

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

May 9, 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 the Tennessee American Water Company's Post-Hearing Brief Regarding E-CIS.

Please return three copies of the Brief, 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. Dale Grimes

RDG/ms
Enclosures

Chairman Sara Kyle
May 9, 2007
Page 2

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

TAWC'S POST-HEARING BRIEF¹ REGARDING E-CIS

Tennessee American Water Company's ("TAWC") inclusion of expenses related to the Enterprise Customer Information System² ("E-CIS") in this rate case is entirely proper. The record establishes: (1) E-CIS is a necessary customer service tool that provides great benefit to TAWC's customers; (2) E-CIS was implemented at a reasonable and fair cost and in a reasonable period of time; and (3) TAWC's inclusion of E-CIS costs in rate base and depreciation expense are proper. Consequently, TAWC's E-CIS-related costs are recoverable in this rate-making proceeding.

E-CIS is the software system used by TAWC and the other AWWC subsidiaries to provide numerous customer service functions. E-CIS collects and processes data related to customer water usage, customer billing, service order processing, and employee work effort. (*See* E-CIS Supp. Test. of John S. Watson ("Watson E-CIS Test."), 1-8.). E-CIS creates bills, enables Call Center representatives to answer customer questions in real time, allows TAWC to analyze water usage and billing trends, and assists TAWC in scheduling service activities efficiently. (*See Id.*) E-CIS "touches literally everything we do with the customers [of] Tennessee American." (M. Miller Test., Hr'g Tr., 758.)

¹ This brief is filed pursuant to the Directors' order permitting the parties to file briefs discussing matters raised during the depositions of A. Joseph Van den Berg and John S. Watson. (Hr'g Tr., Apr. 26, 2007, Vol. IV, 1257-58.)

² E-CIS is also referred to as the "Enhanced Customer Information System."

1. E-CIS is Necessary and Beneficial to TAWC's Customers.

The record³ in this case contains an extensive amount of undisputed evidence that E-CIS is necessary for TAWC to provide the outstanding customer service its customers expect. In his E-CIS Testimony, Mr. Watson describes, at length, the numerous, varied benefits provided by E-CIS. (Watson E-CIS Test., 1-9.) "Tennessee American could not effectively provide service without . . . E-CIS or some replacement of that system." (M. Miller Test., Hr'g Tr., 758, 759-762.) TAWC's customer information system expert, Mr. Van den Berg, testified that E-CIS allows TAWC to provide detailed billing information to customers, more accurate bills, and more customer-personalized service. (Van den Berg Test., 13-14.) No evidence has been presented that in any way contradicts this testimony of Mr. Watson, Mr. Miller, and Mr. Van den Berg.⁴ In fact, during the depositions of Mr. Watson and Mr. Van den Berg, neither witness was challenged by intervenors' counsel on the need for or benefit of E-CIS. TAWC has thoroughly established that E-CIS is necessary to provide the high level of customer service its customers expect.

2. E-CIS was Implemented at a Reasonable Cost and in a Reasonable Time Period.

The unrefuted evidence also makes clear that E-CIS was purchased and implemented at a reasonable and properly apportioned cost. Mr. Van den Berg testified that, in his expert opinion, the TAWC portion of the cost of purchasing and implementing E-CIS was reasonable, below

³ In addition to the materials filed with its petition and produced in response to staff data requests, TAWC has presented extensive evidence directly supporting the propriety of the E-CIS investment, including the following: (i) Rebuttal Testimony of Michael A. Miller, pp. 34-39 (Apr. 9, 2007); (ii) Hearing Testimony of Mr. Miller (Hr'g Tr., Apr. 20, 2007, 757-64, 772-74, 792-809, 813-14, 846-48, 850-51, 868, 870); (iii) E-CIS Supplemental Testimony of John S. Watson (Apr. 26, 2007); (iv) deposition of Mr. Watson (May 4, 2007) ("Watson Dep."); (v) Direct Testimony of A. Joseph Van den Berg (Apr. 26, 2007) ("Van den Berg Test."); (vi) deposition of Mr. Van den Berg (May 4, 2007) ("Van den Berg Dep."); (vii) TAWC's Response to CAPD's Second Discovery Requests 4 and 5 (Mar. 30, 2007); and (viii) TAWC's Filing in Response to Director's Questions at Hearing (Apr. 25, 2007).

