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 EARN A FAIR AND ADEQUATE RATE OF RETURN ON ITS PROPERTY USED AND USEFUL IN FURNISHING WATER SERVICE TO ITS CUSTOMERS

Docket No. 08-00039

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DIRECT TESTIMONY OF TERRY BUCKNER

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July 18, 2008

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AFFIDAVIT

I, Terry Buckner, Regulatory Analyst, for the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.

Terry Buckner
TERRY BUCKNER

Sworn to and subscribed before me this 18th day of July, 2008.

Emily Knight
NOTARY PUBLIC

EMILY KNIGHT
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.
My Commission Expires AUG. 23, 2011

My commission expires: Aug. 23, 2011

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INTRODUCTION

Q. Please state your name for the record.

A. My name is Terry Buckner.

Q. By whom are you employed and what is your position?

A. I am employed by the Consumer Advocate and Protection Division ("CAPD") in the Office of the Attorney General for the state of Tennessee ("Office") as a Regulatory Analyst.

Q. How long have you been employed in conjunction with the public utility industry?

A. Approximately thirty years. Before my current employment with the Office, I was employed by the Comptroller of the Treasury for the state of Tennessee for nearly two years as the Assistant Director responsible for public utility audits. Prior to that I was employed for approximately eight years with the Office. Formerly, I was employed with the Tennessee Public Service Commission ("Commission") in the Utility Rates Division as a financial analyst for approximately six years. My responsibilities included testifying before the Commission as to the appropriate cost of service for public utilities operating in Tennessee. Prior to my employment with the Commission, I was employed by TDS Telecom for eight years and the First Utility District of Knox County for three years.

Q. What is your educational background and what degrees do you hold?

A. I have a Bachelors degree in Business Administration from the University of Tennessee, Knoxville with a major in Accounting. I am also a Tennessee Certified Public Accountant ('CPA") and a member of the American Institute of Certified Public Accountants.

Q. Would you briefly describe your responsibilities as a Regulatory Analyst with the CAPD?

A. I prepare testimony and financial exhibits in rate proceedings as an employee with the CAPD. Additionally, I review tariff filings by Tennessee public utilities, which are subject to the jurisdiction of the Tennessee Regulatory Authority ("TRA").

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to represent the forecasted financial exhibits prepared by the CAPD ("Exhibits of CAPD") and provide my exhibit of work papers ("work papers of CAPD") for forecasted Operating Revenues, Operation and Maintenance expenses, Depreciation Expense, Taxes Other Than Income, Income Taxes, and Rate Base for Tennessee American Water Company ("TAWC") for the attrition year ending August 31, 2009.

SUMMARY OF RESULTS

Q. Please summarize the results of the CAPD forecast of TAWC's earnings for the attrition year.

A. The attrition year in this case is the twelve months ending August 31, 2009. For the attrition year, TAWC asked for a $7.645 million rate increase whereas the CAPD's forecasted results show that customer rates should actually be reduced by $1.641 million instead, which is a difference of $9.286 million between TAWC's forecast and CAPD's forecast. The $9.286 million difference is due to the following areas of disagreement between TAWC and the CAPD: (1) The CAPD believes that

TAWC will collect about $2.4 million more in operating revenue than the revenue estimates included in TAWC's rate increase petition; (2) The CAPD is projecting about $1.3 million less in operation and maintenance expenses than the amount projected by TAWC; (3) The CAPD's calculation of depreciation expense is approximately $400,000 less than the depreciation expense projected by TAWC; (4) The CAPD forecasts approximately $100,000 less in "taxes other than income taxes" than the taxes projected by TAWC; (5) The CAPD computes about $1 million less in income taxes than TAWC's income tax computations; (6) The amount of revenue required for TAWC to have an opportunity to earn a fair profit is about $3.7 million less in the CAPD's forecast due to the CAPD's computation of a lower cost of capital; and (7) The amount of revenue required for TAWC to have an opportunity to earn a fair profit is about $400,000 less in the CAPD's forecast due to the CAPD's computation of a lower gross revenue conversion factor.

Accordingly, the CAPD's position is that TAWC has requested over $9.3 million more in customer rates than the company actually needs to meet their expenses and provide a fair return to their shareholders while providing quality water services to TAWC's customers. Although there are many underlying details supporting the CAPD's position, all of which are discussed below and shown in the testimony, work papers, and exhibits of the CAPD's witnesses, the seven areas discussed above serve as an overview of the primary areas of dispute between TAWC and the CAPD in this case.

Q. Please summarize the reasons why the CAPD is projecting $2.4 million more in operating revenues than TAWC.

A. TAWC projects total operating revenues of $37.1 million for the year ending August 31, 2009 (which is the attrition year in this case), but the CAPD projects $39.5 million for this same period of time. The CAPD disagrees with TAWC's revenue projection in three major areas.

First, TAWC reduces its revenue forecast by $1.3 million due to a "Weather Normalization Adjustment" ("WNA") that the CAPD believes should be disregarded. As explained by CAPD witness Charles W. King, the WNA model used by TAWC -- a model that relies primarily on temperature to predict water usage -- does not stand the test of reasonableness, a conclusion that is supported by actual events. In particular, the WNA reduction in revenues projected by TAWC in last year's rate case (TRA Docket #06-00290) did not occur.

Second, the CAPD included about $500,000 in operating revenue from the Walden's Ridge Utility District that TAWC excluded from their forecast. (In addition to the operating revenue, the CAPD also included associated expenses and rate base used to serve Walden's Ridge.) TAWC provides wholesale water services to four major water utilities: Walden's Ridge, Signal Mountain, Fort Oglethorpe, and Catoosa. Although TAWC includes three of the four in their forecast, the company excludes Walden's Ridge. On the other hand, the CAPD treats Walden's Ridge the same as the other three water utilities because, like the others, the service provided to Walden's Ridge by TAWC is a regulated operation that is subject to the Authority's jurisdiction, supervision, and control.

Third, the CAPD's revenue forecast includes about $600,000 in growth due to increased meters and volumes anticipated during the year ending August 31, 2009 (the attrition year). The CAPD's growth forecast is supported by historical trends and a later test period, neither of which is considered in TAWC's forecast.

Q. Please summarize why the CAPD is projecting about $1.3 million less in operation and maintenance expenses than TAWC.

A. The $1.3 million difference in operation and maintenance expenses between the CAPD and TAWC is due to the CAPD's projecting: (1) about $200,000 in lower salaries and wages expense; (2) about $900,000 less in management fees; (3) and approximately $200,000 less in regulatory expense.

The salaries and wages difference of $200,000 is primarily due to the CAPD's rejection of TAWC's forecasted employee levels for the attrition year. The CAPD rejects this projection because in case after case, TAWC has overstated the number of employees that they actually keep on the payroll. As a result, TAWC's customers have actually been charged for an employee level that TAWC never achieved. Customers' water rates should not be set on employee levels that never materialize. In addition, the CAPD rejects TAWC's plan to charge customers for bonuses paid to salaried employees for increasing the regulated earnings of the company, an activity that benefits TAWC's shareholders by moving money to their pockets from the pockets of TAWC's customers. Since customers are provided no benefit from this activity, they should not have to pay any costs associated with it.

The difference in TAWC's and the CAPD's management fee forecast is about $900,000. TAWC's growth in management fees exceeds any economic or cost-savings justification, and has far out-stripped inflation. Furthermore, the types of expenses charged to TAWC's customers through management fees -- expenses such as alcoholic beverages, limousines, professional sporting events, and contributions -- indicate that the American Water Service Company personnel incurring these charges are not good stewards of the customers' financial interests.

Finally, the $200,000 difference in regulatory expense stems from the CAPD's disagreement with the reasonableness of these charges. In particular, the actual regulatory expense that TAWC wants to charge customers far exceeds the amount projected by TAWC in last year's rate case (TRA Docket #06-00290). Also, the CAPD does not believe that customers should be called upon to pay TAWC's legal bills for pursing a rate increase which, as demonstrated by the testimony and exhibits of the CAPD's witnesses, is without merit.

Q. Please summarize why the CAPD is projecting about $400,000 less in depreciation expenses than the amount projected by TAWC.

A. This difference in deprecation expense is primarily attributable to two reasons. First, based on the depreciation study conducted by CAPD witness Charles W. King, the CAPD used lower depreciation rates to compute depreciation expense for certain plant accounts than the depreciation rates used by TAWC. The testimony of CAPD witness King sets forth the details of the CAPD's position on the depreciation study and associated depreciation rates. Second, the CAPD did not compute any depreciation expense for plant accounts that were fully depreciated -- that is, the plant accounts had a net book value of zero dollars ($0.00). Once a capitalized item has been depreciated completely, depreciation expense related to that item should not be recognized any more.

Q. Please explain why the CAPD's forecast of taxes other than income taxes is about $100,000 lower than TAWC's other tax

calculations.

A. This difference is primarily due to the CAPD's computation of lower gross receipts taxes. In computing its gross receipts tax forecast, the CAPD matched more correct franchise and excise tax credits based on TAWC's accounting records to the gross receipts tax returns. These credits offset the amount of gross receipts taxes due.

