the number one implementation concern by respondents was the costly reporting unit fair-value requirement. Add the internal cost of implementation and it is no surprise that most organizations are anxious about the total cost of compliance.

You may consider utilizing our services on a consulting basis: we will work with your internal staff, and your auditor to develop sound fair-value estimates. Because we are not providing value opinions, our fees would likely be less than an independent opinion. Transitional impairment tasks would include review of prior acquisitions, assistance with reporting unit identification, intangible asset review, useful life assessment, reporting unit fair value modeling and all research and analysis required to create and maintain proper documentation to address any potential questions.

Contact

Intangible Asset Valuations LLC

15651 SW Willow Court
Sherwood, OR 97140
Phone: 503.319.4191
Fax: 503.217.6059

Summary of Statement No. 144

Accounting for the Impairment or Disposal of Long-Lived Assets (Issued 8/01)

Summary

This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* for the disposal of a *segment of a business* (as previously defined in that Opinion). This Statement also amends ARB No. 51, *Consolidated Financial Statements,* to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary.

Reasons for Issuing This Statement

Because Statement 121 did not address the accounting for a segment of a business accounted for as a discontinued operation under Opinion 30, two accounting models existed for long-lived assets to be disposed of. The Board decided to establish a single accounting model, based on the framework established in Statement 121, for long-lived assets to be disposed of by sale. The Board also decided to resolve significant implementation issues related to Statement 121.

Differences between This Statement, Statement 121, and Opinion 30 and Additional Implementation Guidance

Long-Lived Assets to Be Held and Used

This Statement retains the requirements of Statement 121 to (a) recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and fair value of the asset. To resolve implementation issues, this Statement:

- Removes goodwill from its scope and, therefore, eliminates the requirement of Statement 121 to allocate goodwill to long-lived assets to be tested for impairment
- Describes a probability-weighted cash flow estimation approach to deal with situations in which alternative courses of action to recover the carrying amount of a long-lived asset are under consideration or a range is estimated for the amount of possible future cash flows
- Establishes a "primary-asset" approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long-lived asset to be held and used

Long-Lived Assets to Be Disposed Of Other Than by Sale

This Statement requires that a long-lived asset to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spinoff be considered held and used until it is disposed of. To resolve implementation issues, this Statement:

- Requires that the depreciable life of a long-lived asset to be abandoned be revised in accordance with APB Opinion No. 20, *Accounting Changes*
- Amends APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* to require that an impairment loss be recognized at the date a long-lived asset is exchanged for a similar productive asset or distributed to owners in a spinoff if the carrying amount of the asset exceeds its fair value.

Long-Lived Assets to Be Disposed Of by Sale

The accounting model for long-lived assets to be disposed of by sale is used for all long-lived assets, whether previously held and used or newly acquired. That accounting model retains the requirement of Statement 121 to measure a long-lived asset classified as held for sale at the lower of its carrying amount or fair value less cost to sell and to cease depreciation (amortization). Therefore, discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur.

This Statement retains the basic provisions of Opinion 30 for the presentation of discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity that is classified as held for sale or that has been disposed of is presented as a discontinued operation if the operations and cash flows of the component will be (or have been) eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations of the component.

To resolve implementation issues, this Statement:

- Establishes criteria beyond that previously specified in Statement 121 to determine when a long-lived asset is held for sale, including a group of assets and liabilities that represents the unit of accounting for a long-lived asset classified as held for sale. Among other things, those criteria specify that (a) the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and (b) the sale of the asset must be probable, and its transfer expected to qualify for recognition as a completed sale, within one year, with certain exceptions.
- Provides guidance on the accounting for a long-lived asset if the criteria for classification as held for sale are met after the balance sheet date but before issuance of the financial statements. That guidance prohibits retroactive reclassification of the asset as held for sale at the balance sheet date. Therefore, the guidance in EITF Issue No. 95-18, "Accounting and Reporting for a Discontinued Business Segment When the Measurement Date Occurs after the Balance Sheet Date but before the Issuance of Financial Statements," is superseded.
- Provides guidance on the accounting for a long-lived asset classified as held for sale if the asset is reclassified as held and used. The reclassified asset is measured at the lower of its

(a) carrying amount before being classified as held for sale, adjusted for any depreciation (amortization) expense that would have been recognized had the asset been continuously classified as held and used, or (b) fair value at the date the asset is reclassified as held and used.

How the Changes in This Statement Improve Financial Reporting

The changes in this Statement improve financial reporting by requiring that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and by broadening the presentation of discontinued operations to include more disposal transactions. Therefore, the accounting for similar events and circumstances will be the same. Additionally, the information value of reported financial information will be improved. Finally, resolving significant implementation issues will improve compliance with the requirements of this Statement and, therefore, comparability among entities and the representational faithfulness of reported financial information.

How the Conclusions in This Statement Relate to the Conceptual Framework

In reconsidering the use of a measurement approach based on net realizable value, and the accrual of future operating losses required under that approach, the Board used the definition of a liability in FASB Concepts Statement No. 6, *Elements of Financial Statements*. The Board determined that future operating losses do not meet the definition of a liability.

In considering changes to Statement 121, the Board focused on the qualitative characteristics discussed in FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information.* In particular, the Board determined that:

- Broadening the presentation of discontinued operations to include more disposal transactions provides investors, creditors, and others with decision-useful information that is relevant in assessing the effects of disposal transactions on the ongoing operations of an entity

- Eliminating inconsistencies from having two accounting models for long-lived assets to be disposed of by sale improves comparability in financial reporting among entities, enabling users to identify similarities in and differences between two sets of economic events.

This Statement also incorporates the guidance in FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements,* for using present value techniques to measure fair value.

The Effective Date of This Statement

The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. The provisions of this Statement generally are to be applied prospectively.

Accounting for the Impairment or Disposal of Long-Lived Assets

SFAS 144 (Issued 8/01)

SFAS 121 established accounting standards for the impairment of long-lived assets, including those to be disposed of. However, it specifically did not apply to discontinued operations. So, two accounting models existed for long-lived assets to be disposed of. SFAS 144 establishes a single accounting model, based on the framework established in Statement 121, for long-lived assets to be disposed of by sale.

What Does FAS 144 Do?

The standard retains the SFAS 121 requirements for recognizing and measuring impairment losses.

- Recognize an impairment loss if the sum of the expected future cash flows (undiscounted) is less than the carrying amount of the asset.

- Measure the impairment loss as the difference between the fair value of the asset and its carrying value.

For determining fair value, the standard provides a probability-weighted approach to estimate cash flows when more than one course of action is being considered to recover the carrying value [consistent with Concept Statement 7].

A long-lived asset shall not be depreciated or amortized while it is classified as held for sale.

SFAS 144 includes discontinued operations in the requirement that assets be measured at the lower of carrying amount or fair value less cost to sell. The specific effects of SFAS 144 on accounting for discontinued operations are described below.

ACCOUNTING FOR DISCONTINUED OPERATIONS

What constitutes an "operation?"

- APBO No. 30 defined a "segment of a business" as either a separate line of business or a separate class of customer.
  SFAS No. 144 replaces the term segment of a business with "component of an entity." A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity and that will be eliminated from the ongoing operations of the entity. A component of an entity may be a reportable segment or operating segment, a reporting unit, a subsidiary, or an asset group.

  The definition of what constitutes an operation is significantly broadened with SFAS No. 144.

What are the income effects of a discontinued component and how are they reported in the income statement?

- Discontinued operations are no longer measured at their net realizable values and future operating losses are no longer estimated and recognized before they occur.

A component of an entity that is held for sale is measured at the lower of its carrying value or fair value less costs to sell. So, if the fair value (less selling costs) of the component's assets are less than the assets book value on the date the company determines the component is held for sale, an impairment loss is recognized (and the book value of the assets is written down to fair value) and included in the income statement under discontinued operations. Depreciation and amortization of long-lived assets of the component is discontinued while the component is classified as held for sale.

- Operating income or loss of the component from the beginning of the period to the earlier of (a) the disposal date or (b) the end of the reporting period also is included in the income statement under discontinued operations.

- Any gain or loss on disposal of the component's assets also is included in the income statement under discontinued operations and this amount must be disclosed either on the face of the statement or in a disclosure note.

- The income effects of discontinued operations are shown net of tax and separate EPS disclosure is required (as with other separately reported items.)

- Adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a component of an entity in a prior period shall be classified separately in the current period in discontinued operations.

SFAS 144 offers the following presentation example:

Income from continuing operations	$xxxx
Discontinued operations (Note Y):	
Loss from operations of discontinued Component X (including loss on disposal of $xxx)	xxxx
Income tax benefit	xxx
Loss on discontinued operations	xxxx
Net income	$xxxx

nDiscontinued Operations

LO5

FINANCIAL REPORTING CASE
Q3, P. xxx

Bausch & Lomb Inc., is a world leader in the development, manufacture and marketing of healthcare products for the eye. The company is perhaps best known for its contact lenses. Prior to 2000, the company's businesses also included a sunglass unit, a hearing aid business, and a skincare business. In 1999, though, Bausch & Lomb decided to discontinue its sunglass, hearing aid, and skin care lines of business and accordingly sold them.[1] These are examples of **discontinued operations.**

SFAS No. 144 considers an operation to be a component of an entity whose operations and cash flows can be clearly distinguished from the rest of the entity.

