



City of Chattanooga

Randall L. Nelson
City Attorney

OFFICE OF THE CITY ATTORNEY
801 BROAD STREET, SUITE 400
Chattanooga, Tennessee 37402
AREA CODE (423) 757-5338
FAX: (423) 756-0737

Michael A. McMahan
Phillip A. Noblett
Kenneth O. Fritz
D. Marty Lasley
Crystal Freiberg
Valerie L. Malueg
Special Counsel

April 24, 2007

Honorable Sara Kyle
Chairman

Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

filed electronically in docket office on 04/24/07

**RE: *Tennessee American Water Company, Petition 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
Services to its Customers
TRA Docket No. 06-00290***

Dear Chairman Kyle:

Enclosed for filing are an original and four copies of the City of Chattanooga's engagement letter with Raftelis Financial Consultants, Inc. which the Hearing Officer ordered to be produced. If you have any questions, please contact me.

Sincerely,

A handwritten signature in dark ink, appearing to read "Michael A.", followed by a horizontal line.

MICHAEL A. McMAHAN
Special Counsel

MAM/mms
Enclosures

cc: J. Richard Collier, Esq./Mr. Jerry Kettles (w/encl.)
 R. Dale Grimes, Esq./J. Davidson French, Esq. (w/encl.)
 Robert E. Cooper, Jr., Attorney General (w/encl.)
 David C. Higney, Esq./Catharine Giannasi, Esq. (w/encl.)
 Henry M. Walker, Esq. (w/encl.)
 Frederick L. Hitchcock, Esq./Harold L. North, Esq. (w/encl.)



▪ 511 East Boulevard
Charlotte, NC 28203

▪ Phone 704 • 373 • 1199
Fax 704 • 373 • 1113

▪ www.raftelis.com

February 13, 2007

Mr. Michael McMahan, Esq.
Nelson, McMahan & Noblett
801 Broad Street, Suite 400
Pioneer Building
Chattanooga, TN 37402-2674

Via USPS and E-mail

Dear Mr. McMahan:

As requested, Raftelis Financial Consulting ("RFC") is pleased to submit this engagement letter to assist the City of Chattanooga ("City") by providing litigation support and expert witness testimony regarding the validity and appropriateness of the rate increase request submitted by the Tennessee-American Water Company ("TAWC") to the Tennessee Regulatory Authority ("TRA"). Specifically, the TAWC is requesting an increase in rates that would increase TAWC's annual revenues by approximately \$6,379,887.

Scope of Work and Fees - Phase I

RFC's scope of work during Phase I of the project would entail a detailed review of documents submitted by relevant parties regarding TAWC's rate filing (Docket 06-00290) before the TRA to determine the appropriateness of the following cost categories and their impact on rates:

- Call Center Costs
- Management Contract Costs
- Other O&M Expenses and Impacts of Water Loss
- Capital Expenses

After the review of relevant documents, RFC would determine the relevance, supportability, and magnitude of impact on rates. If warranted, RFC would gather additional support data and provide expert witness testimony regarding these issues as appropriate.

RFC understands that the pre-filed expert witness testimony is due February 26. Given this schedule, RFC suggests the utilization of multiple staff to review, organize, and assess the large amount of data relevant to this rate filing. Leta Hals would manage the project and, with assistance from Patrick Smyth, CPA, would perform the majority of the data review and analysis. Ms. Hals and/or Harold Smith, Vice President, would provide the expert witness testimony. Bill Standard, Vice President and COO and George Raftelis, President, would provide additional technical support on an as-needed basis. Resumes for these RFC personnel have been included in Appendix A.

- Draft -

Mr. Michael McMahan, Esq.
City of Chattanooga, Tennessee

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RFC has estimated fees and expenses of \$33,580 for Phase I of the project (Schedule A). However, to the extent that certain tasks are deemed not relevant after review of the support documents, hours may be 1) shifted among tasks, or 2) not expended and therefore not charged to the City. Please note that RFC typically charges higher rates for litigation support activities. These higher rates have not been incorporated into this workplan and will not be assessed to the City.

Furthermore, if the City wishes for RFC to focus on a subset of the identified areas, RFC's estimated fees and expenses would be reduced accordingly.