Q. Please explain why the CAPD's forecast of income taxes is about $1 million lower than TAWC's income tax calculation.

A. This $1 million difference in income taxes is due mainly to the CAPD's application of different income tax rates. The CAPD computed state and federal income taxes using the statutory tax rates found in the applicable tax codes. Accordingly, the CAPD multiplied forecasted taxable income by the 6.5% state statutory income tax rate to arrive at state income taxes and by the 35% federal statutory income tax rate to arrive at federal income taxes. On the other hand, TAWC used rates much higher than the statutory tax rates -- a 12% tax rate to compute state income taxes and a 48% tax rate to compute federal income taxes. However, both financial and regulatory accounting principles support the CAPD's use of the statutory income tax rates; furthermore, the TRA also uses the statutory income tax rates for establishing customer utility rates and, in fact, used the statutory income tax rates to set TAWC's customer rates in last year's rate case (TRA Docket #06-00290).

Q. Please summarize the $3.7 million difference in revenue requirements attributable to the CAPD's computation of a lower cost of capital for TAWC.

A. Based on the cost of capital testimony of CAPD witness Dr. Stephen N. Brown, the CAPD incorporated a lower overall rate of return on rate base than TAWC requested in its rate increase petition. This lower return decreases the revenue requirements of TAWC by $3.7 million. The testimony of CAPD witness Brown sets forth the details of the CAPD's position on cost of capital in this case.

Q. Please explain the $400,000 difference in revenue requirements attributable to the gross revenue conversion

factor issue.

A. The gross revenue conversion factor is a calculation that shows how much gross operating revenue should be adjusted to compensate for any projected surplus or deficiency in net operating profits earned by the company. The CAPD calculates about $400,000 less in gross operating revenue requirements through application of its gross revenue conversion factor rather than the factor used by TAWC. TAWC's gross revenue conversion factor is incorrect because it inappropriately includes the gross receipts tax and inappropriately excludes forfeited discounts for converting profits to revenue. Inclusion of the gross receipts tax is not valid because this tax is not paid in the period the associated revenue is collected, and exclusion of the forfeited discounts is not valid because these amounts are received in the period the associated revenue is collected. The gross revenue conversion factor difference was also an issue in last year's rate case (TRA Docket #06-00290) and the Authority properly adopted the CAPD's calculation in that case.

Q. Please summarize the comparison of capital structures and cost of capital in this docket using the CAPD's forecast.

A. As previously stated, the CAPD's cost of capital results in a rate decrease of $1.6 million. For comparison purposes, the CAPD has also applied the various cost of capital recommendations to the CAPD's financial forecast to determine their effect on the need for new rates. First, the CAPD considers the cost of capital recommendation of the Chattanooga Manufacturers Association ("CMA"). Application of CMA's proposed cost of capital to the CAPD's financial forecast shows that customer rates should still be decreased by $1 million.

Next, the CAPD considers the currently-authorized cost of capital that was ordered by the TRA in last year's rate case (Docket #06-00290). This analysis shows that if TAWC's cost of capital remains the same as the TRA ordered just last year, customer rates should be increased only slightly -- approximately $600,000.

Finally, even under TAWC's proposed cost of capital -- a proposal that the CAPD believes is unreasonable -- customer rates should be increased by only $2.3 million rather than the $7.6 million requested by the company.

Accordingly, while there are different opinions with respect to the appropriate cost of capital that should be awarded in this case, the accounting and regulatory forecasting issues alone demonstrate that TAWC's rate increase request is unwarranted and, therefore, should be denied by the TRA.

RATEMAKING THEORY AND PRACTICE

Q. What is a public utility?

A. In the context of this case, a public utility is a business formed as a shareholder-owned corporation. Even though the public utility in this case is a for profit corporation, it is also important to note that this public utility is:

> an organization that has been designated by law as a business affected with a significant public interest, and that also possesses all of the following characteristics: (1) The business is essentially free from direct competition, i.e., it operates in a monopolistic environment; (2) The business is required by law to charge rates for its services that are reasonable and not unjustly discriminatory; (3) The business is allowed to earn (but not guaranteed) a "reasonable" profit; and (4) The business is obligated to provide adequate service to its customers, on demand.[1]

Q. Does TAWC possess these public utility characteristics?

[1] *Accounting for Public Utilities*, Hahne and Aliff §1.01.

A. Yes. TAWC is a shareholder-owned public utility[2] that has been granted the advantage of operating in a monopolistic environment in exchange for special obligations, namely, the requirement to provide adequate service to all customers at rates that are just, reasonable, and non-discriminatory.

Q. From a regulated ratemaking perspective, what is the TRA called upon to do in this proceeding?

A. In a rate case such as this one, the TRA is asked to establish the amount of revenues that the utility should collect in order to cover its reasonable and necessary expenses and to reasonably compensate the utility's investors for their investment in the plant and equipment necessary to provide utility service to the public. The following ratemaking formula can be used to express this concept:

> **Revenue Requirement = (Rate Base X Rate of Return) + Operations and Maintenance Expense + Depreciation Expense + Taxes.**

In this equation, "Rate Base" is essentially the plant and equipment paid for by the investors in the utility. The "Rate of

[2]TAWC is a subsidiary of American Water Works Company, Inc. ("AWWC").

Return" is comprised of two major components: (1) the "Cost of Debt," which constitutes the interest rate on borrowed money and (2) the "Return on Shareholders' Equity" ("ROE"), which is the rate of compensation that flows to the owners of the utility for their investment. "Operations and Maintenance Expense" is the costs of operating the utility day-to-day, such as payroll, employee benefits, fuel and power to pump the water, chemicals to treat the water supply, rents, office supplies, postage and billing costs, etc. "Depreciation Expense" is the systematic recovery of the cost of the plant and equipment over their useful lives. And "Taxes" are the business taxes owed by the utility to federal, state, and municipal governments, such as income taxes, payroll taxes, property taxes, and franchise taxes.

In order to arrive at the appropriate amounts for each component of the ratemaking formula, the TRA should consider the expert witness testimony of economists, accountants, and other subject matter experts. These experts usually calculate the amount of each component of the ratemaking formula for the "Attrition Year." In making their "Attrition Year" forecast, ratemaking experts often consider "Test Year" data.

Q. Please explain the difference between a "Test Year" and an "Attrition Year."

A. A "test year" is a measure of a utility's financial operations and investment over a specific twelve month period. It is the "raw material" for developing an attrition year measure of the utility's financial operations and investment (that is, the utility's Rate Base, Operations and Maintenance Expense, Depreciation Expense, and Taxes). Therefore, the selection of the test year is quite important:

> The selection of the timing of the test year may be the most significant single factor in the rate-making process. The more outdated the test year levels of operations, the more critical is the need for significant restatement to produce representative levels of future conditions.[3]

An "attrition year," also known as a forecast period, is the "finished product" and is to be representative of the period for any rate adjustment. The attrition year can also be viewed as the first year during which the TRA's rate order will be applied.

In this docket, TAWC's filing used a test year ended November 2007 and an attrition year ending August 2009. In

[3]*Accounting for Public Utilities*, Hahne and Aliff §7.03.

an effort to eliminate outdated financial information and to shorten the forecast window, the CAPD has adopted the test year ended March 2008 in its forecast for the attrition year ending August 2009.

Q. Please explain how the TRA should calculate any adjustment in customer rates to be applied during the attrition year.

A. Once the TRA arrives at the appropriate Revenue Requirement for the attrition year (as described above), it must then determine whether a rate adjustment is needed. If the Revenue Requirement is greater than the amount of operating revenue forecasted for the attrition year at present customer rates, then a rate increase is required. However, if the Revenue Requirement is less than the amount of operation revenue forecasted for the attrition year at present customer rates, then a rate decrease is required.

In determining whether a rate increase or rate decrease is warranted, the TRA should again consider the testimony of the parties' expert witnesses. In addition to forecasting the Revenue Requirement for the attrition year, these experts also forecast the amount of operating revenue that the utility is expected to collect during the attrition year at the current customer rates set forth in the utility's tariff.

OPERATING REVENUES

Q. Please describe the components of your forecast for Operating Revenues.

A. The components for forecasting Operating Revenues are monthly rates or prices multiplied by annualized volumes. The monthly rates are established by the TRA and are set forth in TAWC's current tariff; and the volumes consist of two components: the number of meters and the volume of water usage. The monthly meter rate is dependent upon the size of the meter and the monthly rates for water usage differ according to the billed volume of cubic feet. There are several usage rates, which are applied to volumetric blocks. These are the billing determinants generating most of TAWC's operating revenue.

Additionally, these billing determinants are used by TAWC in six classes of service, which are: (1) residential; (2) commercial; (3) industrial; (4) other public authority; (5) other water utility; and (6) private fire service. Within five of the six classes of service there are different locations. Distinguishing the location is important because the meter and volumetric rates vary by location. TAWC's residential and commercial classes include the locations of: Chattanooga, Lookout Mountain, Lakeview, Suck Creek; and Lone Oak Utility District ("Lone Oak"). The industrial class is confined to Chattanooga. The other public authority class includes the same locations as the residential and commercial classes except for Lone Oak. The "other water utility" class of service is the resale of water to Fort Oglethorpe, Georgia ("Ft. Oglethorpe"); Catoosa Utility District, Georgia ("Catoosa"); Signal Mountain; and Walden's Ridge Utility District ("Walden's Ridge"). TAWC's private fire service tariff does not distinguish locations.

Other Operating Revenues are not dependent upon the normal billing determinants and include: new service fees; late payment penalties; rent; sewer billing revenues; re-connection fees; and other miscellaneous revenues.