What Constitutes an Operation? For many years APBO No. 30[3] provided authoritative guidance for accounting and reporting of discontinued operations. An "operation" according to APBO No. 30 was defined as a "segment of a business." A segment could be either a separate line of business or a separate class of customer. SFAS No. 144, issued in 2001, replaces the term segment of a business with *component of an entity*. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

SFAS No. 144

...a component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.[2]

If a component of an entity has either been disposed of or classified as held for sale, we report the results of its operations separately in discontinued operations if two conditions are met:

1. The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations.

2. The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

Notice that the definition of an operation is significantly broadened with SFAS No. 144. A component of an entity may be a reportable segment or operating segment, a reporting unit, a subsidiary, or an asset group. For example, suppose Chadwick Industries operates a chain of 12 restaurants in the Southeast and also has a division that engages in the production of canned goods sold to retailers. Previously, either the restaurant chain or the canned goods division would qualify as an operation for purposes of reporting discontinued operations, but an individual restaurant within the chain or a manufacturing plant in the canned goods division would not qualify. Now, though, under SFAS No. 144, it could if it represents a component of the company with "operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes," from the rest of the restaurants or plants.

Remember, too, that the second condition for being reported separately as a discontinued operation is that the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. As an example, let's say Scooter's Barbecue franchises restaurants to independent owners but also has several company-owned restaurants. If Scooter's commits to a plan to sell its company-owned restaurants to an existing franchisee, the way it reports the transaction

[1] The primary reason companies discontinue operations often is that the line of business is no longer profitable. This was not the case with Bausch & Lomb's various lines sold in 1999 that had been generating a profit.

[2] "Accounting for the Impairment or Disposal of Long-Lived Assets," *Statement of Financial Accounting Standards No. 144* (Norwalk, Conn: FASB, 2001), par. 41.

[3] "Reporting Results of Operations," *Opinions of the Accounting Principles Board No. 30* (New York: AICPA, 1973).

would depend on the terms of the agreement. If the franchise agreement requires Scooter's to maintain significant continuing involvement in the operations of the restaurants after they are sold, Scooter's will not report this transaction as a discontinued operation. On the other hand, if no continuing involvement is indicated, Scooter's will report the transaction separate from its franchising operations as a discontinued operation.[4] We see how in the next section.

Reporting Discontinued Operations. By definition, the income or loss stream from an identifiable discontinued operation no longer will continue. If Bausch & Lomb had not separately reported the results of discontinuing its businesses, its 2000 and 1999 comparative income statements (in condensed form) would have appeared as in Illustration 4-5A.

Illustration 4-5A
Income Statements Presented Incorrectly *without* Separate Reporting of Discontinued Operations

BAUSCH & LOMB, INC.
INCOME STATEMENTS
Years ended December 31

	($ in millions) 2000	1999
Net sales	$1,772.4	$2,258.0
Costs and expenses	1,623.5	1,726.0
Income before income taxes	148.9	532.0
Income tax expense	65.5	87.2
Net income	$ 83.4	$ 444.8

The company generated net income of 83.4 million and $444.8 million in 2000 and 1999, respectively. However, an analyst concerned with Bausch & Lomb's future profitability is more interested in the 2000 and 1999 results after separating the effects of the discontinued operations from the results of operations that will continue. This information might have a significant impact on the analyst's assessment of future profitability.

Now let's compare these with the actual income statements (in condensed form) adjusted to reflect the reporting format of SFAS No. 144 as presented in Illustration 4-5B. The income tax effect of the discontinued operations was disclosed in a note.

[4] "Accounting for the Impairment or Disposal of Long-Lived Assets," *Statement of Financial Accounting Standards No. 144* (Norwalk, Conn: FASB, 2001), par. A25 and A27.

Illustration 4-5B
Income Statements *with* Separate Reporting of Discontinued Operations

BAUSCH & LOMB, INC.
INCOME STATEMENTS
Years ended December 31

	($ in millions)	
	2000	**1999**
Net sales	$1,772.4	$1,764.3
Costs and expenses	1,623.5	1,595.0
Income before income taxes	148.9	169.3
Income tax expense	65.5	66.6
Income from continuing operations	83.4	102.7
Discontinued operations:		
Income from discontinued operations (including gain on disposal of $308), net of taxes	-	342.1
Net income	$ 83.4	$ 444.8

The net-of-tax income effects of a discontinued operation are reported separately in the income statement, below income from continuing operations.

Compare the two income statements for their ability to predict future profitability. The income statements in Illustration 4-5B separate the net-of-tax income effects of the discontinued operation. The 1999 revenues, expenses, gains, losses, and income tax related to the *discontinued* operations have been removed from *continuing* operations and reported separately.[5] Otherwise, as in Illustration 4-5A, it would appear that the company's profitability decreased by 81%, from $444.8 to $83.4 million, and its revenue decreased by 22%, from $2,258.0 to $1,772.4 million. However, a key in the assessment of profitability is the comparison of the company's performance from *continuing* operations. That comparison reveals a slight *increase* in revenue of $8 million and a drop in income of only 19% ($102.7 to $83.4). This provides a significantly different picture of Bausch & Lomb's future profitability.

Sometimes a discontinued component actually has been sold as of the end of a reporting period. In other situations, though, the component is being held for sale but the disposal transaction has not been completed before the end of the reporting period. We consider these two possibilities next.

When the component has been sold. When its reporting period ended in 1999, Bausch & Lomb had sold its sunglass, hearing aid, and skincare businesses. In such situations, when the discontinued component is sold before the end of the reporting period, the reported income effects of a discontinued operation will include two elements:

1. Operating income or loss (revenues, expenses, gains and losses) of the component from the beginning of the reporting period to the disposal date.
2. Gain or loss on disposal.

These two elements can be combined or reported separately, net of their tax effects. If combined, the gain or loss on disposal must be disclosed. In our illustrations, we combine the income effects. We consider this situation in Illustration 4-6.

---

[5] Even though the operation was discontinued in 1999, it is important for comparative purposes to separate the effects for any prior years presented. This allows an apples-to-apples comparison of income from *continuing* operations. So, in comparative income statements reporting three years, the 1998 income statement would be reclassified and the income from discontinued operations presented as a separately reported item.

Illustration 4-6
Discontinued Operations - Gain on Disposal

The Duluth Holding Company has several operating divisions. In October of 2003, management decided to sell one of its divisions that qualifies as a separate component according to SFAS No. 144. The division was sold on December 18, 2003 for a net selling price of $14,000,000. On that date, the assets of the division had a book value of $12,000,000. For the period January 1 through disposal, the division reported a pre-tax operating loss of $4,200,000. The company's income tax rate is 40% on all items of income or loss. Duluth generated after-tax profits of $22,350,000 from its continuing operations.

Duluth's income statement for the year 2003, beginning with income from continuing operations, would be reported as follows:

Income from continuing operations		$22,350,000
Discontinued operations:		
Loss from operations of discontinued component (including gain on disposal of $2,000,000*)	$(2,200,000) †	
Income tax benefit	880,000 ‡	
Loss on discontinued operations		(1,320,000)
Net income		$21,030,000

* Net selling price of $14 million less book value of $12 million
† Operating loss of $4.2 million less gain on disposal of $2 million
‡ $2,200,000 x 40%

Notice that a tax *benefit* occurs because a *loss* reduces taxable income, saving the company $880,000. On the other hand, had there been *income* from operations of $2,200,000, the $880,000 income tax effect would have represented additional income tax expense.

For comparison purposes, the net of tax operating income or loss of the discontinued component for any prior years included in the comparative income statements also are separately reported as discontinued operations.

If a component to be discontinued has not yet been sold, its income effects, including any impairment loss, usually still are reported separately as discontinued operations.

When the component is considered held for sale. What if a company has decided to discontinue a component but, when the reporting period ends, the component has not yet been sold? If the situation indicates that the component is likely to be sold within a year, the component is considered "held for sale."[6] In that case, the income effects of the discontinued operation still are reported, but the two components of the reported amount are modified as follows:

1. Operating income or loss (revenues, expenses, gains and losses) of the component from the beginning of the reporting period *to the end of the reporting period.*
2. An "impairment loss" if the carrying value of the assets of the component is less than fair value minus cost to sell.

The balance sheet is affected, too. The assets of the component considered held for sale are reported at the lower of their carrying amount (book value) or fair value minus cost to sell. And, because it's not in use, an operational asset classified as held for sale is not depreciated or amortized.

[6] There are six criteria designed to determine whether the component is likely to be sold and therefore considered "held for sale." "Accounting for the Impairment or Disposal of Long-Lived Assets," *Statement of Financial Accounting Standards No. 144* (Norwalk, Conn.: FASB, 2001). In Chapter 11 we discuss this standard and the held for sale criteria in the context of accounting for the impairment of operational assets.

The two income elements can be combined or reported separately, net of their tax effects. In addition, if the amounts are combined and there is an impairment loss, the loss must be disclosed, either parenthetically on the face of the statement or in a disclosure note. Consider the example in Illustration 4-7.

Illustration 4-7
Discontinued Operations - Impairment Loss

The Duluth Holding Company has several operating divisions. In October of 2003, management decided to sell one of its divisions that qualifies as a separate component according to SFAS No. 144. On December 31, 2003, the end of the company's fiscal year, the division had not yet been sold. On that date, the assets of the division had a book value of $12,000,000 and a fair value, minus anticipated costs to sell, of $9,000,000. For the year, the division reported a pre-tax operating loss of $4,200,000. The company's income tax rate is 40% on all items of income or loss. Duluth generated after-tax profits of $22,350,000 from its continuing operations.