Scope of Work and Fees - Phase II

In the Phase II of its work with the City, RFC would provide litigation support and expertise as requested by the City and its legal team. Those personnel who provided pre-filed expert witness testimony in Phase I would prepare for and provide expert witness testimony at the TRA in Nashville, Tennessee. Additional tasks have been included in this scope of work based on RFC's prior experience, but are at the discretion of the City and its legal team. These tasks could include:

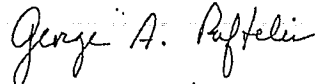
- Review of other filings related to this rate case;
- Participation in relevant discussions with the legal team; and
- Assistance with cross-examination of other rate case witnesses.

RFC estimates fees and expenses of approximately \$31,000 for Phase II of this engagement (Schedule B), however, RFC's level of effort in this phase is typically dictated by the client and its legal team.

We will bill strictly on a time and materials basis; not to exceed the project ceiling, unless otherwise authorized by the City. Please note that this proposed effort excludes the preliminary review performed prior to the date of this proposal.

We look forward to providing this assistance to the City of Chattanooga. If you agree with the project fees and expenses documented in this letter, please sign in the space below, and return one copy for our files. Should you have any questions or comments regarding this letter, feel free to contact me at (704) 373-1199 or Ms. Leta Hals at (423) 282-3076.

Sincerely yours,
RAFTELIS FINANCIAL CONSULTING, PA



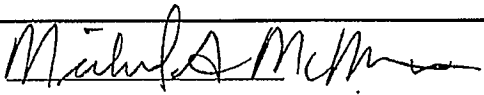
George A. Raftelis
President

cc: Mr. Randall L. Nelson, Esq.
Mr. Frederick L. Hitchcock, Esq.

Mr. Michael McMahan, Esq.
City of Chattanooga, Tennessee

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The City of Chattanooga accepts the terms of this letter:

 Signature	<u>2/14/07</u> Date
<u>Special Counsel</u> Title	<u>Michael A McMahan</u> Name of authorized agent

SCHEDULE A
Chattanooga, TN Work plan
Phase I - Provide Pre-Filed Expert Witness Testimony by February 26

TASK DESCRIPTION

- 1 Call Center Issue
 - a. Data Collection and Review
 - b. Determine Relevance, Supportability, and Magnitude of Issue
 - c. Gather Additional Support Data
 - d. Draft Expert Witness Testimony
 - e. Incorporate Suggested Revisions
- 2 Management Contract Issue
 - a. Data Collection and Review
 - b. Determine Relevance, Supportability, and Magnitude of Issue
 - c. Gather Additional Support Data
 - d. Draft Expert Witness Testimony
 - e. Incorporate Suggested Revisions
- 3 Other O&M Expense Appropriateness/Water Loss
 - a. Data Collection and Review
 - b. Determine Relevance, Supportability, and Magnitude of Issue
 - c. Gather Additional Support Data
 - d. Draft Expert Witness Testimony
 - e. Incorporate Suggested Revisions
- 4 Capital Expense Appropriateness
 - a. Data Collection and Review
 - b. Determine Relevance, Supportability, and Magnitude of Issue
 - c. Gather Additional Support Data
 - d. Draft Expert Witness Testimony
 - e. Incorporate Suggested Revisions

Hours Requirements				
GR/BS	HS	LH	Staff	Admin.
	1	4	8	2
2	2	2	1	
		2	4	2
2	4	6	1	
	1	2		
	1	4	8	2
2	2	2	1	
		2	4	2
2	4	6	1	
	1	2		
	1	4	8	2
2	2	2	1	
		2	4	2
2	4	6	1	
	1	2		
	1	4	8	2
2	2	2	1	
		2	4	2
2	4	6	1	
	1	2		
Total Hours	16	32	64	56
Billing Rate	\$275	\$200	\$175	\$170
Professional Fees	\$ 4,400	\$ 6,400	\$ 11,200	\$ 9,520
Total Professional Fees				\$ 32,320
Estimated Expenses				\$ 1,260
Fees and Expenses				\$33,580

Mr. Michael McMahan, Esq.
City of Chattanooga, Tennessee

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SCHEDULE B
Chattanooga, TN Work plan
Phase II - Provide Additional Litigation Support Assistance

TASK DESCRIPTION

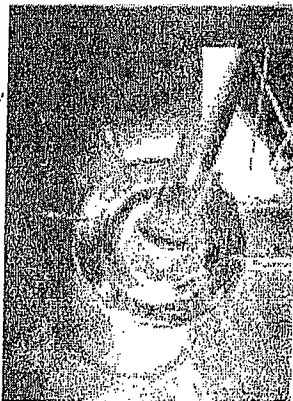
- 1 Review Other Testimony/Filings and Participate in Discussions with Legal Team
 - a. TAWC Rebuttal Testimony and Other Filings
 - b. Filings/Testimony of Other Interveners
 - c. TRA Filings
 - d. Discussions with Legal Team
- 2 Prepare for Testimony at TRA
 - a. Preparation with Legal Team
 - b. Additional Research, Etc.
 - c. Review of Materials
- 3 Provide Testimony at TRA
(Trip to Nashville, TN)
- 4 Assist Legal Team in Developing Cross-Examination