Q. Please describe the forecasting methodologies for the Residential Operating Revenues.

A. The CAPD adopted the test period ended March 2008 for its forecast of Residential Operating Revenues. Billing determinants for all the locations and classes were compiled by month from August 2003 through March 2008.[4] The residential billing determinants were calculated by trending the meters and usage history from the twelve month period ended July 2004 through the twelve months ended March 2008 for the locations of Chattanooga, Lookout Mountain, and Lakeview. The billing determinants for only the twelve months ended March 2008 were adopted for Suck Creek and Lone Oak due to a lack of historical data available at these locations for trending purposes. The blended billing determinants of actual amounts for the twelve months ended March 2008 and trended amounts for the attrition year were applied to present rates, which resulted in $16,353,100[5] in Residential Operating Revenues.

TAWC adopted the test period ended November 2007 in forecasting their Residential Operating Revenues. TAWC grew their normalized 5/8″ meters from the test period by .69% for Chattanooga, Lookout Mountain, and Lakeview. TAWC

[4]CAPD work papers, Index of work papers, pages 13-38.

[5]CAPD work paper R-RES SUMMARY, Index of work papers, page 2.

adopted the normalized test period amounts from all other meter sizes and other locations for the attrition year.

For the volumetric usage, TAWC grew the normalized volumetric usage from the test period by .75% for Chattanooga, Lookout Mountain, and Lakeview. TAWC adopted the normalized test period amounts from all volumetric usage and other locations for the attrition year.

As a result, TAWC is forecasting Residential Operating Revenues of $14,994,956 at present rates for the attrition year, which is a .66% increase over the test period. The test period Residential Operating Revenues are stunted mainly due to TAWC's weather normalization adjustment ("WNA"). TAWC uses the WNA to decrease its test period residential revenues by $1,059,075.[6] This WNA is netted against an increase in test period revenues of $851,516[7] to reflect the annualized rate increase effective May 22, 2007 in TRA Docket #06-00290. As explained by CAPD witness, Mr. Charles W. King, the CAPD concludes that TAWC's WNA is improper and should be disallowed.

[6]TAWC response to TRA Data Request #13, TN-TRA-01-Q013-REVENUES, page 18 of 99.

[7]Ibid.

Q. Please describe the forecasting methodologies for the Commercial Operating Revenues.

A. The CAPD adopted the test period ended March 2008 for its forecast of Commercial Operating Revenues. The billing determinants were calculated by trending the meters and usage from the twelve month period ended July 2004 through the twelve months ended March 2008 for only Chattanooga. For the remaining locations, the billing determinants for the twelve months ended March 2008 were adopted. The blended billing determinants of actual amounts for the twelve months ended March 2008 and trended amounts for the attrition year were applied to present rates, which resulted in $11,947,283[8] in Commercial Operating Revenues.

TAWC adopted the test period ended November 2007 in forecasting their Commercial Operating Revenues. Although there are nine sizes of meters currently being billed, TAWC grew only their normalized 1" meters from the test period by 5.47% for Chattanooga, 4.29% for Lookout Mountain, and 11.24% for Lakeview. TAWC adopted the normalized test period amounts from all other meter sizes and other locations

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[8]CAPD work paper R-COMM SUMMARY, Index of work papers, page 51.

for the attrition year, which has the effect of projecting no growth in these meter sizes for the attrition period.

For the volumetric usage, TAWC grew the normalized volumetric usage from the test period by .88% for Chattanooga; .91% for Lookout Mountain; and .97% for Lakeview. Once more, TAWC adopted the normalized test period amounts from all volumetric usage and other locations for the attrition year, which results in no growth in volumes for the attrition period.

In summary, TAWC is forecasting Commercial Operating Revenues of $11,460,266 at present rates for the attrition year, which is a 1.14% increase over the test period. Again, the test period Commercial Operating Revenues are stunted mainly due to TAWC's weather normalization adjustment ("WNA") amounting to a decrease in the test period amount of $296,569[9] and an increase to the test period amount of $628,983[10] to reflect the annualized rate increase effective May 22, 2007 in TRA Docket #06-00290. As CAPD witness King testifies, TAWC's WNA should be disallowed.

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[9]TAWC response to TRA Data Request #13, TN-TRA-01-Q013-REVENUES, page 18 of 99.

[10]Ibid.

Q. Please describe the forecasting methodologies for the Industrial Operating Revenues.

A. The CAPD adopted the test period ended March 2008 for its forecast of Industrial Operating Revenues. Due to the volatility of this revenue class, the billing determinants for the twelve months ended March 2008 were adopted for the attrition year, and were applied to present rates results in $3,876,587[11] of Industrial Operating Revenues. The CAPD adopted usage of 3,091,849 hundred cubic feet ("CCF") for the attrition year. The CAPD's test period billing determinants were adjusted for the closing of the Velsicol Chemical Corporation. However, it is important to note that other industrial customers may be added to the system. For instance, on July 15, 2008, Volkswagen Group of America announced that it will build a plant in Chattanooga where it will produce a car designed specifically for the North American Consumer[12]. In TRA Docket #06-00290, TAWC reported normalized usage of 3,103,166[13] CCF for the test period ended June 2006 and adopted the same volume

[11]CAPD work paper R-IND SUMMARY, Index of work papers, page 100.

[12]www.reuters.com/article/rbssautotruckmanufactured/idUSL1570839420080715.

[13]TRA Docket #06-00290, Exhibit No. 4, Schedule 2, Page 9 of 13, Line 26.

usage for the attrition year ended February 2008. In this docket TAWC reports normalized usage of 3,144,865 CCF for the test period ended November 2007. TAWC does cite the closing of the Velsicol Chemical Corporation in calculating its normalized usage.[14] Also, the meter billing determinants declined from 2,135 in the previous docket to 1,939 in this docket. Yet, 94% of the annual Industrial Operating Revenues is derived from volumetric usage.

TAWC adopted the same number of meters and volumetric usage for its forecast as the normalized test period usage ended November 2007. Consequently, TAWC's forecasted Industrial Operating Revenues are identical to the normalized test period amount of $3,914,733 at present rates.

Q. Please describe the forecasting methodologies for the Other Public Authority Operating Revenues.

A. The CAPD adopted the test period and the billing determinants for the twelve months ended March 2008 for its forecast of Other Public Authority Operating Revenues. When

[14] Direct Testimony, S. Miller, Page 6, Question 13, Lines 5-7.

applied to present rates, the CAPD's forecast of Other Public Authority Operating Revenues results in $2,583,294[15] for the attrition year.

In TRA Docket #06-00290, TAWC reported normalized usage of 1,184,442[16] CCF for the test period ended June 2006. TAWC adopted the same volume usage for the attrition year ended February 2008. In this docket TAWC reports normalized usage of 1,104,514 CCF for the test period ended November 2007. Yet, the meter billing determinants increased from 8,635 in the previous docket to 8,829 in this docket. However, 83% of the annual Other Public Authority Operating Revenues is derived from volumetric usage.

TAWC adopted the same volume usage for its forecast as the normalized test period usage ended November 2007. So, TAWC's forecasted Other Public Authority Operating Revenues of $2,603,078 are the same as the test period.

Q. Please describe the forecasting methodologies for Other Water Utility Operating Revenues.

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[15] CAPD work paper R-OPA SUMMARY, Index of work papers, page 111.

[16] TRA Docket #06-00290, Exhibit No. 4, Schedule 2, Page 10 of 13, Line 26.

A. The CAPD adopted the test period ended March 2008 for its forecast of Operating Revenues from Sales for Resale. As previously mentioned, there are four major customers under contract in this revenue category: Fort Oglethorpe, Catoosa, Signal Mountain, and Walden's Ridge.

As in TRA Docket #06-00290, TAWC has elected to exclude the revenues from one customer, Walden's Ridge.[17] Given the historical growth in revenues, the CAPD has elected to include the revenues, expenses, and rate base from Walden's Ridge in this docket. The service that TAWC provides to Walden's Ridge is a regulated service, just like the regulated services provided to Fort Oglethorpe, Catoosa, and Signal Mountain. Walden's Ridge revenues grew from $162,979[18] for the twelve months ended June 2006 to $434,810[19] for the twelve months ended November 2007. The usage grew from 173,844[20] CCF for the twelve months ended June 30, 2006 to 463,797[21]

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[17]TAWC Direct Testimony, J. Watson, Page 20, lines 18-22.

[18]TRA Docket #06-00290, TAWC Exhibit No. 4, Schedule 2, Page No. 11 of 13, Line 27.

[19]TAWC Exhibit No. 4, Schedule 2, Page No. 11 of 13, Line 27.

[20]TRA Docket #06-00290, TAWC Exhibit No. 4, Schedule 2, Page No. 11 of 13, Line 27.

[21]TAWC Exhibit No. 4, Schedule 2, Page No. 11 of 13, Line 27.

CCF for the twelve months ended November 2007. As a consequence, the CAPD has contacted the four customers[22] to discuss both historical usage and forecasted usage. Walden's Ridge had budgeted $465,000 in water purchases for the fiscal year ended August 2008. As of this date, their next fiscal year's budget had not been completed.

Therefore, the CAPD has adopted $470,549 in revenues at present rates for Walden's Ridge in its forecast.

TAWC's revenues from Catoosa also grew significantly. In TRA Docket #06-00290, TAWC forecasted $155,023[23] for the attrition year. Yet, TAWC has reported revenue from Catoosa for the twelve months ended November 2007 of $449,620[24]. Catoosa's usage grew from 162,740[25] CCF for the twelve months ended June 2006 to 501,752[26] for the twelve months ended November 2007. While TAWC has included no growth in it forecast, Catoosa reported annual customer growth of

[22]Walden's Ridge, T. Davies; Catoosa, R. Gondy, J. Lee; Ft. Oglethorpe, M. Housely; and Signal Mountain, W. Sanders.