Duluth's income statement for 2003, beginning with income from continuing operations, would be reported as follows:

Income from continuing operations		$22,350,000
Discontinued operations:		
Loss from operations of discontinued component (including impairment loss of $3,000,000)	$(7,200,000)*	
Income tax benefit	2,880,000 †	
Loss on discontinued operations		(4,320,000)
Net income		$18,030,000

* Operating loss of $4.2 million plus impairment loss of $3 million
† $7,200,000 x 40%

A disclosure note would provide additional details about the discontinued component, including the identity of the component, the major classes of assets and liabilities of the component, the reason for the discontinuance, and the expected manner of disposition. Also, the net-of-tax operating income or loss of the component being discontinued is also reported separate from continuing operations for any prior year that is presented for comparison purposes along with the 2003 income statement.

In the above illustration, if the fair value of the division's assets minus cost to sell exceeded the book value of $12,000,000, there is no impairment loss and the income effects of the discontinued operation would include only the operating loss of $4,200,000, less the income tax benefit.[7]

Interim Reporting. Remember that companies whose ownership shares are publicly traded in the United States must file quarterly reports with the Securities and Exchange Commission. If a component of an entity is considered held for sale at the end of a quarter, the income effects of the discontinued component must be separately reported in the quarterly income statement. These effects would include the operating income or loss for the quarter as well as an impairment loss if the component's assets have a book value less than fair value minus cost to sell. If the assets are impaired and written down, any gain or loss on disposal in a subsequent quarter is determined relative to the new, written-down book value.

[7] In the following year when the component is sold, the income effects must also be reported as a discontinued operation. Prior to SFAS No. 144, operating results for the subsequent period were estimated and considered in determining the income effect for the year the segmentwas deemed held for sale. This is no longer the case.

Let's now turn our attention to the second separately reported item, extraordinary gains and losses.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Consumer Advocate and Protection Division Discovery Request No. 2

Responsible Witness: **Michael Miller/John Watson**

Question:

4. Provide all E-CIS amounts for the Alton, Illinois Call Center allocated to Tennessee American's books by account (Gross and Net Book Value) as of December 31, 2006.

Response:

Please see the schedule attached and identified as CAPD-02-Q004-ATTACHMENT.

Tennessee-American Water Company
CAD #4, Round 2
E-CIS Amounts for the Alton, Illinois Call Center
As of December 31, 2006

Gross Book Value *	Accum Depreciation	N B V
3,002,562 69	1,511,582 94	1,490,979 75

Original Cost *	Asset Item #	Account #
3,271,857.69	26005061	101000 340310

* The orignial Cost reflects the full amount of the ECIS asset installed.
The Gross Book Value reflects the amount on the books @ 12/31/2006 which reflects $269,295 of retirements since the original installation

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Consumer Advocate and Protection Division Discovery Request No. 2

Responsible Witness: Michael Miller

Question:

5. Provide the total E-CIS investment amount for the Alton, Illinois Call Center, a historical narrative for the origination of the E-CIS investment amounts and the basis for allocating the amounts to Tennessee American Water Company.

Response:

The total investment for the ECIS system serving American Water subsidiaries is $73,741,278 at December 31, 2006.

In 1996, utility subsidiaries of American Water began the process to replace the previous customer service legacy computer software, which had been in place for several decades. The reasons for this change were the previous system did not have a windows based interface, was not interactive, and was not part of an integrated customer service system. Over the period 1997 to 2000 these subsidiaries started the implementation of individual systems in their various locations.

The initiative was started with the expectation that AWW would have sufficient internal resources and technical expertise to assist Orcom in customizing, implementing and integrating the new Customer Information System. AWW began the initiative in 1996 by dedicating an internal team, as stipulated in the original Orcom contract, to work with Orcom on the configuration and implementation of the ECIS. Through 1999, approximately $16 million had been spent. The project continued under this leadership, but AWW realized it did not have the internal resources or expertise necessary to successfully complete the

E-CIS configuration and installation on its own. For the first eight months of 2000, the AWW team re-evaluated the need for outside expertise. This resulted in a decision that efforts should be coordinated and a resultant request for proposal for integrated services was issued.

In 2001, Accenture (formerly Andersen Consulting) was selected to partner with AWW and Orcom to assist completing the installation, configuration and testing of ECIS. Over the course of the next few years, their work included development of the application functionality required to standardize the Orcom platforms and providing functional configuration requirements allowing Orcom to support improved business processes (i.e. Orcom reporting requirements.). The configured system was then implemented in succession to all utility subsidiaries, concluding with Indiana American water Company in the spring of 2004.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Consumer Advocate and Protection Division Discovery Request No. 2

Responsible Witness: **Michael Miller**

Question:

6. Provide the total operating expenses allocated by JDE account to Tennessee American for the Alton, Illinois Call Center for the last three years ended December 31, 2006. Include in your response detailed documentation and the basis for allocating the costs.

Response:

Please see the schedules identified as CAPD-02-Q006-ATTACHMENTS. The basis for allocating the cost is contained in the 1989 Service Company Agreement attached to the response to TN-TRA-01-Q032. Please see attachments to CAD-1-Part II-Q018 for a copy of the various formulas used by the Service Company. As provided in the 1989 Service Company Agreement, charges that are directly related to one subsidiary are charged directly to that subsidiary, and those applicable to the multiple operations are charged through formulas that are applicable and adjusted as required from time to time. The Call Center costs are allocated to each entity utilizing the Call Center based on the ratio of that entities customer to the total customers served by the Call Center.

2004

	WDFY	WDPN											
	4												4 Total
Host BU Descr	1	2	3	4	5	6	7	8	9	10	11	12	
Call Center				$3.85	$2.37	$56.56	$57.93	$10.48	$8.17	$0.87	$2.46		$142.69
CSC - Administration	$993.10	$2,689.85	$1,494.96	$665.66	$341.86	$449.80	$405.15	$1,016.81	($15,335.62)	$7,957.90	($10,472.87)	($818.77)	($10,612.17)
CSC-Billing	$6,067.77	$6,647.63	$6,358.03	$4,900.92	$8,349.57	$9,023.04	$8,137.42	$7,253.99	$2,812.66	$8,564.10	$3,110.46	$11,257.72	$82,483.31
CSC-Call Handling	$35,203.32	$41,842.61	$44,642.48	$36,419.18	$24,305.20	$32,459.24	$27,402.79	$24,112.95	$8,726.09	$25,569.64	$8,468.88	$34,597.26	$343,749.64
CSC-Collections	$2,439.61	$3,452.48	$3,139.63	$2,607.50	$7,298.73	$8,438.77	$15,542.20	$15,144.03	$10,721.42	$5,348.98	$8,175.70	$25,787.75	$108,096.80
CSC-ODI (Org Dev & Ints)	$1,948.72	$4,273.49	$2,239.33	$2,140.00	$2,390.90	$3,873.41	$3,209.42	$3,177.27	$3,189.24	$3,072.37	$1,254.75	$4,240.27	$35,009.17
CSC-Operations & Performance	$2,577.05	$11,754.54	$14,061.12	$7,527.47	$8,649.85	$10,389.52	$8,003.88	$8,365.85	$4,722.04	$6,931.38	$3,212.94	$32,073.65	$118,269.29
CSC-Quality & Perf Impr	$2,149.33	$3,849.67	$2,941.90	$2,801.45	$2,656.34	$4,012.74	$3,596.87	$3,290.98	$1,806.35	$3,639.94	$1,823.08	$5,514.90	$38,083.55
Customer Service Center	($6,306.30)	$17,952.47	$5,129.43	$7,127.44	$7,510.79	$5,111.23	$5,090.20	$4,585.35	$5,289.93	$3,973.81	$4,082.81	$673.00	$60,220.16
Missouri-Bus Dev-MO	$430.94	$0.00	($2,362.79)	$39.80	$951.08	$0.27	$2.92	$6.43	$7,565.52	$1.61	($8,701.30)	$12,356.92	$10,291.40
	$45,503.54	$92,462.74	$77,644.09	$64,233.27	$62,456.69	$73,814.58	$71,448.78	$66,964.14	$29,505.80	$65,060.60	$10,956.91	$125,682.70	$785,733.84
	$45,503.54	$92,462.74	$77,644.09	$64,233.27	$62,456.69	$73,814.58	$71,448.78	$66,964.14	$29,505.80	$65,060.60	$10,956.91	$125,682.70	$785,733.84