⁴ The record also contains unrefuted evidence that the EDIS system used by TAWC prior to the implementation of E-CIS was no longer sufficient and could not be upgraded. (See Watson E-CIS Test., 2-3, 6-9; M. Miller Test., Hr'g Tr., 758-760). EDIS was a "green screen system" which was not Windows compatible, could not be expanded, and was no longer supported by any vendor. (See Van den Berg Dep., 62-64; Van den Berg Test., 11-13.) EDIS could not be upgraded – it had to be replaced. (See *Id.*; M. Miller Test., Hr'g Tr., 758-762.)

industry averages, and far lower than it would have been if TAWC implemented a CIS system on its own. (*See Van den Berg Test.*, 8-9; *Van den Berg Dep.*, 26.) TAWC's original cost for purchasing and implementing E-CIS is \$3.27 million. (*M. Miller Test.*, Hr'g Tr., 794.) Recent studies have found the cost of comparable CIS implementations to range from \$50 to \$110 per customer. (*Van den Berg Test.*, 8-9.) Applying TAWC's 2003 customer base to these averages, Mr. Van den Berg concluded that TAWC would have paid from \$3.5 million to \$7.7 million for a full CIS upgrade. (*Id.*) Mr. Van den Berg also testified that because of factors unique to TAWC (relatively small customer base and complex tariffs), TAWC would likely have had to pay even more – between \$7 and \$10 million – if it had implemented E-CIS on its own. (*Van den Berg Dep.*, 59-60, 65-66.) Mr. Miller testified that, based on his extensive involvement in the E-CIS project, TAWC could not replace E-CIS on a stand-alone basis for \$3.27 million. (*See M. Miller Test.*, Hr'g Tr., 759-61.) The evidence shows that E-CIS was not just reasonably priced – it was a bargain.

The E-CIS costs charged to TAWC were properly apportioned relative to the other AWWC subsidiaries. (*See Van den Berg Dep.*, 56-57; *M. Miller Test.*, Hr'g Tr., 773.) E-CIS purchase and implementation costs were allocated to TAWC in two ways: direct charges (costs uniquely related to TAWC's E-CIS implementation) and indirect charges (E-CIS implementation costs applicable to all AWWC subsidiaries). (*Van den Berg Dep.*, 9-10, 52-53.) Indirect charges were allocated on a per customer metric. (*Id.*; *M. Miller Test.*, Hr'g Tr., 773.) Direct charges for TAWC's E-CIS implementation were higher than some other jurisdictions because of the complexity of TAWC's tariffs and the relatively small size of TAWC's customer base.⁵ (*Van den Berg Dep.*, 52-53, 56-57.)

E-CIS was implemented in a reasonable amount of time. The initial contract with Orcom was executed in late 1996. Over the next two and a half years, Orcom and AWWC engaged in the

⁵ These two factors resulted in TAWC's E-CIS cost per customer being higher than that of some AWWC subsidiaries. (*Van den Berg Dep.*, 48-49, 56-57.) Certain E-CIS implementation direct charges will be the same no matter the size of the customer base, so smaller companies end up with a larger per customer direct charge figure. (*See Id.* 52-53, 56-57.)

first phase of its project: determining the functional and technical requirements of E-CIS. (*See Van den Berg Dep.*, 47.) When, in 2000, AWWC completed this phase, it determined what resources were needed to implement E-CIS and engaged Accenture to assist with the subsequent implementation. (*See id.*, 47.) The contract with Accenture was designed to ensure a balance of speed of implementation and cost.⁶ (*See id.*, 67.) The implementation was completed for TAWC in mid-2003.⁷ (*Id.*, 25.) Given the complexity of the implementation, E-CIS was implemented in a reasonable time frame. (*Id.*, 67.)

3. The E-CIS Costs Included in Rate Base and Depreciation Expense are Proper.

As explained above, the purchase and implementation of E-CIS was prudent, necessary and completed at a reasonable cost in a reasonable time period. Consequently, E-CIS-related costs should be included in the rate base, and this asset should be depreciated in accordance with standard NARUC accounting principles – precisely as TAWC has done in this rate case. At the end of the attrition year in February 2008, account 340, the account containing the E-CIS costs, will not be fully depreciated; there will be a positive rate base. As outlined in Tennessee American’s response to Discovery Request CAD-01-Part II-Q023, the E-CIS utility plant less accumulated depreciation for the account 340 class of property at December 31, 2006 is \$1.214 million. When the plant additions and additional depreciation expense as provided on Exhibit 2, Schedule 4, page 2 (Exhibit to Sheila Miller pre-filed Testimony, Nov. 22, 2006) for account 340 property are extended through the February 2008 attrition year, there remains a positive rate base for the account 340 class of

⁶ Significantly, AWWC’s contract with Accenture was “a fixed fee contract for each of the portions of the time frame which mitigated the cost risk associated with the project for American Water.” (*Id.*, 67.) This placed the risk of cost over-run on Accenture. Further, time-based performance incentives ensured that Accenture was rewarded for especially swift work and, conversely, that TAWC received a lower price to compensate for “delayed” work. (*See id.*)

⁷ Contrary to the claims of counsel for the City of Chattanooga during closing arguments, the E-CIS implementation and the move to the national Call Center were two distinct, separate projects. The E-CIS project would have been implemented by TAWC whether or not it moved to the national Call Center. (*Van den Berg Dep.*, 48.) In the analysis provided by Mr. Miller in case number 03-00118 regarding the benefits of the move to the Call Center, the costs of E-CIS were not and should not have been a part of that analysis. (*See Michael A. Miller Direct Testimony*, case no. 03-00118, pp. 20-26 (filed Feb. 7, 2003).)

property. (*See* M. Miller Test., Hr'g Tr., 850-51; S. Miller Test., Ex. 2, Schedule 4, page 2.)