[23]TRA Docket #06-00290, TAWC Exhibit No. 4, Schedule 2, Page No. 11 of 13, Line 25.

[24]TAWC Exhibit No. 4, Schedule 2, Page 11 of 13, Line 25.

[25]TRA Docket #06-00290, TAWC Exhibit No. 4, Schedule 2, Page No. 11 of 13, Line 25.

[26]TAWC Exhibit No. 4, Schedule 2, Page 11 of 13, Line 25.

approximately 5%. Consistent with that growth, the CAPD has included $474,205 in its forecast for the attrition year at present rates.

Conversely, Ft. Oglethorpe's usage for the twelve months ended November 2007 was 489,860[27] CCF instead of TAWC's forecasted usage of 799,363[28] CCF. The CAPD has forecasted volumes of 494,558, which amounts to $443,173 at present rates.

TAWC forecasted 304,001[29] CCF for Signal Mountain during the attrition year in TRA Docket #06-00290. Signal Mountain's actual usage for the test period ended November 2007 was 515,804[30] CCF. Given that the CAPD's test period is the latest known and measurable amount, the CAPD has adopted $448,872 for its Signal Mountain forecast, which is based on CAPD's test period volumes.

In total, TAWC has forecasted $1,310,628 for Other Water Utility Revenue for the attrition year at present rates, which is based on the normalized test period ended November 2007.

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[27] TAWC Exhibit No. 4, Schedule 2, Page 11 of 13, Line 24.

[28] TAWC Exhibit No. 4, Schedule 2, Page 11 of 13, Line 24.

[29] TRA Docket #06-00290, Exhibit No. 4, Schedule 2, Page 11 of 13, Line 26.

[30] TAWC Exhibit No. 4. Schedule 2, Page 11 of 14, Line 26.

The CAPD's total Other Water Utility Revenue for the attrition year is $1,847,352[31], which is a difference of $537,619. Most of this difference is the inclusion of $470,549 in Walden's Ridge revenues in the CAPD forecast.

Q. Please describe the forecasting methodologies for the Private Fire Service Operating Revenues.

A. The CAPD adopted the test period ended March 2008 for its forecast of Private Fire Service Operating Revenues, which amounts to $1,518,135.[32]

TAWC adopted the test period ended November 2007 amount of $1,489,608 for its forecasted Private Fire Service Operating Revenues.

Q. Please describe the forecasting methodologies for the Other Operating Revenues.

A. Given that Other Operating Revenues are not dependent upon the normal billing determinants, the CAPD adopted the March 2008 test period amount of $1,393,048. TAWC's forecast

[31]CAPD work paper R-OTHER UTIL SUMMARY, Index of work papers, page 138.

[32]CAPD work paper R-REVENUE SUMMARY COMPARATIVE, Index of work papers, page 1, line 6.

of Other Operating Revenues is $1,369,193 using their test period ended November 2007.

Q. Please summarize the comparative forecasts of Operating Revenues.

A. The CAPD's forecast of Operating Revenues totals $39,518,799, which is $2,376,337 greater than the forecast of TAWC.

The direct testimony of TAWC's revenue forecast methodology lacks specific details in supporting the calculation of their Operating Revenue forecast. In fact, it is confined in only two questions or paragraphs.[33] However, based on what is reported in their exhibits, there are three major forecast differences: (1) TAWC's residential and commercial meter growth is confined to one meter size per revenue class, which is simple, but not reflective of what has historically occurred; (2) TAWC's WNA adjustment of $1.3 million suppresses their forecasted Operating Revenues; and (3) the CAPD's inclusion of the Walden's Ridge revenues of approximately $.5 million.

Regarding the growth rates and WNA amounts, it is

[33] TAWC Direct Testimony, S. Miller, Pages 5-6, Questions 12-13.

helpful to examine what actually occurred in the last forecast period ended February 2008. The TRA ordered rate increases of $4.1 million in Docket #06-00290.[34] The new rates became effective May 22, 2007. The TRA adopted the forecast of TAWC's Operating Revenues in that docket.[35] The February 2008 TRA surveillance report shows an increase of $4.3 million[36] in twelve months to date total Operating Revenues over the same period last year. Yet, the new rates have not been in effect for an entire year. Further, the WNA amount in the last docket reduced TAWC's forecasted revenues by $.2 million.[37] In fact, the WNA amount did not occur.[38] In this docket, the TRA is being asked to accept a WNA, which is six times the amount from last year. Since last year's WNA did not happen as projected by TAWC, the CAPD finds that TAWC's WNA proposal in this docket is not credible. This conclusion is buttressed by the testimony of CAPD witness King. TAWC

[34]TRA Docket #06-00290 Order dated June 10, 2008, page 51.

[35]TRA Docket #06-00290 Order dated June 10, 2008, page 22.

[36]TRA February 2008 3.06 surveillance report, line 5.

[37]TAWC response in docket #06-00290 to TRA #13, TN-TRA-01-Q013-REVENUES, Page 35 of 133.

[38]CAPD work paper R-REV COMP #06-00290, Index of work papers, page 155.

cites a decline in volumetric usage amounting to $.370 million[39] as one of the financial reasons for their petition for increased rates. Yet, recent history indicates that is not the case.[40] The inclusion of revenues received from Walden's Ridge is appropriate. TAWC contends that Walden's Ridge is under contract and not subject to increased rates in this proceeding[41], but in fact all of the four major resale customers are under contract.[42]

Therefore, TAWC's forecast of Operating Revenues should be rejected by the TRA.

OPERATION AND MAINTENANCE EXPENSES

Q. Please describe the components of Operation and Maintenance Expenses ("O&M").

A. There are 17 O&M Expense categories subject to forecast

[39]TAWC Exhibit MAM-2, Page 1 of 1.

[40]CAPD work paper R-VOLUMETRIC HISTORY, Index of work papers, page 152.

[41]TAWC response to TRA #2, Section 2E.

[42]TAWC response to CAPD Part IV, #6.

in this docket. The first category is forecasted O&M Labor. This category was projected based on a payroll price-out.

In two categories, Fuel & Power and Chemicals, there is a direct correlation between TAWC's forecasted revenues and the volume of water filtration expenses accounted for in these two O&M Expense categories. Thus, these two categories were projected based on the volume of water filtration built into the revenue forecast.

For the categories of Management Fees, Pension Expense, and Regulatory Expense, the CAPD has forecasted these amounts based on TRA precedent and the history of O&M Expenses for TAWC.

For the other eleven categories, the CAPD primarily adopted the amounts per account for the twelve months ended March 31, 2008 and grew each amount by half of the customer growth of 1.18%[43] plus the GDP Chained Price Deflator growth rate of 2.46%.[44] The combined growth rate from March 31, 2008 through August 31, 2009 is approximately 3.7%. This methodology is the standard procedure that the CAPD uses to

[43]CAPD work paper, R-CUSTOMER GROWTH, Index of work papers, page 167.

[44]CAPD work paper, E-GDP, Index of work papers, page 290.

forecast non-salary and wage O&M Expenses in rate proceedings before the TRA. Due to the large number of differences between the CAPD and TAWC in the amounts within O&M expense categories, as well as the amounts within expense accounts within each category, the CAPD will address only the significant net differences in its O&M expense forecast and the O&M expense forecast of TAWC. The details of the forecast, however, are presented in the CAPD's work papers, which are referenced in the following discussion of each O&M category.

Q. What are the significant differences between TAWC and the CAPD in O&M Expenses for the forecasted attrition year?

A. CAPD work paper E-REC-1[45] provides a reconciliation of the differences in the calculation of O&M Expenses.

The significant differences in O&M Expense for the attrition year are: (1) $181,390 in lower labor costs for the CAPD forecast; (2) $881,967 in lower Management Fees for the CAPD forecast; and (3) $201,516 in lower Regulatory Expense; Accordingly, the CAPD's total O&M Expense forecast is

[45] CAPD work papers, Index of work papers, page 168.

$1,296,473 lower than TAWC's forecast.

Q. Please describe your forecast methodology for O&M Labor.

A. Total O&M Labor was calculated using actual employee levels, actual wage rates per employee, actual overtime hours as of March 2008, and prospective pay raises at April 1 of each year per TAWC's policy for salary and non-union employees. The union employees receive an annual pay raise at November 1 of each year per their contract.[46] The O&M Labor amount was derived from the calculated total salary and wage dollars minus salary and wage dollars charged to capitalization. The capitalized salaries and wages were calculated using TAWC's actual average capitalization rate for the twelve months ended March 31, 2008. The capitalized salaries and wages removed from the total calculated salaries and wages forecast is accounted for in the rate base. Forecasting O&M salaries and wages through this price-out methodology is the standard procedure that the CAPD uses to forecast salaries and wages in rate proceedings before the TRA.

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[46] TAWC response to TRA request #33, TN-TRA-Q033-ATTACHMENT, Page 9 of 31.

Q. Please explain the differences in the calculation of O&M Labor.

A. CAPD work paper, E-PAY-6[47] provides a reconciliation of the differences in the calculation of O&M Labor. In summary, O&M Labor as forecasted by TAWC for the attrition year is overstated by $182,631.