2005

Sum of WDAA				WDFY	WDPN											
				5												5 Total
WDSBL5	WDRGLC	OFFICE	MCMCU01	1	2	3	4	5	6	7	8	9	10	11	12	
26	O&M	Call Center	CCA-Administration	$ 7,599.01	$ 11,297.97	$ 1,978.34	$ 2,953.79	$ 3,275.81	$ 4,517.67	$ 3,371.00	$ 4,254.90	$ 5,077.24	$ 5,100.15	$ 4,439.52	$ 4,666.61	$ 58,532.01
			CCA-Billing	$ 5,739.81	$ 6,226.92	$ 5,400.64	$ 5,394.91	$ 5,412.87	$ 5,995.46	$ 5,427.11	$ 6,526.08	$ 5,335.83	$ 4,914.13	$ 7,165.17	$ 6,228.77	$ 69,767.70
			CCA-Business Services	$ (637.07)	$ 3,223.01	$ 3,402.10	$ 4,322.61	$ 4,275.11	$ 4,324.88	$ 4,928.65	$ 6,713.66	$ 4,301.53	$ 3,788.76	$ 6,307.51	$ 4,574.03	$ 49,524.78
			CCA-Call Handling	$ 17,087.03	$ 17,093.32	$ 16,089.50	$ 15,924.28	$ 16,351.93	$ 16,487.38	$ 14,846.43	$ 15,988.22	$ 15,107.69	$ 13,986.78	$ 19,908.86	$ 16,140.68	$195,012.10
			CCA-Collections	$ (4,958.49)	$ 4,790.61	$ 7,682.11	$ 20,724.00	$ 6,589.52	$ 3,542.52	$ 26,498.86	$ 2,178.21	$ 10,063.55	$ 1,892.56	$ 15,131.31	$ 29,847.68	$123,982.44
			CCA-Do Not Use	$ 0.01												$ 0.01
			CCA-Education & Development		$ 216.88	$ 2,768.56	$ 1,876.05	$ 1,757.21	$ 2,461.77	$ 1,936.10	$ 2,936.31	$ 2,052.39	$ 3,287.24	$ 2,860.67	$ 3,788.40	$ 25,941.58
			CCA-Human Resources	$ 1,560.70	$ 1,921.78	$ 244.88	$ 4,078.86	$ 1,939.07	$ 1,787.21	$ 712.51	$ 1,079.34	$ 2,748.67	$ 1,601.15	$ 1,186.94	$ 3,053.81	$ 21,914.92
			CCA-Operations & Performance	$ 15,101.59	$ 7,110.40	$ 10,306.69	$ 11,604.99	$ 14,673.26	$ 13,322.78	$ 9,808.61	$ 12,243.78	$ 11,554.29	$ 10,928.85	$ 10,491.24	$ 18,830.06	$145,976.54
			CCP-Administration	$ 119.48	$ 98.61	$ 429.10	$ 512.57	$ 182.32	$ 276.69	$ 864.30	$ 3,688.64	$ 2,161.74	$ 1,761.27	$ 1,708.27	$ 1,825.54	$ 13,628.53
			CCP-Billing		$ (0.00)		$ 7.77	$ 51.19	$ 298.88	$ 108.87	$ (356.67)	$ 72.49	$ 79.39	$ 60.04	$ -	$ 321.96
			CCP-Business Services	$ 15.03	$ 47.68	$ 26.12	$ (31.16)	$ 13.50	$ (18.60)	$ 650.90	$ 1,645.63	$ 1,063.11	$ 1,121.20	$ 1,097.08	$ 1,162.98	$ 6,793.47
			CCP-Call Handling	$ 904.79	$ 233.40	$ 1,733.12	$ 2,218.48	$ 2,006.48	$ 11,830.41	$ 6,424.65	$ (2,912.17)	$ 7,553.16	$ 9,541.39	$ 9,193.59	$ 11,474.28	$ 60,201.58
			CCP-Collections	$ 175.31	$ (91.23)	$ 115.85	$ (27.64)	$ 25.94	$ 56.62		$ 36.89					$ 291.74
			CCP-Education & Development			$ 11.46	$ 3.51	$ 190.76		$ 91.38	$ 14.02	$ 0.93		$ 7.60	$ 23.20	$ 342.86
			CCP-Human Resources ODI	$ 160.40	$ (30.95)	$ 48.30	$ 168.79	$ 305.90	$ (1.31)	$ 62.63	$ 935.91	$ (0.66)	$ 267.36	$ 129.36	$ 128.82	$ 2,174.55
			CCP-Operations and Support	$ 236.25	$ (236.25)	$ 14.13	$ 186.16	$ 31.48	$ 185.35	$ 319.51	$ 158.12	$ 15,070.17	$ 513.26	$ 1,025.68	$ 1,377.96	$ 18,881.82
Grand Total				$ 43,103.85	$ 51,902.15	$ 50,250.90	$ 69,917.97	$ 57,082.35	$ 65,067.71	$ 76,051.51	$ 55,130.87	$ 82,162.13	$ 58,783.49	$ 80,712.84	$103,122.82	$793,288.59

2006

Sum of WDAA				WDFY WDPN												
				6												6 Total
WDRGLC	CompanyName	OFFICE	BUS_UNIT_DESCRIPTION	1	2	3	4	5	6	7	8	9	10	11	12	
O&M	Tennessee American	Call Center	CCA-Administration	$ 5,371	$ 3,471	$ 3,879	$ 977	$ 1,264	$ 1,971	$ 725	$ 1,004	$ 1,361	$ 1,989	$ 1,630	$ 2,524	$ 26,166
			CCA-Billing	$ 6,241	$ 5,215	$ 5,972	$ 5,187	$ 5,227	$ 6,427	$ 5,401	$ 5,285	$ 6,283	$ 5,497	$ 6,689	$ 5,164	$ 68,587
			CCA-Business Services	$ 3,433	$ 2,289	$ 2,844	$ 3,805	$ 1,986	$ 3,259	$ 3,002	$ 2,877	$ 3,341	$ 2,068	$ 2,166	$ 2,345	$ 33,415
			CCA-Call Handling	$13,429	$13,616	$13,525	$12,497	$12,518	$15,602	$12,499	$11,704	$15,228	$12,976	$16,621	$14,995	$165,211
			CCA-Collections	$ (6,460)	$18,257	$ 1,219	$24,839	$ 9,325	$ 8,864	$10,004	$ 9,271	$10,522	$ 9,536	$10,294	$ 6,799	$112,471
			CCA-Education & Development	$ 2,638	$ 2,742	$ 3,315	$ 2,583	$ 3,289	$ 2,968	$ 3,472	$ 3,037	$ 4,423	$ 3,258	$ 4,196	$ 3,259	$ 39,178
			CCA-Human Resources	$ (114)	$ 1,350	$ 668	$ 1,352	$ 737	$ 1,430	$ 1,059	$ 838	$ 1,714	$ 875	$ 1,629	$ 1,312	$ 12,851
			CCA-Operations & Performance	$ 7,714	$15,152	$ 2,573	$16,143	$15,138	$16,041	$13,890	$13,103	$19,034	$13,922	$14,843	$12,380	$159,934
			CCP-Administration	$ 1,614	$ 4,165	$ 3,374	$ 2,941	$ 3,869	$ 2,543	$ 2,347	$ 2,334	$ 2,068	$ 1,278	$ 1,285	$ 1,418	$ 29,236
			CCP-Billing				$ 1,280	$ 2,499	$ (155)	$ 1,645	$ 157	$ (159)	$ 202	$ 351	$ 250	$ 6,069
			CCP-Business Services	$ 908	$ 2,378	$ 1,631	$ 1,612	$ 1,576	$ 1,484	$ 1,485	$ 1,461	$ 1,468	$ 1,605	$ 1,587	$ 1,488	$ 18,682
			CCP-Call Handling	$ 7,683	$17,140	$12,436	$10,779	$12,488	$13,835	$12,743	$12,182	$16,938	$12,667	$15,808	$14,417	$159,116
			CCP-Collections				$ 6		$ 202	$ 3	$ 5	$ (58)	$ 2	$ 61	$ (38)	$ 182
			CCP-Education & Development		$ 463	$ 32	$ (179)	$ (138)	$ 104	$ 72	$ 289	$ 136	$ 922	$ 1,385	$ 705	$ 3,792
			CCP-Human Resources ODI	$ (30)	$ 1,353	$ 640	$ 624	$ 855	$ 1,139	$ 1,113	$ 1,063	$ 1,233	$ 447	$ 687	$ 1,113	$ 10,237
			CCP-Operations and Support	$ 480	$ 370	$ 1,656	$ 4,386	$ 4,088	$ 4,217	$ 3,657	$ 3,430	$ 6,421	$ 3,472	$ 3,733	$ 8,267	$ 44,178
Grand Total				$42,906	$87,962	$53,765	$88,830	$74,723	$79,930	$73,116	$68,038	$89,954	$70,715	$82,967	$76,398	$889,304

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Consumer Advocate and Protection Division Discovery Request No. 2

Responsible Witness: **Michael Miller**

Question:

7. Provide the total operating expenses subject to allocation for the Alton, Illinois Call Center for the last three years ended December 31, 2006.

Response:

Please see the attached schedules identified as CAPD-02-Q007-ATTACHMENTS.