Total Hours
Billing Rate
Professional Fees

Hours Requirements				
GR/BS	HS	LH	Staff	Admin.
4	20	20	12	2
2	20	20	12	2
1	8	8	2	2
1	8	8	8	2
8	56	56	34	8
\$ 275	\$200	\$175	\$170	\$50
\$ 2,200	\$ 11,200	\$ 9,800	\$ 5,780	\$ 400
Total Professional Fees				\$ 29,380
Estimated Expenses				\$1,955
Fees and Expenses				\$31,335

Appendix A

Resumes



OVERVIEW OF RAFTELIS FINANCIAL CONSULTANTS, INC.

GEORGE RAFTELIS - President

Mr. Raftelis has over 30 years of experience in environmental finance, strategic planning, resource conservation, and related areas. He has served as Partner-in-Charge, Project Manager, Technical Advisor or Lead Consultant for over 300 governments in the United States, Canada, United Kingdom, Bulgaria and the Caribbean. Mr. Raftelis has been very involved in the water and wastewater industry associations. He has held numerous leadership positions and has served the chair of AWWA's Management Division. In addition, Mr. Raftelis has written a text entitled, Water and Wastewater Finance and Pricing: A Comprehensive Guide (Third edition) which has become an authoritative document for establishing utility financing plans and pricing structures. He has also co-authored the AWWA's *Revenue Requirements Manual* and is often quoted in industry and finance publications.

PROFESSIONAL HISTORY

Raftelis Financial
Consultants, Inc.
President, 1993 - present
Ernst & Young
Partner 1984 - 1993
Director, National Environmental
Consulting Practice 1975-1984
United States Army
First Lieutenant, 1969-1973

EDUCATION

Masters in Business
Administration
Duke University, 1975
Bachelors of Science
in Mathematics and Economics
Eckerd College, 1969

PROFESSIONAL REGISTRATIONS

Certified Public Accountant

PROFESSIONAL MEMBERSHIPS

American Water Works Association;
Trustee-Management Division
Past Chair, Financial
Management Committee
Past Chair, Rates
and Charges Subcommittee
EPA Environmental
Financial Advisory Board
Chair, Public Sector
Finance Options Work Group
Water Environment Federation

PUBLICATIONS

*Comprehensive Guide to Water and
Wastewater Finance and Pricing,
2nd Edition*
Co-authored AWWA's Revenue
Requirements
Manual and Alternate Rates
Articles appearing in:
*Strategist, American Public
Works Journal*
*American City and County
Environmental Finance*

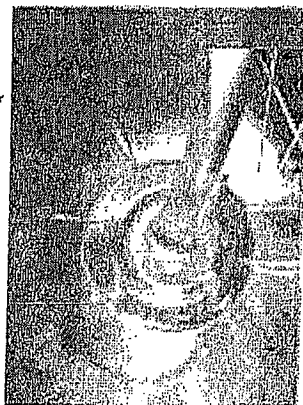
RELEVANT PROJECT EXPERIENCE

- City of Rock Hill / York County, South Carolina - Regionalization Study
- Washington Council of Governments, Washington, DC - Cost Equity Study
- Georgetown County Water and Sewer District, South Carolina - Wastewater Implementation and Regionalization Study
- City of Myrtle Beach, South Carolina - Water and Wastewater Cost of Service and Rate Study, Rate Update, SRF Loan Application Assistance
- Metropolitan Water District of Southern California - Cost of service and rate design study
- San Antonio Water System, Texas - Water and Sewer Rate Study City of Portland, Oregon - Wholesale Service Contract Review
- San Francisco Public Utilities Commission - Wholesale Contract Development, Reuse Water Pricing Review and Wheeling Rate Review
- Birmingham Water Works Board - Water Rate and System Development Charge Analysis
- Columbus Water Works, Georgia - Water and Wastewater Rate Studies
- Metropolitan Water District of Southern California - Water Financial Planning and Rate Analysis

Selected Litigation Support and Expert Testimony

City of Billings/Billings Heights, Montana
City of Los Angeles, California
City of Los Angeles, California
City of New York, New York
City of Niagara Falls, New York
Orange County, Florida

Allegheny County Sanitary District
Grand Strand Water & Sewer Authority
City of North Myrtle Beach, South Carolina
City of Phoenix, Arizona
City of Jasper, Alabama
City of Lake City / Town of Olanta, SC



OVERVIEW OF RAFTELIS FINANCIAL CONSULTANTS, INC.