The significant differences between TAWC and the CAPD in the calculation of O&M Labor are attributable to the following:

(1) According to TAWC's testimony, the forecast of O&M Labor includes 114 employees for the attrition year;[48] TAWC adopted the overtime hours and the capitalization rate of 20.28%[49] for the test period ended November 2007; TAWC's O&M Labor is $5,058,987[50].

(2) CAPD work papers E-PAY-1, E-PAY-2, and E-PAY-3[51] provide a price out of all employees for the attrition period. The CAPD adopted the actual employee level of 109 as of

[47]CAPD work paper, E-PAY-6, Index of work papers, page 174.

[48]Direct Testimony, J. Watson, Page 15, Question 17, Line 10.

[49]Direct Testimony, S. Miller, Page 7, Line 6.

[50]TAWC Exhibit No. 2, Schedule 3, Page 1 of 1, Line No. 1.

[51]CAPD work papers, Index of work papers, pages 169-171.

March 31, 2008[52]. The CAPD used the actual capitalization rate for the twelve months ended March 31, 2008 of 20.60% and the CAPD excluded 30% of TAWC's Annual Incentive Plan ("AIP").

Q. Why did the CAPD use current employee levels in its forecast rather than TAWC's projection of future employee levels?

A. The CAPD used current employee levels because TAWC has a known and measurable history of inflating its employment levels. Historically, TAWC does not achieve or maintain their forecasted employment levels. TAWC's continued request to set rates on an inflated employee level instead of a realized employee level should be denied.

In TRA Docket #03-00118, TAWC included in its forecast 119 employees.[53] Subsequent to the TRA Order, TAWC cut the number of employees to 108 at the end of July 2003. The actual average employee level for the attrition year in TRA Docket #03-00118 was 113[54] rather than the 119 TAWC had forecasted.

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[52]TAWC response to CAPD Part IV, #13, TN-CAPD-01-PART IV-Q013-ATTACHMENT, Page 56 of 56.

[53]TRA Docket #04-00288, Direct Testimony, M. Miller, Page 14, Lines 17-18.

[54]CAPD work paper, E-PAY-5, Index of work papers, page 173.

As a result, the actual O&M Labor expense for TRA Docket #03-00118 was $4,631,351[55] instead of TAWC's forecast of $5,066,066[56].

In TRA Docket #04-00288, TAWC included in its forecast 106[57] employees for the attrition year ended December 2005. Yet, the average employee level for that period was only 99.[58] TAWC forecasted O&M Labor expense of $4,383,883[59] for the attrition year. Again, TAWC's forecasted O&M Labor expense was significantly overstated for the TRA Docket #04-00288 attrition year. The actual O&M Labor expense for the same period was $3,765,383[60].

In TRA Docket #06-00290, TAWC contended that it would need 111 employee positions.[61] Yet, TAWC averaged only 108 employees since last year's rate case. At one point, TAWC stated in the proceeding it would have 110 employees

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[55]TRA Docket #04-00288, TAWC Exhibit No.2, Schedule 3, Page 1 of 1, Line 1.

[56]TRA Docket #03-00118, S. Valentine Exhibit No. 2, Schedule 3, Page 1 of 1, Line 1.

[57]TRA Docket #04-00288, Direct Testimony, M. Miller, Page 14, Lines 16-17.

[58]CAPD Work Paper, E-PAY-5, Index of work papers, page 173.

[59]TRA Docket #04-00288, Exhibit No. 2, Schedule 3, Line 1.

[60]TRA Docket #06-00290, TAWC Rebuttal Exhibit MAM-15, Page 2 of 2.

[61]TRA Docket #06-00290, Rebuttal Testimony, J. Watson, Page 6.

by the following Monday in April of 2007.[62] Yet, based on TAWC's response, that employment level either did not occur or was quite brief. CAPD work paper E-PAY-5[63] compares the actual employee levels of TAWC with the forecasted employees levels by TAWC. A CAPD chart[64] from this data demonstrates that TAWC has repeatedly maintained employee levels below their forecasted employee levels included in their rate filings before the TRA.

As previously mentioned, TAWC has included 114 employees in this docket, which is an additional three new positions according to TAWC's testimony. The three new positions are: Operations Specialist; Manager-Engineering Service, and Non-Revenue Water Supervisor.[65] However, according to TAWC's organizational charts, TAWC has had the current Non-Revenue Water Supervisor, Ronald C. Schleifer[66], since TRA Docket #04-00288. According to the chart, there

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[62]TRA Docket #06-00290, Transcript dated 4/18/07, afternoon session, Page 272, J. Watson.

[63]CAPD work paper, Index of work papers, page 173.

[64]CAPD work paper, Index of work papers, page 177.

[65]Direct Testimony, J. Watson, Question 18, Pages 17-18.

[66]TAWC response to TRA Data Request #3, Page 12 of 27.

were three TAWC employees, one of which was Mr. Schleifer, performing services "to other American Water companies." Yet, the full salaries of at least two of those employees were charged solely to TAWC and were included in TAWC's forecast of labor for the attrition year ended December 2005 in TRA Docket #04-00288.[67] However, none of Mr. Schleifer's salary was recorded during the test year ended June 30, 2006, in TRA Docket #06-00290.[68] The reason for the discrepancy was due to Mr. Schleifer being an employee of American Water Works Company, but located in Chattanooga.[69]

In TRA Docket #06-00290, TAWC requested four additional positions: Production Superintendent; Loss Control Specialist; an additional lab analyst; and an additional Truck Driver/Utility Worker. Again, according to TAWC's organizational chart, the Production Superintendent is Mark J. Zinnanti, who has been on the payroll since 2002. The Loss Control Specialist is Kevin B. Highsmith, who also has been on the payroll since 2002. The salaries of both men were already

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[67]TAWC Working Papers, TRA Docket 04-00288.

[68]TAWC response to TRA Data Request #13, TN-TRA-01-Q013-LABOR, page 5 of 68.

[69]TRA Docket #06-00290, TAWC response to CAPD request Part II, #4.

included in TAWC's forecast of salaries and wages in TRA Docket #06-00290. Additionally, two lab analysts[70] were given severance payments totaling $30,617 in TRA Docket #04-00288.

Given the history of TAWC's employment representations and management practices, the CAPD recommends to the TRA that only known and measurable salaries and wages be included in the attrition year. Ratepayers should not have to continue to pay for salaries and wages on employee levels that are never achieved.

Accordingly, the TRA should reject the O&M Labor Expense forecast of TAWC and set rates on actual employee levels, not on speculative employment positions that never materialize. Indeed, the employment history clearly demonstrates that such speculative levels are not achieved and therefore are not proper for rate making purposes. TAWC's employment history also demonstrates that the current employee level is sufficient for operation of the company. According to TAWC's testimony, 99.55% of their service requests were completed on time in 2005, 99.77% in 2006, and

[70]TRA Docket #03-00118, TAWC working papers, K. Durham and B. Ortega; TRA Docket #04-00288 TAWC response to TRA Request #9.

99.64% in 2007.[71]

Q. Are there any other differences in O&M Labor that you wish to discuss?

A. Yes. The CAPD also has disallowed thirty percent or $33,246 of O&M Labor for "incentive payroll." The incentive payroll known as AIP is based on three performance goals: (1) Financial; (2) Operational; and (3) Individual.[72] Thirty percent of the AIP is based on the financial operating results of TAWC.[73] Under the incentive plan, TAWC increases the compensation to its employees for increasing TAWC's regulated earnings. Because there is no mechanism under the incentive plan for TAWC's ratepayers to share in these increased earnings, TAWC's employees and shareholders will reap all of the financial rewards of these higher earnings. Additionally, ratepayers are the sole source of TAWC's regulated earnings; therefore, the incentive plan is a circular one whose success is built into this docket, rewarding TAWC's

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71 TAWC Direct Testimony, J. Watson, Page 9, Lines 2-11.

72 TAWC response to TRA Data Request #37.

73 TAWC response to TRA Data Request #37, Page 4 of 16.

employees and shareholders for merely increasing water rates charged to ratepayers. This is illustrated by the following: If TAWC's employees are successful in increasing the company's earnings, even to the point of earning above the authorized rate of return set by the TRA, TAWC will reward its employees for this effort through the AIP. In such a case, ratepayers would not only be unreasonably burdened by the over-earnings, but under TAWC's proposal, they also would have to pay an "over earnings surcharge" in the form of the AIP. The CAPD does not object if the company wants to reward its employees for increasing its earnings from regulated operations; however, the cost of these rewards should be charged to those that benefit from the AIP – the company's shareholders – not the ratepayers. For these reasons, there is no reasonable basis to charge this portion of the cost of the incentive plan to ratepayers, as these plan benefits will inure entirely to TAWC's employees and shareholders whereas the incentive plan's associated burdens will fall directly on ratepayers. In fact, TAWC paid out financial rewards to its salary employees in 2007 following the rate increase awarded to it in May 2007.

As a result, thirty percent of the incentive amount has been excluded and should be borne solely by TAWC's shareholders. The CAPD's treatment of incentive payroll is in accord with established TRA precedent.[74]

Q. Please explain the difference in the calculation of forecasted Management Fees.

A. In TRA Docket #04-00288, as a result of reorganization, TAWC included a 22% increase of $555,664 in Management Fees which brought the total forecasted 2005 Management Fees to $3,062,940. TAWC represented that this increase would "enable the Company to operate more efficiently and cost effectively while at the same time improving and enhancing the service that the Company provides."[75] However, TAWC has booked $4,258,346 in 2005, $4,793,908 in 2006, and $4,734,416 in 2007 for Management Fees.[76] In this docket, TAWC is forecasting $4,335,190 in Management Fees. Subsequently, in TRA Docket #06-00290, TAWC forecasted $4,064,421 for the

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[74]TRA Docket #06-00290, Order dated June 10, 2008, Page 24.