2004

Sum of WDITOL		WDFY WDPN												
		4												4 Total
Office BU Name	Host BU Descr	1	2	3	4	5	6	7	8	9	10	11	12	
Call Center	Call Center				$152	$93	$2,328	$2,387	$414	$344	$37	$99		$5,854
	CSC - Administration	$37,339	$101,262	$60,917	$26,436	$12,851	$16,945	$15,116	$37,924	$320,579	$328,480	$26,357	$96,623	$1,080,830
	CSC-Billing	$229,901	$250,477	$238,487	$182,809	$311,766	$336,954	$303,694	$270,619	$115,648	$360,915	$127,934	$464,222	$3,193,425
	CSC-Call Handling	$1,317,676	$1,564,605	$1,666,500	$1,368,564	$908,394	$1,217,108	$1,043,746	$912,644	$368,683	$1,097,733	$350,565	$1,423,682	$13,239,900
	CSC-Collections	$96,383	$128,967	$117,168	$97,261	$272,545	$318,698	$597,026	$579,149	$413,956	$239,209	$424,298	$1,067,967	$4,352,626
	CSC-ODI (Org Dev & Ints)	$76,256	$159,861	$82,431	$79,926	$97,040	$159,505	$119,375	$118,526	$105,451	$133,474	$64,252	$181,792	$1,377,887
	CSC-Operations & Performance	$21,322	$416,432	$493,773	$245,439	$287,666	$388,324	$275,279	$291,191	$183,277	$282,296	$208,511	$1,326,050	$4,419,560
	CSC-Quality & Perf Impr	$82,828	$144,612	$112,735	$106,561	$102,458	$166,347	$151,548	$140,701	$82,243	$181,333	$89,443	$239,756	$1,600,566
	Customer Service Center	($238,049)	$678,150	$206,560	$283,230	$294,855	$206,376	$204,797	$189,814	$214,833	$163,390	$172,920	$27,707	$2,404,382
	Missouri-Bus Dev-MO	$83,118	$59,632	$88,623	$65,772	$67,946	$133,963	$99,316	$98,489	$583,168	$577,876	$371,187	$1,264,510	$3,493,600
Call Center Total		$1,706,774	$3,503,998	$3,067,193	$2,456,150	$2,355,614	$2,946,548	$2,812,284	$2,639,271	$2,388,181	$3,364,743	$1,835,566	$6,092,308	$35,168,630
Grand Total		$1,706,774	$3,503,998	$3,067,193	$2,456,150	$2,355,614	$2,946,548	$2,812,284	$2,639,271	$2,388,181	$3,364,743	$1,835,566	$6,092,308	$35,168,630

CAPD-02-Q007-ATTACHMENTS

2005

MCMCU01	Data Sum of 1	Sum of 2	Sum of 3	Sum of 4	Sum of 5	Sum of 6	Sum of 7	Sum of 8	Sum of 9	Sum of 10	Sum of 11	Sum of 12	$ total
CCA-Administration	276755.68	315740.79	213038.5	120737.98	144702.27	177530.35	115685.75	158132.22	179687.24	153479.41	154259.78	162226.29	$ 2,171,976.26
CCA-Billing	232007.08	230689.87	255764.5	220752.06	234315.08	247474.28	188574.91	227230.79	185595.21	169383.58	248990.38	216470.28	$ 2,657,248.02
CCA-Business Services	11660.2	142407.95	162964.03	175967.89	196889.51	179708.1	171509.22	233987.03	149681.32	130913.76	220067.46	158961.56	$ 1,934,718.03
CCA-Call Handling	686095.36	623564.4	741484.32	645669.58	695900.87	674657.65	515905.38	556867.72	525534.01	482196.73	691858.25	560976.96	$ 7,400,711.23
CCA-Collections	-3226.01	160907.87	357095.43	732290.15	325972.55	314195.93	920810.68	75846.79	349764.04	65260.47	525798.37	1037199.38	$ 4,861,915.65
CCA-Do Not Use	0.02												$ 0.02
CCA-Education & Development	14087.24	25680.92	110733.83	86268.75	79440	97621.19	67539.68	102314.18	71579.49	113319.35	99404.12	132039.89	$ 1,000,028.64
CCA-Human Resources	25694.58	64752.99	30437.05	164087.25	77461.33	69276.18	25682.48	40360.66	97407.96	41505.96	41244.53	106134.26	$ 784,045.23
CCA-Operations & Performance	551011.53	163422.88	559739.21	471366.82	504171.99	552074.5	346802.52	410308.25	356827.46	365712.69	365922.39	623274.58	$ 5,270,634.82
CCP-Administration	35450.77	18736.42	181140.44	106266.87	198934.37	93488.84	30940.49	168408.37	75040.84	61318.73	59424.1	63558.88	$ 1,092,709 12
CCP-Billing	473.98	80655.07	550.21	37125.3	1317.66	4367.61	3958.42	5673.14	2518.59	2759.13	2086.35	0	$ 141,485.46
CCP-Business Services	52610.91	1481.24	35347.58	31854.65	32977.95	31588.7	30815.85	91060.67	36827.71	39037.17	38155.44	40457.33	$ 462,215.20
CCP-Call Handling	283563.78	73590.48	278623.88	310044.08	268224.31	464356.78	201374.74	464444.08	267849.79	327727.57	314237.11	388718.79	$ 3,642,755.39
CCP-Collections	6637.81	-4827.23	4598.67	821.5	1031.04	1978.68		1141.86					$ 11,382.33
CCP-Education & Development	35669.46	27268.98	-32680.8	-14908.33	7101.76	-25259.41	3175.79	490.46	32.56		264.15	811.59	$ 1,966.21
CCP-Human Resources ODI	56356.32	8223.81	34820.14	38839.76	35084.23	26769.42	2699.31	35970.58	-45.34	9333.5	4505.73	4707.27	$ 257,264.73
CCP-Operations and Support	285890.99	184727.16	-350803.58	154445.39	149297.7	241159.88	10590.55	38082.24	522016.85	17873.34	35667.6	47931.85	$ 1,336,879.97
Grand Total	$ 2,550,739.70	$ 2,117,023.60	$ 2,582,853.41	$ 3,281,629.70	$ 2,952,822.62	$ 3,150,988.68	$ 2,636,065.77	$ 2,610,319.04	$ 2,820,317.73	$ 1,979,821.39	$ 2,801,885.76	$ 3,543,468.91	$ 33,027,936.31
													$ 33,027,936.31

200 b

Sum of WDAA			WDFY	WDPN											
			6												6 Total
WDRGLC	OFFICE	BUS_UNIT_DESCRIPTION	1	2	3	4	5	6	7	8	9	10	11	12	
O&M	Call Center	CCA-Administration	$ 224,293	$ 168,093	$ 178,262	$ 43,623	$ 56,420	$ 88,029	$ 35,001	$ 52,887	$ 63,261	$ 109,312	$ 73,232	$ 112,780	$ 1,205,193
		CCA-Billing	$ 259,256	$ 257,083	$ 278,047	$ 231,571	$ 233,370	$ 286,943	$ 241,114	$ 236,037	$ 280,017	$ 245,578	$ 299,422	$ 230,086	$ 3,078,525
		CCA-Business Services	$ 144,487	$ 111,205	$ 130,602	$ 169,869	$ 88,668	$ 145,507	$ 136,224	$ 128,485	$ 149,299	$ 92,367	$ 96,732	$ 104,732	$ 1,498,177
		CCA-Call Handling	$ 558,705	$ 652,494	$ 632,975	$ 557,896	$ 559,347	$ 697,341	$ 570,539	$ 528,115	$ 680,682	$ 579,701	$ 742,381	$ 669,859	$ 7,430,036
		CCA-Collections	$ (267,905)	$ 794,851	$ 56,996	$1,108,872	$ 416,312	$ 395,743	$ 446,611	$ 415,854	$ 463,389	$ 428,626	$ 463,239	$ 307,129	$ 5,029,718
		CCA-Education & Development	$ 110,315	$ 131,121	$ 151,676	$ 115,733	$ 146,828	$ 132,496	$ 154,981	$ 135,615	$ 197,208	$ 145,558	$ 187,504	$ 145,594	$ 1,754,627
		CCA-Human Resources	$ (4,576)	$ 59,741	$ 31,110	$ 61,767	$ 32,915	$ 63,861	$ 47,318	$ 38,013	$ 77,404	$ 40,152	$ 89,905	$ 58,474	$ 596,083
		CCA-Operations & Performance	$ 242,512	$ 591,401	$ 68,477	$ 949,676	$ 624,734	$ 649,204	$ 537,021	$ 541,281	$ 775,330	$ 559,054	$ 542,189	$ 483,143	$ 6,564,022
		CCP-Administration	$ 134,718	$ 120,340	$ 150,757	$ 131,296	$ 172,739	$ 113,565	$ 104,782	$ 104,185	$ 91,263	$ 57,058	$ 57,355	$ 63,313	$ 1,301,371
		CCP-Billing				$ 57,121	$ 111,573	$ (6,912)	$ 73,421	$ 7,000	$ (7,095)	$ 9,000	$ 15,668	$ 11,162	$ 270,937
		CCP-Business Services	$ 73,410	$ 71,323	$ 72,887	$ 71,947	$ 70,347	$ 66,277	$ 66,309	$ 65,208	$ 65,520	$ 71,643	$ 70,863	$ 66,429	$ 832,162
		CCP-Call Handling	$ 524,108	$ 551,416	$ 554,085	$ 481,197	$ 557,516	$ 618,095	$ 568,862	$ 543,854	$ 756,181	$ 565,505	$ 705,719	$ 643,615	$ 7,070,152
		CCP-Collections				$ 259		$ 9,000	$ 138	$ 208	$ (2,573)	$ 69	$ 2,716	$ (1,711)	$ 8,106
		CCP-Education & Development	$ (5,145)	$ 24,540	$ 1,438	$ (8,010)	$ (6,160)	$ 4,658	$ 3,235	$ 12,900	$ 6,062	$ 41,157	$ 61,851	$ 31,484	$ 168,011
		CCP-Human Resources ODI	$ 32,819	$ 26,104	$ 28,957	$ 27,867	$ 38,159	$ 50,848	$ 49,676	$ 47,450	$ 55,042	$ 19,942	$ 30,686	$ 49,696	$ 457,246
		CCP-Operations and Support	$ (127,348)	$ 158,803	$ 178,011	$ 197,000	$ 183,698	$ 187,779	$ 163,263	$ 153,145	$ 185,031	$ 155,012	$ 166,644	$ 369,041	$ 1,970,078
Grand Total			$1,899,648	$3,718,514	$2,514,280	$4,197,683	$3,286,463	$3,502,432	$3,198,497	$3,010,238	$3,836,022	$3,119,735	$3,606,108	$3,344,825	$39,234,444

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Consumer Advocate and Protection Division Discovery Request No. 2

Responsible Witness: **Michael Miller**

Question:

8. Provide the amounts as shown on Exhibit No. 2 Schedule 2 for the 12 months ended December 31, 2005 and December 31, 2006 in the same format. These amounts should tie to the TRA 3.06 Surveillance Reports. Provide all documentation supporting any normalization adjustments for these test periods.