The CAPD's recommendation to decrease TAWC's rate base by \$1.343 million and depreciation expense by \$1.056 million is entirely premised on its unsupported and groundless suggestion that E-CIS was an "imprudent decision." Because TAWC has presented extensive, unrefuted evidence showing that E-CIS is necessary and beneficial and was reasonably priced and implemented, the CAPD's proposal to eliminate E-CIS costs from rate base and to adjust depreciation expense is entirely moot. The CAPD's proposed removal of E-CIS from rate base and depreciation adjustments are not supported by the record in this case, established rate-making principles, or NARUC accounting guidelines.⁸

CONCLUSION

TAWC has met its burden of showing that E-CIS was not an imprudent decision or an unjustified expense – E-CIS is necessary, is used and useful, and was implemented at a reasonable, appropriately apportioned cost and in a reasonable time period. The intervenors' claims to the contrary are not based on evidence, but on innuendo, speculation, and the distortion of the evidence. Consequently, it is appropriate for all capital costs associated with E-CIS to be included in TAWC's rate base and for all E-CIS related depreciation expense to be recovered.

⁸ The CAPD, in addition to claiming that the E-CIS investment should be excluded from the rate base, has called for E-CIS-related depreciation expenses to be disallowed. This analysis violates NARUC accounting guidelines and established rate-making principles. (*See* M. Miller Test., Hr'g Tr., 762-63.) NARUC accounting prescribes that the retirement of a Utility Plant asset should reduce Utility Plant with a corresponding decrease in Accumulated Depreciation. *See* NARUC, Uniform System of Accounts for Class A Water Utilities, ¶ 27(B)(2), p. 32 (1995). The retirement of an asset does not decrease rate base. The only impact from the retirement of a Utility Plant Asset is that depreciation expense is no longer recorded after the retirement. (M. Miller Test., Hr'g Tr., 799-800.) In addition, the CAPD's depreciation number is wrong: the total annual depreciation expense for the 340 class of property is \$959,755 – the CAPD recommended that depreciation expense be reduced by an amount greater than that amount. (*Compare* S. Miller Test., Ex. 2, Schedule 4, page 2 *with* Supp. Test. of T. Buckner, 2 (filed Apr. 3, 2007).)

The CAPD also improperly attempts to perform a depreciation reserve analysis for only one class of property in contradiction to established rate-making principles and NARUC guidelines. A standard depreciation study looks at all classes of property to determine the remaining life and recovery of cost of removal net of salvage, and determines adjustments to the depreciation rates for all classes of property to properly recover those costs over the remaining life of the property. The CAPD wrongly attempts to perform such a study on one specific class of property without giving any consideration to other changes in depreciation rates that have occurred and offset the change to the one class. This is a classic example of single issue rate-making and should not be credited. (*Id.*, 762-763, 799-800.)

Respectfully submitted,



R. Dale Grimes (#6223)
Ross I. Booher (#019304)
Matthew J. Sinback (#023891)
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 9th day of May, 2007, upon the following:

☐ Hand Michael A. McMahan
☐ Mail Special Counsel
☒ Overnight City of Chattanooga (Hamilton
☒ Email County)
Office of the City Attorney
Suite 400
801 Broad Street
Chattanooga, TN 37402

☐ Hand David C. Higney, Esq.
☐ Mail Grant, Konvalinka &
☒ Overnight Harrison, P.C.
☒ Email 633 Chestnut Street, 9th Floor
Chattanooga, TN 37450

☒ Hand Timothy C. Phillips, Esq.
☐ Mail Vance L. Broemel, Esq.
☐ Overnight Office of the Attorney General
☒ Email Consumer Advocate and
Protection Division
425 5th Avenue North, 2nd Floor
Nashville, TN 37243

☐ Hand Frederick L. Hitchcock, Esq.
☐ Mail Chambliss, Bahner &
☒ Overnight Stophel, P.C.
☒ Email 1000 Tallan Building
Two Union Square
Chattanooga, TN 37402

☒ Hand Henry M. Walker, Esq.
☐ Mail Boulton, Cummings, Connors &
☐ Overnight Berry, PLC
☒ Email Suite 700
1600 Division Street
Nashville, TN 37203