[75]TRA Docket #04-00288, Direct Testimony of M. Miller, Pages 14-15, Lines 15-16 and Lines 2-4.

[76]CAPD work paper E-MANAGEMENT FEES SUMMARY, Index of work papers, page 189.

attrition year ended February 2008, a 33% increase over the 2005 forecast amount. In support for this level of increase, TAWC claimed that full time employees ("FTEs") had been shifted to the Regional Service Company.[77] Further, TAWC claimed that it was not appropriate to use the 2005 forecasted amount because it was a settlement amount.[78] In support of their forecasted Management Fees, TAWC filed an exhibit using a starting point of March 31, 2004 per TRA Docket #03-00118 to compare an inflated fully loaded company labor to their forecasted management fees and forecasted labor.[79]

Despite the claims of TAWC, rates were set in TRA Docket #04-00288 for the forecast period ended December 31, 2005 based on Management Fees of approximately $3 million. This Management Fees amount was not the result of settlement, but was actually TAWC's forecasted Management Fees amount included in its filing in that case. So, in forecasting a just and reasonable Management Fees amount, it is still appropriate to use the 2005 amount as a starting point. The CAPD's work

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[77]TRA Docket #06-00290, Rebuttal Testimony, M. Miller, Page 53, lines 29-30.

[78]TRA Docket #06-00290, Rebuttal Testimony, M. Miller, Page 54, lines 7-10.

[79]TRA Docket #06-00290, Rebuttal Exhibit MAM-15, Page 1 of 2.

paper calculates a forecasted Management Fees amount of $3,453,223.[80] An analysis[81] of the history of TAWC's Management Fees growth demonstrates that it is out of step with current economic conditions. While TAWC's other expenses continue to rise, there is no offset anywhere in TAWC's forecast to account for the dramatic rise in Management Fees. Contrary to TAWC's position, their forecasted Management Fees did not provide a more cost efficient operation. Even TAWC concedes this.[82] Additionally, the Independent Cost Assessment Report ("I.C.A.R.") concluded that the growth from 2005 to 2006 was "Above the average cost change"[83] of the peer group. In 2007, TAWC was charged $4,996,171 in Management Fees, but the plan amount was $3,435,976[84]. Both amounts included O&M and capital expenditures. Further, an examination of employee expenses within Management Fees include contributions, professional

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[80]CAPD work papers, E-MANAGEMENT FEES SUMMARY, Index of work papers, page 189.

[81]CAPD work papers, E-MANAGEMENT FEES ANALYSIS, Index of work papers, pages 191-192.

[82]TRA Docket #06-00290, Rebuttal Testimony, M. Miller, Page 54, Lines 10-13.

[83]TAWC Direct Testimony, J. Van Den Berg, Page 12.

[84]TAWC response to City of Chattanooga #24.

sporting events, alcoholic beverages, and the frequent use of limousines.[85] None of these costs are necessary or prudent for providing water service. The CAPD believes that TAWC has a responsibility to its ratepayers for public utility service--one of the basic needs of society. This responsibility exceeds that of a private sector company. Water service can be provided to ratepayers only by TAWC. This monopoly service must be met not at a premium, but at a "just and reasonable cost." TAWC should be more circumspect in their expenditures for its cost of service. The spending behavior of the management service company fails the responsibility of stewardship owed by TAWC to its ratepayers. Moreover, given the magnitude and timing of the rate increase requested by TAWC, consideration for what is to be properly included in rates and the amounts to be included in its cost of service, must be heavily weighed by the TRA.

Therefore, TAWC's level of Management Fees is simply **not** just and reasonable for the ratepayers. TAWC's forecasted Management Fees do not represent cost efficiency to the ratepayers and should be rejected by the TRA.

[85] TAWC response to CAPD Part IV, #43.

Q. Please explain the difference in the calculation of Regulatory Expense.

A. In its calculation of Regulatory Expense for the attrition year, the CAPD has included the amortization of the cost of service studies performed in TRA Docket #04-00288[86] at $8,000 per year; in TRA Docket #06-00290[87] at $8,000 per year; and in this docket at $3,200[88] per year. Additionally, the CAPD has included the amortization of the depreciation study in this docket at $6,000[89] per year. Finally, the CAPD has included the amortization of rate case costs sought by TAWC in TRA Docket #06-00290[90] at $133,333 per year; and $183,336[91] per year in this docket. The total of all the amortization amounts to $341,868 in Regulatory Expense for the attrition year.

Yet, TAWC now seeks to set rates on Regulatory Expense

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[86] TRA Docket #04-00288, Direct Testimony, P. Diskin, Page 13, Lines 12-16.

[87] TRA Docket #06-00290, Direct Testimony, S. Miller, Page 12, Lines 1-3.

[88] Direct Testimony, M. Miller, Page 20, Lines 21-22.

[89] Direct Testimony, M. Miller, Page 20, Lines 23-24.

[90] TRA Docket #06-00290, Direct Testimony, S. Miller, Page 11, Lines 26-29.

[91] Direct Testimony, M. Miller, Page 20, Lines 16-17.

amounting to $543,384[92] per year, which is an additional $200,00 per year prospectively. According to TAWC, the rate case costs in this docket are $550,000 compared to the $400,000 sought in TRA Docket #06-00290. TAWC cites the same intervenors from the last docket as in this case. Moreover, the same intervenors were in TRA Docket #03-00118, when the TAWC sought rate case costs of $225,000.[93] Much of the rate case costs incurred by TAWC's is for the protection of its shareholders' interests and to the detriment of the ratepayers.

Therefore, the TRA should reject TAWC's Regulatory Expense amount of $543,384 as unduly unjust and unreasonable to ratepayers for setting prospective rates.

Q. Please summarize the forecast differences in O&M expense.

A. TAWC attributes 38%[94] of their requested increase to O&M expense. TAWC's forecasted O&M of $21 million is 26%[95] higher than their forecasted amount of $16.7 million for

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[92]Direct Testimony, M. Miller, Page 20, Line 13.

[93]TRA Docket #03-00118, Direct Testimony, S. Valentine, Page 6, Line 13.

[94]TAWC Exhibit MAM2.

[95]CAPD work paper, E-REC-1, Line 20, Index of work papers, page 168 .

the year ending 2005. The GDP growth rate over the same period is less than half TAWC's O&M growth rate. Also, TAWC's actual O&M expense was 15% higher than the O&M expense amount approved by the TRA in Docket #06-00290 for the attrition year ended February 2008. Excluding, TAWC's pension expense, the O&M expense was 10% higher than the O&M expense amount approved just last year by the TRA.

The CAPD's forecast of O&M recognizes an 18% growth rate over the forecasted $16.7 million for the year ending 2005. This growth rate is not draconian, but requires TAWC to operate efficiently within a just and reasonable budget. Furthermore, the CAPD's growth rate exceeds inflation. Some of this increase is related to the forecasted volumetric usage, which incurs more fuel & power and chemical costs. While the CAPD's forecasted fuel and power and chemical costs are higher than the forecasted amounts of TAWC. The CAPD capped these costs, which allowed the lost and unaccounted for water percentage not to exceed 15%. This is consistent with the industry average[96] as noted by TAWC.

[96] TRA Docket #06-00290, Transcript dated 4/18/07, afternoon session, Page 277, J. Watson.

Since TAWC's actual O&M growth rate exceeds any just and reasonable economic basis, the TRA should reject their O&M expense forecast.

DEPRECIATION EXPENSE

Q. Please explain the calculation of CAPD Depreciation and Amortization Expense.

A. TAWC has forecasted Depreciation and Amortization Expense of $4,730,347[97] for the attrition year. TAWC's Depreciation Expense is based on a depreciation study performed for property as of November 30, 2007. In their forecast, TAWC has included depreciation expense on assets with a book value of near zero or less[98]. These assets include computer equipment and software such as the Enterprise Customer Information System ("ECIS"). A CAPD work paper[99] demonstrates that TAWC has practiced including depreciation expense on assets with a book value of zero or less in this docket and in TRA Docket #06-00290.

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[97]TAWC Exhibit No. 2, Schedule 4, Page 1 of 2, Line 13.

[98]CAPD work paper, E-DEP, Index of work papers, Accounts #340200, 340210, 340300, 340310, 340320, and 340330, page 298.

[99]CAPD work paper, E-BOOK VALUE COMP, Index of work papers, page 300.

A depreciation study has been performed on behalf of the CAPD using the average life group ("ALG") procedure. The CAPD's depreciation rate study is presented by CAPD witness, Mr. Charles W. King. The CAPD did not calculate depreciation expense on plant accounts having a book value of zero or less. Specifically, accounting for depreciation expense is "no more nor no less than the cost of the asset"[100]. Based on the depreciation rates developed in the CAPD's study, the CAPD calculated Depreciation Expense of $4,366,120[101], which is $364,227[102] less than the projected depreciation expense of TAWC. The CAPD applied the CAPD's depreciation rates[103] to the actual March 31, 2008 Plant in Service balances and the net monthly plant additions and retirements[104] through August 31, 2009.

TAXES OTHER THAN INCOME TAXES

Q. What are the significant differences from TAWC in Taxes

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[100]*Public Utility Accounting: Theory and Application*, James E. Suelflow, Michigan State University Public Utilities Studies, P. 102.