WILLIAM STANNARD – Vice President

William Stannard, Vice President and Chief Operating Officer, joined RFC in 2002 after a 28-year consulting career at Black & Veatch where he was head of that firm's management consulting division. Mr. Stannard's career has focused on providing consulting services to investor and municipally-owned utilities covering management, operation, economic, and financial matters. His extensive experience encompasses formulation of financial systems and ordinances for compliance with regulations regarding the Clean Water Act and the Safe Drinking Water Act; comprehensive revenue requirements and cost of service studies; consulting engineers and financial feasibility reports related to the sale of revenue bonds; financial feasibility analyses; organizational and management reviews; and utility competitiveness studies. He has served as an expert witness in rate litigation matters in federal and state courts and before arbitration panels and state public service commissions. Mr. Stannard has also served as an arbitrator in resolving water and wastewater rate disputes. Mr. Stannard has been an active member of the WEF and AWWA. He served as chair of the WEF task force charged with the development of a Manual of Practice, *Financing and Charges for Wastewater Systems*. Mr. Stannard was also a contributing author for the book Water and Wastewater Finance and Pricing: A Comprehensive Guide (Third edition). This authoritative text is used by utility managers and consultants throughout the United States. Currently, he is vice chair of the AWWA's Finance, Accounting and Management Controls Committee.

TECHNICAL SPECIALTIES

Cost of Service and Rate Studies
Financial Planning Studies
Valuation and Acquisitions
Bond Forecasts and Examinations
Regionalization Studies
Management Policy and Practice
Environmental Finance & Accounting

PROFESSIONAL HISTORY

Raftelis Financial Consultants, Inc. Vice President, 2002 – present
Black & Veatch
Senior Vice President, 1996-2002
Vice President, 1992-1996
Project Manager, 1984-1992
Assistant Project Manager, 1980-1984
Staff Consultant, 1975-1980

EDUCATION

Bachelor of Science,
Business Administration
Kansas State University, 1975
Bachelor of Science,
Civil Engineering
Kansas State University, 1975

PROFESSIONAL REGISTRATIONS

Registered Professional Engineer in:
Indiana, Kansas, Ohio,
Massachusetts, Michigan

PROFESSIONAL MEMBERSHIPS

American Society of Civil Engineers
American Water Works Association
Texas Section Rates Committee
Government Finance Officers Association
Water Environment Federation
Chair, Task Force on Wastewater Charges
Listed in Best Lawyers in America –
Directory of Expert Witnesses
Listed in Who's Who in Science and Engineering

RELEVANT PROJECT EXPERIENCE

Litigation Support and Expert Testimony

Bay City, Michigan
City of Billings / Billings Heights, Montana
City of Bloomington, Indiana
Boone County Water District, Kentucky
City of Detroit, Michigan
City of Grand Rapids, Michigan

Harrison Township, Michigan
City of Holland, Michigan
City of Kalamazoo, Michigan
City of Warren, Michigan
Merrimack Paper Company, Lawrence, MA
Seaton Leather Company, Newark, NJ

Additional Relevant Experience

- Loudoun County Sanitation Authority, Virginia – Water and Sewer Rate Study and Bond Feasibility Study
- US Navy in Norfolk, Virginia – Water Rate Review
- San Antonio Water System, Texas – Water and Sewer Rate Study
- City of Loveland, Ohio – Evaluation of Wastewater Service Alternatives
- City of San Diego, California – Water Reuse Pricing Study
- City of Lexington, Kentucky – Water System Valuation
- City of Portland, Oregon – Wholesale Service Contract Review and Bond Feasibility Study
- San Francisco Public Utilities Commission, California – Wholesale Contract Development, Reuse Water Pricing Review and Wheeling Rate Review



OVERVIEW OF RAFTELIS FINANCIAL CONSULTANTS, INC.