Response:

See documents attached to question 1 of this data response.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Consumer Advocate and Protection Division Discovery Request No. 2

Responsible Witness: **Michael Miller/Sheila Miller**

Question:

9. Provide the amounts on the TRA 3.06 Surveillance Reports for October 2006, November 2006, and December 2006 for Operations and Maintenance Expense by JDE Account, which are out of period, non-recurring, or should be normalized.

Response:

Please see the attached schedule identified as CAPD-02-Q009-ATTACHMENT.

Tennessee American Water Company
One time - non recurring costs
October thru December 2006
CAD DR 1 Question 9

Acct	Date	Amount	
534620 16	6-Oct	133 19	management fees - Sarbox, divestiture costs
	6-Dec	15,906 60	
534650 16	6-Oct	51,543 31	management fees - Sarbox, divestiture costs
	6-Nov	32,420 82	
	6-Dec	34,981 65	
534750 16	6-Oct	2,571 84	management fees - Sarbox, divestiture costs
	6-Nov	2,568 74	
	6-Dec	2,590 66	
575881.16	6-Dec	11,123.64	STEP w/o
575640 16	Oct - Dec	77,754 15	penalties
685430	6-Dec	(10,000 00)	Reverse FY05 topside booked in 06
690110	6-Dec	17,000.00	FY Topside Nov 06 reversals
		238,594 60	

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Consumer Advocate and Protection Division Discovery Request No. 2

Responsible Witness: **Michael Miller**

Question:

10. Provide a detailed reconciliation book to taxable income of Deferred Federal Income Tax Expense for the test year ended June 30, 2006 amount of $894,154 per Exhibit No. 2, Schedule 6. Include in your response detailed work papers of all temporary differences generating the Deferred Federal Income Tax Expense. Also, show any prior year adjustments for book to tax reconciliation, for example $209,202 per the response to TRA Discovery Request #49, Page 1 of 2.

Response:

See attached two page schedule identified as CAPD-02-Q010-ATTACHMENT. TAWC admits that the prior year adjustment of $209,202 (as shown on page 2 of the exhibit in the reconciling items section) should not have been included in the normalized historical test-year and carried forward into the attrition year of TAWC's filing in this case. TAWC further asserts that the Federal AMT adjustment of ($116,460) as shown in the reconciling items section of page 2 should not have been included in the normalized historical test-year and carried forward to the attrition year in this case because it did not reoccur in 2006, nor is it expected to reoccur in 2007.

TENNESSEE AMERICAN WATER COMPANY
CAPD-02-Q010-attachment
FEDERAL TAX

	12 Months Ending June 30 06
Income per Books	3,263,160 0
Federal income tax accrual	(212,829 4)
State & Locak Icoome Tax Accrual net of State Income Tax Deduction	(38,152.2)
Pretax Income	3,012,178
JE# P005 Meals and Entertainment	3,562 8
JE# P015 Research and Development Expense	664
JE# P020 Nondeductible Penalties	68,114
JE# P025 Nondeductible Donations	0
JE# P030 Nondeductible Dues	316
JE# P035 Amortization of Preferred Stock Expense	0
JE# P040 Lobbying Expenses	0
JE# P055 Other Expenses	0
JE# P070 Interest Expense-Repurchase (TWUS only)	
Total Permanent Differences	72,657
	3,084,835
JE# T005 Uncollectible Accounts	0
JE# T010 Vacation Pay	(141,325)
JE# T015 Customer Deposits	57,320
JE# T020 Taxable Contributions (CIAC 1)	498,722
JE# T021 Deferred Revenue - CIAC (CIAC 2)	0
JE# T025 Taxable Advances (CAC 1)	(601,258)
JE# T030 Merger Expense	0
JE# T040 Rate Case Expense	308,198
JE# T045 Depreciation and Amortization (Depr 1)	0
JE# T046 Post In-Service Depreciation Expense (Depr 2)	(473,953)
JE# T048 Reg Asset - AFUDC Debt (Depr 4)	63,362
JE# T060 Gains and Losses (Disp 1)	0
JE# T061 Deferred Tax Gain (Disp 2)	(588)
JE# T062 Abandonment Losses (Disp 3)	(360,034)
JE# T063 Cost of Removal (Disp 4)	0
JE# T064 Amortization of Premature Property Losses (Disp 5)	118,136
JE# T070 Amortization of UPAA	680
JE# T086 Purchased Water - Outside (PWtr 2)	0
JE# T090 Depreciation Study	0
JE# T095 Cost of Service Study	9,772
JE# T100 Amortization of Debt Discount	0
JE# T105 Management Study	(3,086)
JE# T110 Waste Disposal	0
JE# T122 Incentive Plan (Incen 3)	(136,317)
JE# T124 Incentive Plan (Incent 5)	0
JE# T130 Regulatory Pension (Pension 1)	(135,969)
JE# T131 Regulatory Pension (Pension 2)	(131,593)
JE# T132 Regulatory Pension (Pension 3)	382,545
JE# T135 Supplemental Pension	173,117
JE# T140 Accrued OPEB (OPEB 1)	(91,579)
JE# T141 Accrued OPEB (OPEB 2)	(147,182)
JE# T142 Accrued OPEB (OPEB 3)	0
JE# T145 AFUDC (AFUDC 1)	(45,708)
JE# T146 AFUDC - Equity CWIP (AFUDC 2)	(46,266)
JE# T147 Amortization of Regulatory Asset (AFUDC 3)	65,092
JE# T150 Post AFUDC (P AFUDC 1)	11,254
JE# T151 Amortization of Post In-Service AFUDC (P AFUDC 2)	(7,284)

JE# T152 Pavement Repairs	0
JE# T160 Deferred Maintenance (Maint 1)	6,237
JE# T161 Deferred Maintenance (Maint 2)	0
JE# T165 Miscellaneous Deferred Debits (Misc 1)	(5,794)
JE# T166 Miscellaneous Deferred Credits (Misc 2)	(105,803)
JE# T167 Miscellaneous Deferred Credits (Misc 3)	1,664
JE# T180 Insurance Other than Group	(127,312)
JE# T185 Deferred Security Costs	170,061
JE# T186 Deferred Customer Service Center Costs	155,344
JE# T187 Deferred Financial Services Costs	4,499
JE# T190 Deferred Business Change Costs	(49,056)
JE# T191 Deferred IMO Costs	(18,380)
JE# T200 Transaction Costs	0
JE# T220 JV Gain/Loss	0
Total Temporary Differences:	(602,484)
Federal taxable inc before NOL, DRD	2,482,352
Less State Income Tax Expense	290,064
Federal Taxable Income	2,192,288
Cuirrent Federal Income Tax Expense @.35	767,301
Record Federal AMT	116,460
Total Calculated Current Tax Expense	**883,761**
Total Timimg Differences	(602,484)
State Deferred Tax (Exp) Inc	90,453
Total Federal Timing Differences	(692,937)
Deferred Federal Taxes @ .35	(242,528)
Total Calculated Deferred Federal Tax Expense	**242,528**
Reconciling Items	
Difference in Pre Tax Calc Per ETR	239,339
Record Pe Tax Adjustment	87,282
Federal Effect Of State Pre Tax Adjustment After Running of ETR	(5,503)
Flow Thru Regulatory Assets	(120,222)
Deferred Investments Credits	24,990
Fas109 Regulatory Asset/Liability Amortization	348,360
Unknown	**(15,363)**
Total Federal Deferred Other Tax Expense	**801,411**
Other Federal Deferred Tax Items Recorded	
Prior Period Adjustment Deferred Tax Expense	209,202
Federal AMT	(116,460)
Amortization Of Regulatory Assets/Liabilities	-
Total Deferred Tax Expense	**894,153**
Other Federal Current Tax Items Recorded	
Prior Period Adjustments	**(14,569)**
Amortization of ITC	**(76,368)**
TOTAL FEDERAL TAX EXPENSE	**1,686,977**

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Consumer Advocate and Protection Division Discovery Request No. 2

Responsible Witness: **Michael Miller**

Question:

11. Provide a detailed reconciliation book to taxable income of Deferred Federal Income Tax Expense for the attrition year ended February 28, 2008 amount of $993,613 per Exhibit No. 2, Schedule 6. Include in your response detailed work papers of all temporary differences generating the Deferred Federal Income Tax Expense. Also, show any prior year adjustments for book to tax reconciliation.

