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May 11, 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 Objection to Consumer Advocate's Post-Hearing Brief.

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 11, 2007

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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*)  
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Mr. John Watson (*w/enclosure*)  
Mr. Michael A. Miller (*w/enclosure*)

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

**IN RE:**

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

**TENNESSEE AMERICAN WATER COMPANY'S OBJECTION TO CONSUMER  
ADVOCATE'S POST-HEARING BRIEF**

Tennessee American Water Company ("TAWC") hereby objects to the CAPD's Post-Hearing Brief (the "CAPD Brief") because it contains significant errors – including inaccurate citations to the record and erroneous accounting calculations. These errors go to the heart of the CAPD's new hypothesis that E-CIS costs for 1996-1999<sup>1</sup> should be excluded from rate base and depreciation expense. Accordingly, the CAPD has left TAWC with no option but to respectfully request that the CAPD brief be stricken from the record or disregarded.<sup>2</sup>

The CAPD's argument that there were two separate software systems implemented between 1996 and 2003 rests entirely on speculation regarding the Orcom contracts and an unfair and inaccurate reference to the deposition testimony of A. Joseph Van den Berg. First, the CAPD attempts to infer that because the 1999 Orcom contract addendum refers to the software system as E-CIS and the 1996 Orcom contract refers to the system as the Orcom Customer Information System these were two separate projects. (CAPD Brief, p. 2.) There is simply no support in the record for this bald speculation or, more importantly, for the CAPD's follow-on proposition that the

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<sup>1</sup> The CAPD has apparently abandoned its former position that the entire E-CIS investment should be disallowed.

<sup>2</sup> The CMA's post-Hearing brief is also fundamentally in error. However, the CMA's central error has already been exposed by TAWC's post-Hearing brief and by the deposition testimony of Mr. Van den Berg. (See TAWC's Post-Hearing Brief Regarding E-CIS, p.3 (text and n.5); Van den Berg Dep., pp. 52-53, 56-57.)

1996-1999 E-CIS implementation efforts and costs are unrelated to the system implemented for TAWC. In fact, the 1996 and 1999 Orcom contracts support the unrefuted testimony of Mr. Van den Berg that there was one E-CIS implementation process which began in 1996 and concluded for TAWC in 2003. (*See* Van den Berg Dep., pp. 25, 47-48.)

Second, in an attempt to support its otherwise citation-starved narrative regarding the E-CIS implementation, the CAPD Brief cites the deposition testimony of Mr. Van den Berg for a proposition that is starkly contrary to his actual testimony. (*See* CAPD Brief, p. 3). The CAPD Brief states:

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.

(CAPD Brief, p. 3.) Counsel for the CAPD raised this precise issue with Mr. Van den Berg during his deposition and his response makes clear that while the E-CIS implementation and the Call Center consolidation were two separate and distinct projects, there was one and only one Orcom system implementation. (Van den Berg Dep., pp. 47-48) (Attached as Exhibit A). Contrary to the CAPD's assertion, Mr. Van den Berg's deposition testimony completely undermines the CAPD's new hypothesis that the pre-2000 E-CIS costs are unrelated to the customer information system ultimately implemented for TAWC.

Finally, even if the CAPD were correct – which they are not – that TAWC received no benefit from the expenditures for E-CIS in the 1996-1999 period, the CAPD has committed a gross accounting error in its discussion of the consequences on TAWC's rate base of disallowing the E-CIS costs incurred from 1996 to 1999. Using exhibit 1 to the deposition of Mr. Van den Berg, a