HAROLD SMITH – Vice President

Mr. Smith has managed numerous projects for public utilities including cost of service and rate studies; utility valuation studies; privatization feasibility analyses and procurements; impact fee studies; bond feasibility studies; regionalization studies; water and wastewater master planning studies; economic feasibility studies and long-term financial planning studies. He is a contributing author for the book, Water and Wastewater Finance and Pricing: A Comprehensive Guide (Third edition) and co-author of the AWWA Manual, Water Utility Management.

TECHNICAL SPECIALTIES

Utility Cost of Service
and Rate Structures
Utility Valuation
Privatization Procurements
Privatization Feasibility
Regionalization/ Consolidation
Utility Financial Planning

PROFESSIONAL HISTORY

Raftelis Financial Consultants,
Inc.
Vice President, 2002 to Present
Manager, 1997-2002
Geoscience Group
Environmental Department
Manager and Senior Geologist -
1991 to 1997
Trigon Engineering
Consultants, Inc.
Project Geologist - 1989-1991

EDUCATION

Master of Business
Administration
Wake Forest University 1997
Bachelor of Science in Natural
Resources
University of the South, 1987

PROFESSIONAL REGISTRATIONS

Licensed Professional Geologist

PROFESSIONAL MEMBERSHIPS

American Water Works
Association:
Chairman of Competitive
Practices Committee

PUBLICATIONS

*Water and Wastewater Finance
and Pricing: A Comprehensive
Guide, 3rd Edition*

Co-Author AWWA Manual M-5
"Water Utility Management"

RELEVANT PROJECT EXPERIENCE

Cost of Service and Rate Studies

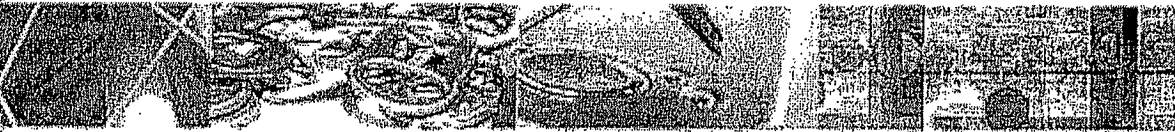
- City of Peoria, Arizona
- City of Scottsdale, Arizona
- City of Newport, Rhode Island
- City of Buffalo, New York
- San Antonio Water System, Texas
- Cecil County, Maryland
- City of Niagara Falls, New York
- City of Lexington, North Carolina
- City of Dayton, Ohio
- City of Florence, South Carolina

Privatization Feasibility and Procurements

- City of Phoenix, Arizona
- Borough of Naugatuck, Connecticut
- City of Atlanta, Georgia
- New Orleans Bureau of Government Research
- City of Charlotte, North Carolina
- United States Navy
- Wake County, North Carolina

Valuation and Other Financial Analyses

- City of Phoenix, Arizona
- Columbus Water Works, Georgia
- City of Peoria, Illinois
- Piedmont Triad Water Authority, North Carolina



OVERVIEW OF RAFTELIS FINANCIAL CONSULTANTS, INC.

LETA HALS, CBA – Manager

Since joining RFC in 1999, Ms. Hals has provided financial consulting services to numerous water and wastewater utilities. These projects include financial valuation and economic impact studies; litigation support; and public works organization. Ms. Hals has also served as the lead consultant and/or project manager on several cost of service and rate structure studies. She has extensive experience in financial forecasting and modeling and valuation. Ms. Hals earned her certification as a Certified Business Appraiser (“CBA”) from the Institute of Business Appraisers (“IBA”) in 2004. Ms. Hals was honored with the “2005 Best Certified Business Appraiser Report” by IBA.

TECHNICAL SPECIALTIES

Utility Valuation and Appraisal
Economic Impact Studies
Litigation Support
Privatization Assessment and
Implementation
Utility Bond Feasibility Studies

