filed electronically in docket office on 05/09/07

IN THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

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

CONSUMER ADVOCATE'S POST-HEARING BRIEF ON E-CIS AND RELATED RATE BASE AND DEPRECIATION EXPENSE ISSUES

Robert E. Cooper, Jr., the Attorney General and Reporter for the State of Tennessee, through the Consumer Advocate and Protection Division of the Office of Attorney General ("Consumer Advocate"), respectfully submits this post-hearing brief.

RATE BASE

Based on all of the evidence now in the record, the Consumer Advocate contends that Tennessee American Water Company's ("Tennessee's") rate base for the E-CIS investment should be reduced by $697,981, which is the total cost to Tennessee for the E-CIS investment for the years 1996, 1997, 1998 and 1999. (See deposition of A. Joseph Van den Berg, exhibit 1). This adjustment would reduce Tennessee's rate base for the remaining E-CIS investment to $792,999. (See Tennessee's Response to Consumer Advocate's Second Set of Discovery, Question 4). The costs for these years should be disallowed, because Tennessee consumers received no tangible and useful benefit from the investments during these years.

This position by the Consumer Advocate represents a concession of $645,317 in rate base compared to the Consumer Advocate's position in Terry Buckner's Supplemental Testimony, page 4, lines 4-6, in which he proposed that the E-CIS amount in rate base should be reduced to $147,682. The Tennessee Regulatory Authority ("TRA") allowed additional testimony and documents to be entered into the record on and near the last day of the hearing and also allowed post-hearing depositions. The Consumer Advocate's partial concession is based on the full record, including the new documents and new testimony allowed into the record by the TRA.

Seven years passed from the original Orcom contract in 1996 to the first use of the consolidated call center by Tennessee in 2003. In 1996 American Water Works decided to upgrade its customer information software by installing Orcom's Customer Information System ("CIS") software in the various subsidiary water companies individually. (Orcom Systems, Inc., Agreement, October 9, 1996, Exhibit B, page 1). On April 15, 1999, American Water Works Service Company signed an agreement with Orcom Solutions, Inc., to upgrade the CIS software to Orcom's Enterprise Customer Information System ("E-CIS") software. (Agreement Relating to Software Upgrade, April 15, 1999). Tennessee American has admitted the following:

> AWW began the investment 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, $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.

(Direct Testimony of A. Joseph Van den Berg, page 7, lines 10-17).

As a result of the re-evaluation in 2000, American Water Works Service Company changed course. Instead of upgrading the call centers of the individual subsidiary water companies, American Water Works Service Company decided to consolidate the call centers. It was a new project with a new goal. (Deposition of A. Joseph Van den Berg, page 48, lines 5-6). In addition to the $16 million that had been spent, the years from 1996 through 1999 had passed without any tangible and usable benefits flowing to Tennessee. There is no evidence that Tennessee ever implemented the original CIS software from the 1996 Orcom contract.

The new project that began in 2000 resulted in a consulting services agreement with Anderson Consulting entered into as of April 24, 2000. The project continued and resulted in a consulting services agreement with Accenture entered into as of June 30, 2001. As of January 17, 2003, there were eight subsidiary companies, including Tennessee, that were identified as "Delayed Operating Companies," which were not then utilizing the consolidated call center. Tennessee did not receive the benefit of the consolidated call center until July of 2003, which was seven years after the original 1996 Orcom contract. (See Supplemental Testimony of John S. Watson, page 14, lines 5-8).

The seven-year delay does matter, especially in the context of computer software. Mr. Michael Miller described E-CIS as "1990s type systems." (Transcript of Hearing, page 796, line 24). Mr. Miller also testified that there currently is preliminary consideration of replacing E-CIS in 2009 or 2010. (Transcript of Hearing, page 797, lines 12-16). According to Mr. Miller, "There is a better software out there now with today's technologies ... ." (Transcript of Hearing, page 797, lines 6-7). Mr. John Watson does not know if E-CIS needs to be replaced in the near future. (Deposition of John S. Watson, page 5, lines 10-12).

Despite the fact that the "1990s" technology provided no tangible and usable benefit to Tennessee until July of 2003, and also despite the fact that the original CIS software was never implemented in Tennessee, American Water Works Service Company allocated costs to Tennessee beginning in 1996. Tennessee American Water Company has not carried its burden of proving that it is just and reasonable to set rates based on the costs allocated to Tennessee prior to the re-evaluation that occurred in 2000. The $697,981 allocated to Tennessee in 1996, 1997, 1998 and 1999 should be excluded from the rate base.

DEPRECIATION EXPENSE

Other than the E-CIS investment, the rest of the office furniture and equipment account assets (account 340) net to a negative book value and therefore cannot be depreciated. This is true regardless of whether or not the TRA excludes a portion of the rate base as argued by the Consumer Advocate. In public utility accounting "no more nor no less than the cost of the asset is depreciable[.]" Suelflow, James E., *Public Utility Accounting: Theory and Application*, 1973. When the entire E-CIS investment is considered separately from the other assets in the 340 account, office furniture and equipment, the net book value of the remaining office furniture and equipment is negative. Referencing the Supplemental Testimony of Terry Buckner, Exhibit REVISED E-DEP, Revised P135, the Plant in Service Balance for account 340, excluding the E-CIS investment, as of December 31, 2006, is $3,544,832. The Accumulated Depreciation for account 340, excluding the E-CIS investment, as of December 31, 2006, is $3,848,612. The Net Plant Balance for account 340, excluding the E-CIS investment, as of December 31, 2006, is ($303,780), a negative amount. Therefore, the non-E-CIS assets in account 340 cannot be depreciated in the future. (See also, Transcript of Hearing, page 1225, lines 3-14).

Mr. Michael Miller testified, "For whatever reason, the CAD lumped that into their 340 account, called it office supplies. I don't know why they did that, but it should properly be reflected that the majority of that $6 million is, in fact, those main frame software and computer applications." (Transcript of Hearing, page 772, lines 9-14; see also Transcript of Hearing, page 773, lines 17-20). However, Tennessee American actually lumped the Office Furniture and Equipment into account 340. This fact is clearly seen in Tennessee American's Response to the Consumer Advocate's First Set of Discovery, Part II, Question 23, TN-CAD-01-PART II-Q023-ATTACHMENT, under the heading "GENERAL PLANT".

The result of disallowing the depreciation expense for the non-E-CIS assets in the 340 account is that Tennessee's depreciation expense is reduced by $493,150, even if the TRA decides not to reduce the E-CIS investment rate base. If the TRA does decide to reduce the E-CIS investment rate base as argued by the Consumer Advocate, Tennessee's depreciation expense is reduced by an additional $110,979, which means that Tennessee's depreciation expense is reduced by a total of $604,129 for account 340.

If the TRA concludes that the non-E-CIS account 340 assets should be depreciated together with the E-CIS investment, the entire depreciation expense amount for account 340, a total of $1,056,344, should be disallowed from the setting of rates. Because the 340 account would be fully depreciated soon after the attrition year, disallowing this depreciation expense would be a known and measurable adjustment to the attrition year for an expense that will not exist in the future, when rates will be in effect. (See also, Transcript of Hearing, page 1208, line 13 through page 1210, line 9). Tennessee American Water Company has not carried its burden of proving that the depreciation expense that it claims for setting rates is just and reasonable.

RESPECTFULLY SUBMITTED,

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Dated: May 9, 2007

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or facsimile to the parties of record on May 9, 2007.

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