document titled “Tennessee American ECIS Investment”<sup>3</sup> (Attached as Exhibit B), the CAPD calculated that the original cost of the E-CIS purchase and implementation allocated to TAWC for 1996-1999 is \$697,981. (CAPD Brief, p. 1.) The CAPD argues that this original cost figure should be subtracted from TAWC’s rate base in this case for the E-CIS investment. (*Id.*) The CAPD then subtracts this original cost amount from the Net Book Value of the E-CIS investment as of December 31, 2006, as provided in TAWC’s response to CAPD-02-Q004 (Attached as Exhibit C), to arrive at its proposal that TAWC’s rate base for the E-CIS investment be adjusted to \$792,999 [ $\$1,490,979.75$  (net book value) minus  $\$697,981$  (original cost 1996-1999) equals  $\$792,999$ ]. (*See id.*) However, the “Tennessee American ECIS Investment” document also shows that TAWC’s E-CIS costs for 1996-1999 began being closed to TAWC’s Utility Plant in the year 2000. (*See* Ex. 1 to Van den Berg Dep., Tennessee American E-CIS Investment.) At least, and possibly more than, \$523,613 of the 1996-1999 E-CIS costs were closed to Utility Plant in the year 2000.<sup>4</sup> (*See id.*) Under the depreciation schedule used by TAWC for the E-CIS costs (15.92% per year), this amount (at least) will be fully depreciated during the attrition year in this case and only a small portion could possibly be included in TAWC’s proposed rate base. The remaining \$174,368 of the 1996-1999 E-CIS costs would have been closed to TAWC’s Utility Plant between 2000 and 2004. (*See id.*) In sum, the CAPD’s analysis inappropriately subtracts an original cost figure from a December 2006 depreciation-adjusted figure: the CAPD is essentially requesting that the TRA remove almost \$700,000 from TAWC’s rate base, the substantial majority<sup>5</sup> of which was never actually included in the rate base submitted in this case.

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<sup>3</sup> This document was originally filed as Exhibit No. 1, Index 2 to TAWC’s Filing in Response to Directors’ Questions at Hearing. (Filed April 25, 2007.)

<sup>4</sup> In addition to the \$697,981 in E-CIS costs charged to TAWC for 1996-1999, TAWC was charged \$259,141 in 2000. (Ex. 1 to Van den Berg Dep., Tennessee American E-CIS Investment.) In 2000, \$782,754 was transferred to Utility Plant. (*Id.*) Even if every dollar charged to TAWC in 2000 was transferred to Utility Plant in 2000, the least amount of the 1996-1999 E-CIS costs that would have been transferred in 2000 is \$523,613 ( $\$782,754$  minus  $\$259,141$ ). (*See id.*)

<sup>5</sup> Even if the remaining \$174,368 of the 1996-1999 E-CIS costs were closed to TAWC’s Utility Plant later than 2000, this amount would also be significantly depreciated by the time of the attrition year.

In conclusion, the positions taken in the CAPD Brief are objectionable because they are erroneous or simply have no support in the record in this case; the CAPD relies on speculation, an inaccurate characterization of witness testimony, and a flawed analysis. For these reasons, the CAPD's brief should be stricken from the record or disregarded.

Respectfully submitted,

  
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*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 11th day of May, 2007, upon the following:

☐ Hand Michael A. McMahan  
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BEFORE THE TENNESSEE REGULATORY AUTHORITY

IN RE: )  
 )  
PETITION OF TENNESSEE AMERICAN WATER ) Docket No.  
COMPANY TO CHANGE AND INCREASE CERTAIN ) 06-00290  
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. )

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DEPOSITION OF  
A. JOSEPH VAN DEN BERG  
Friday, May 4, 2007

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APPEARANCES:

For Tennessee American Water Company:	Mr. R. Dale Grimes Mr. Ross I. Booher Mr. Adam Futrell
For the City of Chattanooga:	Mr. Michael A. McMahan
For the Chattanooga Manufacturers Association: (Via telephone)	Mr. Henry Walker (By telephone)
For Consumer Advocate:	Mr. Steve Butler Mr. Ryan McGehee
For the TRA:	Mr. J. Richard Collier
Also Present:	Mr. Terry Buckner Mr. John Watson Mr. Matt Simback (By telephone)

Reported By:  
Susan D. Delac, RPR, CCR

EXHIBIT

A



1 A. That is the estimate that I made for the  
2 expenses that had been made until 1999, that is  
3 correct.

4 Q. Now, on page 7, lines 16 and 17 of your  
5 testimony, you said, quote, For the first eight months  
6 of 2000 the AWW team reevaluated the need for outside  
7 expertise, close quote; is that correct?