[101]CAPD work paper, E-DEP, Index of work papers, page 298.

[102]CAPD work paper, E-DEP COMP, Index of work papers, page 297.

[103]Exhibit of Charles W. King.

[104]TAWC response to TRA #13, TN-TRA-Q013-RATE BASE BACK UP, Pages 31-38 of 52.

Other Than Income for the forecasted attrition year?

A. The significant differences in Taxes Other Than Income for the attrition year are: (1) lower Gross Receipts Tax and State Franchise Tax for the CAPD forecast; and (2) lower Payroll Taxes for the CAPD forecast. The total difference in all Taxes Other Than Income amounts to $71,649.

Q. Please explain the CAPD's calculation of Gross Receipts Tax and State Franchise Tax.

A. In August of each tax year, TAWC pays a tax to the State of Tennessee on gross receipts for the tax year ending the following June 30, which is based on the gross receipts from TAWC's prior year ending December 31. Therefore, state gross receipts tax paid in August of 2008 will be based on gross receipts for the fiscal year ending December 31, 2007. This tax will be amortized from the period July 1, 2008 through June 30, 2009. The two remaining months of the attrition year are based on forecasted gross receipts for the year ending December 31, 2008.

The State Franchise Tax was calculated using actual plant in service and accumulated depreciation net of forecasted plant additions and retirements. The State Franchise and Excise Taxes are deducted from the calculated Gross Receipts Tax using identical reporting periods. This forecasting method appropriately matches the Gross Receipts Tax and State Franchise Tax years with the attrition period in this docket.

Q. Please explain the CAPD's calculation of Payroll Taxes.

A. CAPD work paper T-OTAX3 provides a comparative summary of the differences in the calculation of Payroll Taxes.

The work paper indicates lower payroll taxes of $12,385. In part, this variance is due to the differing capitalization rates as previously alluded to in the discussion of the O&M salaries and wages. The CAPD has performed empirical calculations on forecasted Tennessee employees as of March 2008, which totaled 109 employees for the attrition year. However, TAWC has 114[105] employees for their payroll tax calculation.

Therefore, the payroll tax calculation for TAWC is too high because of the differing employee levels, supporting documentation, and the capitalization rates.

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[105] TAWC Direct Testimony of John Watson, Page 15, Line 10..

INCOME TAXES

Q. Please describe your issue with TAWC's calculation of Income Taxes for the forecasted attrition year?

A. Accounting for the interest synchronization, weighted debt costs differences, and taxable income differences results in the CAPD's state and federal income tax projection being $880,611[106] more than the income taxes projected by TAWC. However, TAWC's forecast includes an effective state income tax rate of 12% and an effective federal income tax rate of 48%[107] based on a financial taxable income of $3,610,924.[108] Both tax rates erroneously exceed the statutory tax rates of 6.5% for state and 35% for federal. The TRA recognized the statutory tax rates in TRA Docket #06-00290[109] and should do so again in this case. Also, FAS 109 is clear that deferred tax assets and deferred tax liabilities are measured "using the applicable tax rate" and "the enacted tax rate(s)."

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[106]CAPD Exhibit, Schedule 3, Lines 5 and 6.

[107]TAWC response to CAPD Part IV, #60.

[108]TAWC Exhibit No. 2, Schedule 7, Line 28.

[109]TRA Docket #06-00290, Order dated June 10, 2008, Page 38.

RATE BASE

Q. Please explain the difference in forecasted Plant in Service.

A. The CAPD forecasted Plant in Service by using actual plant balances as of March 31, 2008. Forecasted plant additions and retirements, which were provided by TAWC itself, were then added to actual balances at March 31, 2008 to arrive at monthly Plant in Service amounts through August 31, 2009. A thirteen month Plant in Service average was calculated in the amount of $209,341,111.[110]

TAWC has forecasted $203,998,392[111] for Plant in Service.

The CAPD's attrition year forecast of Plant in Service is $5,342,719[112] higher than the TAWC's forecasted amount due to the inclusion of the Walden's Ridge Plant in Service and a more recent test period balance.

Q. Please explain the difference in Construction Work in

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[110]CAPD work papers, RB-PLANTSUM, Index of work papers, page 314.

[111]TAWC Exhibit No. 1, Schedule 2, Page 3 of 3, Line 62.

[112]CAPD Exhibit, Schedule 2, Line 1.

Progress.

A. The CAPD forecasted Construction Work in Progress ("CWIP") using a thirteen month CWIP average based on the balance of $1,798,540 at March 31, 2008 and the budgeted additions for the Citico Phase 1.[113]

TAWC, however, has erred in its forecasted $9,083,000[114] for CWIP at August 31, 2009. This amount is not a thirteen month average, which "is the correct method to calculate rate base" according to TAWC[115] and TRA precedent.

As a result, the CAPD's attrition year forecast of CWIP is $3,324,318[116] lower than the TAWC erroneously forecasted amount.

Q. Please explain the difference in Working Capital Requirement.

A. TAWC has included the following items in their calculation of Working Capital Requirement: Average Cash;

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[113]CAPD work paper, RB-CWIP, Index of work papers, page 335.

[114]TAWC response to TRA Discovery #13, TN-TRA-01-Q013-RATE BASE BACK-UP, Page 4 of 52.

[115]TRA Docket #06-00290, Rebuttal Testimony, M. Miller, Page 34, Lines 2-3.

[116]CAPD Exhibit, Schedule 2, Line 2..

Prepaid Insurance; Prepaid Taxes; Materials & Supplies; Deferred Regulatory Expenses; Unamortized Debt Expense; Other Deferred Debits; Lead - Lag Study; and less Incidental Collections. TAWC used a thirteen month average for the test year ended November 2007 to calculate Average Cash, Prepaid Insurance, Prepaid Taxes, and Materials and Supplies for the attrition year ending August 2009. The CAPD included thirteen month averages for each using the test period ended March 2008.

Regarding the Deferred Regulatory Expenses, the CAPD has forecasted $650,928,[117] while TAWC has forecasted $1,020,269[118] for a difference of $369,341. The difference is primarily due to the level of rate case costs submitted by TAWC in previous TRA docket, which were approved, and the actual costs TAWC claims it incurred for the rate cases.

Again, the TRA should reject TAWC's Deferred Regulatory Expense amount of $369,341 as unduly unjust and unreasonable to ratepayers for setting prospective rates.

[117]CAPD work paper, RB-DEFERRED REGULATORY EXPENSE, Index of work papers, page 341.

[118]TAWC response to TRA Discovery Request #13, TN-TRA-01-DEFERRED RATE CASE EXPENSE. Page 1 of 2.

TAWC should not profit from the inclusion in rate base of their excessive regulatory expenses.

On Unamortized Debt Expense, TAWC erred by not computing a thirteen month average for the attrition period. Correcting for TAWC's error, the appropriate amount of unamortized debt expense is $232,405[119], which is $58,154 lower than TAWC's forecasted amount of $290,559.[120] TAWC's forecasted Unamortized Debt Expense is wrong and should be not adopted in this docket.

TAWC has included three items in its forecast of Other Deferred Debits amounting to $852,184.[121] The three items are: Customer Service Survey; Financial Services Survey; and Management Audit. The Management Audit is also known as the I.C.A.R.[122]. The CAPD does not take issue with two of the three forecast amounts. However, on the Management Audit, the CAPD has not included any amounts in expense or rate

[119] CAPD work paper, RB-UNAMORTIZED DEBT EXPENSE, Index of work papers, page 345.

[120] TAWC response to TRA Discovery Request #13, TN-TRA-01-DEBT EXPENSE, Page 1 of 16.

[121] TAWC Exhibit No. 1, Schedule 3, Page 1 of 6, Line 19.

[122] TAWC Direct Testimony, J. Van Den Berg, Appendix 1.

base for the $285,000 forecasted expenditure. Some general observations are warranted on the "Management Audit." First of all, it is not a Management Audit even by the author's own definition. Secondly, Management Audits are typically contracted independently by a regulatory agency. Thirdly, the motivations of a Management Auditor and the preparer of the Independent Cost Assessment Report in this docket are starkly different. Fourthly, the peer comparison of TAWC with solely electric utility service companies is without merit. Finally, and perhaps most importantly, there is no verification that the costs are necessary to provide water service to the customers.

As a result, the CAPD's forecast of Other Deferred Debits is $595,689, which is $256,495 lower than TAWC's forecasted amount.

Finally, TAWC adopted the Lead/Lag days as a result of "a Lead/Lag Study that was performed on historical data for the twelve months ended July 31, 2002.[123] TAWC is unable to locate the work papers from the 2002 Study supporting the Lead/Lag days.[124] However, the CAPD believes that a

[123]TAWC Direct Testimony, S. Miller, Page 15, Lines 21-23.

[124]TAWC response to CAPD Part IV, #68.

payment lag for the current portions of state excise tax and federal income tax should be calculated on the basis of the statutory payment requirements of a calendar year's liability paid in four equal installments on April 15, June 15, September 15, and December 15. On this basis, a lag of approximately 37 days is calculated.[125]

Using the CAPD's forecasted revenue, expenses, and lead/lag changes, the Lead/Lag Study amount is $835,058.[126]

TAWC elected to depart from their Lead/Lag days as calculated in their July 2002 Lead/Lag Study[127] for their calculation of Incidental Collections. Instead, TAWC used the test period ended November 2007 for this amount. The TRA has been clear in rejecting multiple test periods and accepting a uniform test period in forecasting.[128] Therefore, the CAPD has utilized the same Lead/Lag days from TAWC's July 2002 Lead/Lag Study in calculating Incidental Collections. As a result, the CAPD's calculation of Incidental Collections is

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[125] *Accounting for Public Utilities*, Hahne & Aliff § 5.04[4], Page 5-25.