PROFESSIONAL HISTORY

Raftelis Financial
Consultants, Inc.
Manager, 1999 – Current

Andersen Consulting
1996 – 1998

EDUCATION

Masters in Business
Administration
University of Tennessee, 1996

Bachelor of Science
College of William and Mary, 1993

PROFESSIONAL REGISTRATIONS

Certified Business Appraiser

PROFESSIONAL MEMBERSHIPS

Institute of Business Appraisers
American Water Works Association

PROFESSIONAL TESTIMONY

Illinois Commerce Commission
Valuation and Economic Feasibility

Brunswick County, NC
Utility Valuation

PROFESSIONAL AWARDS

2005 Best Certified Business
Appraiser Demonstration Report
Awarded by the Institute of Business
Appraisers

RELEVANT PROJECT EXPERIENCE

- Greenville Utilities Commission, North Carolina – Valuation and Economic Feasibility
- Shelby County, Alabama – Ownership and Management Feasibility Study
- City of Phoenix, Arizona – Privatization Procurement
- City of Peoria, Arizona – Three Valuation and Economic Impact Analyses
- City of Pekin, Illinois – Valuation, Economic Impact Analysis, Expert Witnesses Testimony, and Litigation Support
- City of Peoria, Illinois – Valuation and Economic Impact Analysis
- City of Concord, NC – Investment Valuation and Economic Feasibility
- Borough of West Paterson, New Jersey – Valuation and Economic Impact Analysis
- Birmingham Water Works Board, Alabama – Valuation and Economic Impact Analysis
- San Diego Water Authority, California – Rate Analysis
- South Brunswick, North Carolina – Expert Witness Testimony and Bond Feasibility Study
- San Diego Water Authority, California – Rate Analysis
- Ottawa, Ontario – Public Works Organization
- Shelby County, Alabama – Ownership and Management Feasibility Study
- Asheville, North Carolina – Bond Feasibility Study and Cost of Service Analysis
- South Shore Water Works, Kentucky – Valuation Analysis
- San Diego Metropolitan Joint Powers Authority, California – Valuation Analysis
- Charlotte-Mecklenburg Utilities, Charlotte, North Carolina – Valuation Analysis
- Grand Strand Water & Sewer Authority, Myrtle Beach, South Carolina – Valuation Analysis
- St. Charles County Government, Missouri – Appraisal Review
- Lexington-Fayette Urban County Government – Valuation and Economic Impact Analysis
- United States Navy – Valuation Research and Process Development
- Chattanooga, Tennessee – Financial Valuation and Economic Impact Analysis



OVERVIEW OF RAFFELIS FINANCIAL CONSULTANTS, INC.

PATRICK SMYTH, CPA

As Technology Manager with Raffelis Financial Consultants, Mr. Smyth has been involved in numerous projects for public utilities. He has considerable financial modeling expertise and a broad range of computer technology skills.

TECHNICAL SPECIALTIES

Cost of Service Studies
Rate Structure Studies
Privatization Feasibility and
Implementation Analysis
Utility Financial Planning
Litigation Support
Stranded Cost Analysis
Mergers & Acquisitions
Feasibility

PROFESSIONAL HISTORY

Raffelis Financial
Consultants, Inc.
Technology Manager, 1994-
Present
Wachovia Bank, NA
Assistant Vice President, 1995-
2000

EDUCATION

Bachelor of Science/Bachelor
of Arts in Accounting
Appalachian State University,
1988

Bachelor of Science in Earth
Science
(Magna cum laude), University
of North Carolina at Charlotte,
1993

PROFESSIONAL MEMBERSHIPS

North Carolina Association of
CPAs
Certified Public Accountant

RELEVANT PROJECT EXPERIENCE

Metropolitan Water District of Southern California

this project involved a detailed cost of service study for the largest water system in North America. Mr. Smyth was responsible for the design and construction of the financial model, and assisted in producing an exhaustive report examining cost of service issues facing the Metropolitan water system. This work was used as the basis for the development of new wholesale rate structures for Metropolitan's 27 member agencies.

Environmental Protection Agency

Mr. Smyth was the primary technical and research resource for this project in which RFC was retained by the Department of Justice and the EPA in supporting a civil suit against the Sewerage and Water Board of New Orleans, the City of New Orleans, and the State of Louisiana under the Clean Water Act. The suit sought to compel the Board to bring its sewerage system into compliance with national environmental standards and the CWA. Compliance would have required extensive rehabilitation of the sewer system infrastructure plus substantial changes in operational and maintenance programs. RFC was responsible for developing estimates of compliance costs and wastewater rate impacts. As part of the analysis, RFC developed a set of ratios and benchmarks for evaluating rate affordability under different financial scenarios. RFC also developed a matrix of financial indicators for evaluating the financial strength of the Board and the surrounding community.

Other recent projects:

- Metropolitan Water District of Southern California (2 projects)
- Fort Mill and York County, South Carolina – System Consolidation, Cost of Service and Rate Study
- Charlotte-Mecklenburg Utility Department, North Carolina (5 projects)
- Columbus Water Works, Georgia (4 projects)
- Water Works and Sewer Board of the City of Birmingham (2 projects)
- City of Dayton and Montgomery County, Ohio (2 projects)