8 A. Yes.

9 Q. So as a result of the evaluation, AWW  
10 decided to change the plan; is that correct?

11 A. No. They reevaluated and looked at what  
12 was needed to complete the implementation. The work up  
13 until that point in time had not gotten into  
14 configuration. All they had done was the initial  
15 functional and technical requirements.

16 In any of these types of projects you have  
17 a checkpoint where you look at what the requirements  
18 are going to be to complete a reasonable and  
19 satisfactory implementation. At that time they  
20 reevaluated and they selected Accenture, Arthur  
21 Andersen Consulting, Andersen Consulting, Accenture, to  
22 assist them with ORCOM.

23 Because if you go back to the previous  
24 exhibit you'll note that Accenture requires that ORCOM  
25 continues in their role to be able to make this thing a

1 successful implementation.

2 Q. Didn't the plan change from an ECIS  
3 installation program for the local call centers to a  
4 consolidated call center?

5 A. No. The two projects were kept completely  
6 separate. The roll out of ECIS could have happened in  
7 each of the jurisdictions and did start out that way.  
8 So the first companies that went live actually went  
9 live locally and then they were brought into the  
10 consolidated call center.

11 From an efficiency perspective, which they  
12 clearly were successful in achieving, the end picture  
13 of this thing is a consolidated call center. They  
14 could just as easily have rolled out ECIS in Tennessee,  
15 however, but from a management efficiency perspective  
16 on the call center, they consolidated those. So the  
17 two are really two separate activities and two separate  
18 projects.

19 Q. Okay. I'll refer you to Exhibit AJV1 to  
20 your testimony. The cost distribution for Tennessee  
21 was \$3.3 million; is that correct?

22 A. Rounded to 3.3 million, that's correct.

23 Q. Okay. Rounded.

24 A. Yes.

25 Q. All right. That's what your chart says?

Tennessee American ECIS Investment

Vendor	1996	1997	1998	1999	2000	2001	2002	2003	2004	Totals 1996 - 2004
ORCOM	\$335	\$54,107	\$280,073	\$303,190	\$ 58,589	\$91,820	\$ 119,497	\$8,785	\$ -	\$916,396
Software only	9,434	-	40,051	10,790	8,458	36,781	-	-	-	45,239
Accenture	-	-	-	-	62,594	273,106	133,063	84,618	15,193	568,575
AWWSCO					22,568	305,825	150,617	432,820	3,461	915,292
AFUDC					106,932	57,201	165,941	196,961	-	420,103
Direct Charges TAWC:										
Labor							13,018	322,730		335,748
IBM PC Server								70,499		70,499
Totals	\$9,769	\$54,107	\$320,124	\$313,981	\$259,141	\$764,734	\$582,136	\$1,116,414	\$18,654	\$3,271,852

Transfer to Utility Plan from JDE Asset Summary	\$782,754	696,747	540,235	1,223,668	28,448	\$3,271,852
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A - Add up ORCOM charges on SC summary

These numbers are from the summaries in "ORCOM 1999 2000", "1996 1999 Detail ORCOM" and "2001 Detail ORCOM" tabs. Allocations are clearly shown.

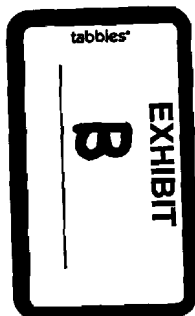
These numbers are taken from the "ORCOM 2002" and "Accenture 2002" tabs, an allocation factor the same as invoices where the cost distribution to TN is documented. The 2002 SC detail accounts for \$137,761 of ORCOM costs to TN

Taken from JDE transaction file for all years for Object Accounts 105350 and 105375

Accenture 2000 and 2001 charges are allocated from the total invoice using the allocation factor in effect at the time.

All the invoices were contract invoices and would have been allocated to all participants.

Service Company charges extracted from JDE transaction file for appropriate object accounts given descriptive information in the file.



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

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

<u>Original Cost *</u>	<u>Asset Item #</u>	<u>Account #</u>
3,271,857.69	26005061	101000 340310

\* The original 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