[126] CAPD work paper, RB-CWC, Index of work papers, page 347.

[127] CAPD work paper, RB-INCIDENTAL COLLECTIONS, Index of work papers, page 348.

[128] TRA Director Miller's motion dated May 14, 2007.

$2,352,991, which is $891,892 larger than TAWC's forecasted amount. This correction is consistent with TRA test period policy and makes consistent application of the July 2002 Lead/Lag Study days.

The CAPD's forecasted Working Capital Requirement is $1,080,128 lower than the forecasted TAWC amount. The TRA should not adopt the forecasted TAWC amount due to errors, the use of multiple test periods, and unjust expenditures, all of which are discussed above.

Q. Please explain the difference in forecasted Accumulated Depreciation.

A. The CAPD forecasted Accumulated Depreciation by using actual balances as of March 31, 2008. Forecasted monthly depreciation expense and retirements were then added to actual balances at March 31, 2008 to arrive at monthly Accumulated Depreciation amounts through August 31, 2009. A thirteen month Accumulated Depreciation average was calculated for the attrition year Accumulated Depreciation in the amount of $62,426,348,[129] which is $1,136,857[130] lower than TAWC.

Q. Please explain the difference in Accumulated Deferred Income Tax.

A. The CAPD forecasted Accumulated Deferred Income Tax by using actual balances as of March 31, 2008 and their projected balances through August 31, 2009. The incremental change for the attrition year resulted from the projected tax depreciation less the book depreciation times the statutory state and federal tax rates. Forecasted timing differences were spread evenly from the starting point to the end of the attrition year. A thirteen month average was then calculated for the attrition year, which is consistent with the methodology used for all primary rate base categories. Tax depreciation in excess of book depreciation is the primary component of Accumulated Deferred Income Taxes that generates deferred tax differences.

[129] CAPD work paper, RB-ACC DEP, Index of work papers, page 349.

[130] CAPD Exhibit, Schedule 2, Line 8.

As a result, the CAPD forecasts Accumulated Deferred Income Tax in the amount of $17,533,305,[131] which is $601,534[132] higher than the forecasted amount of TAWC.

Q. Please summarize the calculation of Rate Base amounts for the attrition year.

A. With the inclusion of Walden's Ridge net plant in service, recognition of TAWC's forecasting errors, the use of a more recent test period, and differing depreciation rates, the forecasted net rate base of the CAPD is roughly equivalent to the rate base amount submitted by TAWC for the period ended August 31, 2009.

GROSS REVENUE CONVERSION FACTOR

Q. Please explain the difference in the determination of the Gross Revenue Conversion Factor.

A. TAWC has included an Uncollectible Expense percentage of 1.489%. The CAPD calculated a percentage of 1.11% using

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[131]CAPD work paper, RB-ADIT, Index of work papers, page 351.

[132]CAPD Exhibit, Schedule 2, Line 10.

the test period ended March 2008. TAWC neglects to include the forfeited discounts percentage of .86%. Also, TAWC has included a Gross Receipts Tax percentage of 2.876%. As previously discussed, the Gross Receipts Tax is paid by August 1 of the current year on revenues from the year and recorded over a future twelve month period ending June 30 of the following year. So, it would be an inappropriate matching of revenues and taxes for the attrition year to include a Gross Receipts percentage in the Gross Revenue Conversion Factor. Moreover, TAWC's latest Gross Receipts Tax return reports a Gross Receipts Tax percentage of 1.80%[133] The TRA adopted the CAPD's Gross Revenue Conversion Factor in Docket #06-00290[134] and should do so again in this case.

Therefore, the Gross Conversion Factor of TAWC should be rejected by the TRA for its omissions and overstatements.

CONCLUSIONS REGARDING REVENUE REQUIREMENTS

Q. Please summarize the comparison of the forecasts of TAWC and CAPD.

[133]TAWC response TRA #47, TN-TRA-01-Q047a-ATTACHMENT, Page 4 of 7.

[134]TRA Docket #06-00290, Order dated June 10. 2008, Page 43.

A. TAWC is asking the TRA for a 21%[135] increase in their tariffed rates. According to TAWC, the primary reasons for the increase are: (1) Increased Rate Base; (2) Increased Operation and Maintenance Expenses; (3) Increased Cost of Capital and (4) Declining growth in Revenues.[136] As previously discussed, the CAPD forecast takes issue with TAWC's forecast of Revenues, Operation and Maintenance Expenses, Rate Base, and TAWC's Cost of Capital (See Dr. Steve Brown's direct testimony). Therefore, the CAPD asks the TRA to adopt its forecast and deny TAWC's forecast as unjust and unreasonable for the ratepayers.

Q. What is TAWC currently earning?

A. The May 2008 TRA 3.06 surveillance report for TAWC indicates a 5.84%[137] rate of return for the twelve months ended May 2008. It is the CAPD's contention that TAWC's reported return is prospectively understated due to non-recurring Operations and Maintenance Expenses and excessive

[135]M. Miller, direct testimony, Page 2, Lines 12-13.

[136]M. Miller direct testimony, Exhibit MAM-2.

[137]Page 2, Line 42.

Management Fees.

Q. What is the history of rate increases for TAWC?

A. In TRA Docket #03-00118, the 2003 rate filing of TAWC, the TRA authorized a revenue increase of $2,745,274. This increase resulted in an average rate increase of 9.48% for water service. In TRA Docket #04-00288, the TRA authorized a .93% increase in tariffed rates amounting to $297,005. In TRA Docket #06-00290, the TRA authorized a revenue increase of $4,079,865[138], which resulted in a 13% increase. In this docket, TAWC requests an additional revenue increase of $7,644,859, which, if granted, would cause an average rate increase of 21.2%. Based on the total increases granted in the past three dockets plus the amount in TAWC's current petition, Chattanooga ratepayers would see a cumulative increase in water rates of nearly 45% since August 2003, which would equate to an annual increase in customer rates of about 7.5% for six years in a row.

Q. Please summarize TAWC's petition for a rate increase in this

[138]TRA Docket #06-00290, Order dated June 10, 2008, Page 51.

docket.

A. TAWC's petition for a rate increase would be onerous on Chattanoogans; it would outstrip inflation and it is not supported by the cost structure of TAWC or the economic environment in which the company operates. TAWC claims that its "customers are receiving water at a great value." This claim echoes the statement of American Water's president and CEO, "We need to educate the public to appreciate the value of water, so they are willing to spend more....Once you educate the customer, there is a willingness to pay more."[139] But, as shown in the Rate Design testimony below, TAWC's customers are already paying more than water customers in other major Tennessee cities.

However, it is the CAPD's contention in this docket that the customers should not have to pay more, because recent history indicates that TAWC is unable to operate within their own budgets. TAWC's current earnings are not due to a lack of revenues, but are due to excessive and unwarranted spending.

RATE DESIGN

[139]CAPD Exhibit, *The Future of American Water*, pages 11-12.

Q. Please discuss TAWC's proposed rate design.

A. TAWC is proposing the following percent increases and decreases for residential customers: Chattanooga, 22.05%; Lookout Mountain, 13.60%; Lakeview, 28.26%; Lone Oak, -8.21%; and Suck Creek, -16.34%[140]. TAWC's proposed changes in commercial rates are identical to their proposed residential rate changes. Their proposed commercial rates would generate a 21.51% in total commercial revenues. Industrial revenues would increase by 21.67%; Other Public Authority revenues would increase by 21.56%; Rates for Ft. Oglethorpe and Catoosa would increase by 21.64%; and a 21.54% increase in Private Fire Service revenues.

The CAPD proposes that any change in revenue requirements ordered by the TRA in this docket be spread uniformly to all customer classes and all customer locations. This approach would assure that the benefits or burdens created by any rate adjustment in this case are shared proportionately by all customers. This rate design is a long-standing recommendation of the CAPD in rate cases such as this one.

[140] TAWC response to TRA #13, TN-TRA-01-Q013-REVENUES, Page 15 of 99.

Additionally, the TRA should be mindful of the current residential rates in comparison to the residential rates in five other major cities in Tennessee. TAWC cited the 2007 water rate survey of Allen and Hoshall in their direct testimony[141] showing that their customers currently pay $19.39 per month for 5,000 gallons of water service. However, when compared to the monthly billing for the same amount of water service for five other major Tennessee cities, Chattanooga's residential rates are the highest[142]. Included in the CAPD's exhibits is the 2008 water rate survey of Allen and Hoshall, and this edition includes the following rankings: the city of Memphis has the 14th lowest rate for 5,000 gallons of water service at $12.47 among all the utilities included in the study; Nashville has the 11th lowest rate at $12.12; Jackson has the 18th lowest rate at $12.85; Knoxville has the 68th lowest rate at $18.22; and Murfreesboro has the 70th lowest rate at $18.32. This survey clearly demonstrates that TAWC has the highest customer water rates among Tennessee's major cities.

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[141] TAWC Direct Testimony, J. Watson, Page 23, Question 23, Lines 9-26.

[142] CAPD Exhibit, Comparison of Tennessee Cities Water Cost.

Q. Does this conclude your testimony?

A. Yes, it does.