Response:

See attached schedule identified as CAPD-02-Q011-ATTACHMENT that details the additional $99,459 in deferred taxes for the attrition year. This deferred tax is the difference in book and tax depreciation rates on plant additions through the mid-point of the attrition year as filed in the case. This schedule was filed with the working papers in the original filing. Please see the response to CAPD-02-Q010-ATTACHMENT for the normalized historical test-year Deferred Federal Income Tax used in TAWC's filing.

TENNESSEE-AMERICAN WATER COMPANY
DEFERRED FIT CALCULATION
ATTRITION YEAR
CAPD-02-Q011-attachment

YEAR	Water Property	Office Furniture	Data Handling	Heavy Trucks	Light Trucks	Cars	Software	Real Buildings	Tax Depr Total	Book Rate	Book Depr	Diff	Deferred @ 35%
July - Dec 06 BASIS	10,505,768	94,000	185,900	0	0	0	13,304	0	10,798,972	2.5700%	277,534		
Second Year Rate	4.000%	24.490%	32.000%	32.000%	32.000%	32.000%	44.450%	2.564%					
	420,231	23,021	59,488	0	0	0	5,914	0	508,654		277,534	231,120	80,892
01/07 - 08/07 BASIS	4,703,969	59,500	62,000	0	0	0	0	69,500	4,894,969	1.2850%	62,900		
First Year Rate	2.00%	14.29%	20.00%	20.00%	20.00%	20.00%	33.30%	1.39%					
	94,079	8,503	12,400	0	0	0	0	967	115,949		62,900	53,049	18,567
TOTAL DEFERRED TAXES ACRS							Tax Depr		624,603		Total Def Taxes		99,459
												284,169	

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Consumer Advocate and Protection Division Discovery Request No. 2

Responsible Witness: **Michael Miller**

Question:

12. Provide a detailed reconciliation book to taxable income of Deferred State Income Tax Expense for the test year ended June 30, 2006 amount of $231,004 per Exhibit No. 2, Schedule 6. Include in your response detailed work papers of all temporary differences generating the Deferred Federal Income Tax Expense. Also, show any prior year adjustments for book to tax reconciliation.

Response:

See the attached two page schedule identified as CAPD-02-Q012-ATTACHMENT. TAWC admits that the prior year adjustment of $253,840 shown on page 2 of the schedule under the sub-title Other State Deferred State Items Recorded should not have been included in the normalized historical test-year and carried forward to TAWC's attrition year in its filing.

TENNESSEE AMERICAN WATER COMPANY
CAPD-02-Q012-attachment

STATE TAX

	12 Months Ending June 30 06
Income per Books	3,263,160 0
Federal income tax accrual	(212.829 4)
State & Local Income Tax Accrual net of State Income Tax Deduction	(38,152.2)
Pretax Income	3,012,178
JE# P005 Meals and Entertainment	3,562 8
JE# P015 Research and Development Expense	664
JE# P020 Nondeductible Penalties	68,114
JE# P025 Nondeductible Donations	0
JE# P030 Nondeductible Dues	316
JE# P035 Amortization of Preferred Stock Expense	0
JE# P040 Lobbying Expenses	0
JE# P055 Other Expenses	0
JE# P070 Interest Expense-Repurchase (TWUS only)	
Total Permanent Differences	72,657
	3,084,835
JE# T005 Uncollectible Accounts	0
JE# T010 Vacation Pay	(141,325)
JE# T015 Customer Deposits	57,320
JE# T020 Taxable Contributions (CIAC 1)	498,722
JE# T021 Deferred Revenue - CIAC (CIAC 2)	0
JE# T025 Taxable Advances (CAC 1)	(601,258)
JE# T030 Merger Expense	0
JE# T040 Rate Case Expense	308,198
JE# T045 Depreciation and Amortization (Depr 1)	0
JE# T046 Post In-Service Depreciation Expense (Depr 2)	(473,953)
JE# T048 Reg Asset - AFUDC Debt (Depr 4)	63.362
JE# T060 Gains and Losses (Disp 1)	0
JE# T061 Deferred Tax Gain (Disp 2)	(588)
JE# T062 Abandonment Losses (Disp 3)	(360,034)
JE# T063 Cost of Removal (Disp 4)	0
JE# T064 Amortization of Premature Property Losses (Disp 5)	118,136
JE# T070 Amortization of UPAA	680
JE# T086 Purchased Water - Outside (PWtr 2)	0
JE# T090 Depreciation Study	0
JE# T095 Cost of Service Study	9,772
JE# T100 Amortization of Debt Discount	0
JE# T105 Management Study	(3,086)
JE# T110 Waste Disposal	0
JE# T122 Incentive Plan (Incen 3)	(136,317)
JE# T124 Incentive Plan (Incent 5)	0
JE# T130 Regulatory Pension (Pension 1)	(135,969)
JE# T131 Regulatory Pension (Pension 2)	(131,593)
JE# T132 Regulatory Pension (Pension 3)	382,545
JE# T135 Supplemental Pension	173,117
JE# T140 Accrued OPEB (OPEB 1)	(91,579)
JE# T141 Accrued OPEB (OPEB 2)	(147.182)
JE# T142 Accrued OPEB (OPEB 3)	0
JE# T145 AFUDC (AFUDC 1)	(45.708)
JE# T146 AFUDC - Equity CWIP (AFUDC 2)	(46,266)

JE# T147 Amortization of Regulatory Asset (AFUDC 3)	65,092
JE# T150 Post AFUDC (P AFUDC 1)	11,254
JE# T151 Amortization of Post In-Service AFUDC (P AFUDC 2)	(7,284)
JE# T152 Pavement Repairs	0
JE# T160 Deferred Maintenance (Maint 1)	6,237
JE# T161 Deferred Maintenance (Maint 2)	0
JE# T165 Miscellaneous Deferred Debits (Misc 1)	(5,794)
JE# T166 Miscellaneous Deferred Credits (Misc 2)	(105,803)
JE# T167 Miscellaneous Deferred Credits (Misc 3)	1,664
JE# T180 Insurance Other than Group	(127,312)
JE# T185 Deferred Security Costs	170,061
JE# T186 Deferred Customer Service Center Costs	155,344
JE# T187 Deferred Financial Services Costs	4,499
JE# T190 Deferred Business Change Costs	(49,056)
JE# T191 Deferred IMO Costs	(18,380)
JE# T200 Transaction Costs	0
JE# T220 JV Gain/Loss	0
Total Temporary Differences:	(602,484)
Federal taxable inc before NOL, DRD	2,482,352
Preferred Dividends of Subs	
Preferred Dividend Paid Credit	
State Tax Depreciation in Excess of Federal	1,994,062
Affiliated Dividends Received Deduction	
State Taxable Income	4,476,414
State Apportionment Factor	1
State Apportioned Taxable Income	4,476,414
Total Current State Tax Expense @ .06475	**290,065**
Total Timimg Differences	(602,484)
State Only Timing Diifferences	1,994,062
Total State Timing Differences	1,391,578
Deferred State Taxes @ .065	90,453
Calculated Deferred State Tax Expense	**(90,453)**
Reconciling Items	0
Difference in Pre Tax Calc vs ETR	26,358
Record Pre Tax Adjustment After Running ETR	15,723
Flow Thru Regulatory Assets	(23,879)
Deferred Investments Credits	4,964
Fas109 Regulatory Asset/Liability Amortization	19,008
Unknown	**25,443**
Total State Deferred Other Tax Expense	**(22,836)**
Other State Deferred Tax Items Recorded	
Prior Period Adjustment Deferred Tax Expense	253,840
Amortization Of Regulatory Assets/Liabilities	-
Total Deferred Tax Expense	**231,004**
Other State Current Tax Items Recorded	
Prior Period Adjustments	**(29,650)**
TOTAL STATE TAX EXPENSE	**491,419**

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Consumer Advocate and Protection Division Discovery Request No. 2

Responsible Witness: **Michael Miller**

Question:

13. Provide a detailed reconciliation book to taxable income of Deferred Federal Income Tax Expense for the attrition year ended February 28, 2008 amount of $231,004 per Exhibit No. 2, Schedule 6. Include in your response detailed work papers of all temporary differences generating the Deferred Federal Income Tax Expense. Also, show any prior year adjustments for book to tax reconciliation.

Response:

See the response to CAPD-02-Q012.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Consumer Advocate and Protection Division Discovery Request No. 2

Responsible Witness: **Michael Miller**

Question:

14. Provide a detailed reconciliation of the effective Federal Tax Rate of 50.34%[1] to the Federal Statutory Tax Rate of 35% for the attrition year at present rates. Refer to Note 7 of the PricewaterhouseCoopers LLP audit report of Thames Water Aqua US Holdings, Inc. and Subsidiary Companies dated January 11, 2007 for format purposes.

Response:

Please see the schedule attached and identified as CAPD-02-Q014-ATTACHMENT 1. Please see the responses to CAPD-02-Q010 concerning the admission of TAWC related to the impact of prior year adjustments on Deferred Federal Income Taxes. Near the bottom of the attached schedule is a recalculation of the ETR when adjusted for those prior year adjustments. The resulting ETR rate (FIT) is 42.01%. The ETR will not match the FIT statutory rate of 35% due to the impact of FAS109 flow-through and amortization entries required to meet IRS normalization requirements. Because the FAS109 entries are fixed the ETR will vary as the Pre-Tax Income fluctuates as evidenced by the difference in the ETR between the attrition year at present rates and the attrition year at proposed rates. In that situation as Pre-Tax Income increases at proposed rates the ratio of the fixed FAS109 entries decreases bringing the ETR closer to the statutory FIT rate. Please note that on ATTACHMENT 1 the ETR is 35.4% for the attrition year when adjusted for the prior adjustments and this level

---

[1] Sum of Lines 1, 5, and 9 of Exhibit 2, Schedule 6, Page 1 of 2 totaling $1,264,212 divided by Line 28 of Exhibit 2, Schedule 6, Page 2 of 2 amount of $2,511,394.

of deferred FIT expense, reflects what the Company believes to be the correct deferred FIT expense for this case.

Please note the CAPD has reflected the full rate base deduction for the FAS109 calculated deferred federal income tax, and the Company believes to comply with normalization requirements, the FAS109 entries should be reflected in the deferred FIT expense calculations. Please see the schedules attached and identified as CAPD-02-Q014-ATTACHMENT 2 for copies of the rate base deduction.

Please note the CAPD has reflected the full rate

Tennessee American Water
Effective Tax Rate Calculation
CAPD-02-Q014 & Q015 - ATTACHMENT 1

	test year		attrition year @ present rates		attrition year @ proposed rates	
	federal	state	federal	state	federal	state
operating revenues	33,023,514	33,023,514	33,432,287	33,432,287	39,812,174	39,812,174
operation & maintenance exp	18.552.210	18.552.210	18.503,021	18,503,021	18,584,499	18,584.499
depreciation & amortization	4.137.702	4.137.702	4,851,150	4,851,150	4.851.150	4.851.150
taxes, others	3.466.735	3,466,735	3.748.584	3.748.584	3.928.089	3.928.089
state income tax - current	260,415	260.415	38.702	38.702	434.901	434.901
state income tax - deferred	231.004	231.004	231.004	231.004	231.004	231,004
federal income tax - current	869.192	869.192	346.967	346,967	2,349,914	2,349,914
federal income tax - deferred	894.154	894.154	993.613	993.613	993.613	993.613
investment tax credit	(76,368)	(76,368)	(76,368)	(76,368)	(76,368)	(76,368)
subtotal	28,335,044	28,335,044	28,636,673	28,636,673	31,296,802	31,296,802
total other income	(1.621)	(1.621)				
total other deductions	(53.548)	(53.548)				
total other taxes	20,294	20,294				
subtotal	(34,875)	(34,875)	-	-	-	-
total interest charges	3,022,372	3,022,372	3,818,138	3,818,138	3,818,138	3,818,138
net income	1.631,223	1,631.223	977.476	977.476	4.697.234	4.697.234
state income tax - total	491.419	491.419	269,706	269,706	665,905	665.905
federal income tax - total	1,686,978	1,686,978	1,264,212	1,264,212	3,267,159	3,267,159
total income taxes	2,178,397	2,178,397	1,533,918	1,533,918	3,933,064	3,933,064
pre tax book income	3,809,620	3.809.620	2.511.394	2.511,394	8,630,298	8,630,298
permanent differences	62,493	62,493	62,493	62,493	62,493	62,493
taxable income	3,872,113	3,872,113	2,573,887	2,573,887	8,692,791	8,692,791
effective tax rates	44 28%	12 90%	50 34%	10 74%	37 86%	7 72%

	federal	state	federal	state
State Tax-total		269.706		665.905
Federal Tax-total	1,264.212		3,267,159	
Less Prior Yr Adj	(209,202)	(253,840)	(209,202)	(253,840)
	1,055.010	15.866	3.057.957	412.065
Pre Taxable Income	2.511.394	2.511.394	8.630.298	8.630.298
Effective Tax Rate	42 01%	0 63%	35 43%	4 77%

TENNESSEE-AMERICAN WATER COMPANY
ACCUMULATED DEFERRED F.I.T
@ 8-31-07

CAPD-02-Q014-ATTACHMENT 2

ACCOUNT NUMBER			
	ACCUM DEF INCOME TAXES		
		6/30/2006	**$17,870,833**
	ADD:		
	DEFERRED FIT - LIBRALIZED DEPRECIATION (JULY 2006 THRU AUGUST 2007)		962,536
	DEFERRED FIT - SECURITY COSTS		0
	TOTAL		18,833,369
	DEFERRED TAXES - (JULY THRU DECEMBER 2006)		**396,738**
	DEFERRED TAXES - (JANUARY THRU AUGUST 2007)		**565,798**
			962,536
		6%	57,752
			904,784
		35%	316,674
186030	Reg Asset - AFUDC - CWIP		(52,315)
186035	Reg Asset AFUDC Equity		(909,540)
186040	Reg Asset Plant Flow Through		(5,967,492)
186045	Reg Asset Other		(1,583,170)
186051	Reg Asset State Tax Change		(2,601,895)
186055	Reg Asset Accum Amortization		150,899
			(10,963,514)
252204	Def Fit Other Property		16,860,305
253202	Def Fit Flow Through Depreciation		1,388,200
253203	Def Fit Norm Property		(4,930)
253301	Def Fit Other		4,229,136
253309	Def FIT ATM		(116,460)
253602	Def Sit Flow Through Depreciation		253,168
253604	Def Sit Other Property		3,086,265
253701	Def SIT Other		650,327
			26,346,011
256211	Reg Liab Exc Def AFUDC FIT		491,329
256220	Reg Liab Deficit Def Fit		(577,521)
256250	Reg Liab ARO/NNS		1,854,801
256310	Reg Liab ITC Grossup 3%		26,855
256311	Reg Liab ITC Grossup 4%		61,070
256312	Reg Liab ITC Grossup 10%		631,803
			2,488,337

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Consumer Advocate and Protection Division Discovery Request No. 2

Responsible Witness: Michael Miller

Question:

15. Provide a detailed reconciliation of the effective State Tax Rate of 10.74%[2] to the State Statutory Tax Rate of 6.5% for the attrition year at present rates.

Response:

Please see the response to CAPD-02-Q014 and ATTACHMENT 1 to that response. The effective SIT rate in the attrition year after adjustment for the prior year deferred SIT adjustment is 0.63%. As indicated in the explanation provided to CAPD-02-Q014 the level of pre-tax income and the fixed FAS109 entries create fluctuations in the ETR (SIT). Also included in CAPD-02-Q014 ATTACHMENT 1 the ETR (SIT) is 4.77% for the attrition year at proposed rates when adjusted for the prior year adjustments and this level of deferred SIT expense reflects what the Company believes to be the correct level of deferred SIT expense for this case.

---

[2] Sum of Lines 3 and 7 of Exhibit 2, Schedule 6, Page 1 of 2 totaling $269,706 divided by Line 28 of Exhibit 2, Schedule 6, Page 2 of 2 amount of $2,511,394.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Consumer Advocate and Protection Division Discovery Request No. 2

Responsible Witness: **Sheila Miller**

Question:

16. Provide a detailed explanation of the variances in Other Operating Revenues for Activity/New Service Fees and Late Payment Penalty from normalized 2005 to normalized 2006.

Response:

	Account No. 403101	
	2005	2006
Late Charge	$261,570.80	$308,075.91
Late Charge Cr	$ (9,113.64)	$ (12,737.85)
Activation Fee	$243,315.87	$ -
Accrual Entry	$ (6,250.00)	$ (18,750.00)
	$489,523.03	$276,588.06

Note: Activation Fees were mapped to account 403105 in 2006.

	Account No. 403105	
	2005	2006
Miscellaneous Invoice	$ 7,200.00	$ 6,300.00
Activation Fee	$ -	$325,444.33
	$ 7,200.00	$331,744.33

Respectfully Submitted,

R. Dale Grimes (#6223)
J. Davidson French (#15442)
Ross I. Booher (#019304)
BASS, BERRY & SIMS PLC
315 Deaderick Street, Suite 2700
Nashville, TN 37238-3001
(615) 742-6200
Counsel for Petitioner
Tennessee American Water Company

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served via the method(s) indicated, on this the 31 day of March, 2007, upon the following:

[ ] Hand-Delivery [ ] U.S. Mail [ ] Facsimile [x] Overnight [x] Email	Michael A. McMahan Special Counsel City of Chattanooga (Hamilton County) Office of the City Attorney Suite 400 801 Broad Street Chattanooga, TN 37402
[ ] Hand-Delivery [ ] U.S. Mail [ ] Facsimile [x] Overnight [x] Email	Frederick L. Hitchcock, Esq. Shareholder Chambliss, Bahner & Stophel, P.C. 1000 Tallan Building Two Union Square Chattanooga, TN 37402
[ ] Hand-Delivery [ ] U.S. Mail [ ] Facsimile [x] Overnight [x] Email	David C. Higney, Esq. Grant, Konvalinka & Harrison, P.C. 633 Chestnut Street, 9th Floor Chattanooga, TN 37450
[x] Hand-Delivery [ ] U.S. Mail [ ] Facsimile [ ] Overnight [x] Email	Timothy C. Phillips, Esq. Vance Broemel, Esq. Stephen Butler, Esq. Consumer Advocate and Protection Division Office of Attorney General 2nd Floor 425 5th Avenue North Nashville, TN 37243-0491
[x] Hand-Delivery [ ] U.S. Mail [ ] Facsimile [ ] Overnight [x] Email	Henry M. Walker, Esq. Boult, Cummings, Conners & Berry, PLC Suite 700 1600 Division Street P.O. Box 340025 Nashville, TN 37203