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A PROFESSIONAL LIMITED LIABILITY COMPANY

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OTHER OFFICES

KNOXVILLE
MEMPHIS

August 8, 2008

VIA E-MAIL AND HAND DELIVERY

Chairman Tre Hargett
c/o Ms. Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

filed electronically in docket office on 08/08/08

Re: *Petition of Tennessee American Water Company To Change And Increase Certain Rates And Charge 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

Dear Chairman Hargett:

Enclosed please find an original and seven (7) sets of copies of Tennessee American Water Company's Amendment to Direct Testimony filed by Sheila A. Miller in this docket. For ease of reference, a fully revised copy of Mrs. Miller's direct testimony is included with this submission, which reflects the identified amendments to pages 14 and 15.

Please return three (3) copies of this Supplemental Response to me by way of our courier, which I would appreciate your stamping as "filed."

Should you have any questions concerning any of the enclosed, please do not hesitate to contact me.

With kindest regards, I remain

Very truly yours,


Erin M. Everitt

Enclosures

Chairman Tre Hargett

August 8, 2008

Page 2

cc: Hon. Ron Jones (*w/o enclosure*)
Hon. Sara Kyle (*w/o enclosure*)
Hon. Eddie Roberson, PhD (*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*)
Timothy C. Phillips, Esq. (*w/enclosure*)
David C. Higney, Esq. (*w/enclosure*)
Henry M. Walker, Esq. (*w/enclosure*)
Michael A. McMahan, Esq. (*w/enclosure*)
Frederick L. Hitchcock, Esq. (*w/enclosure*)
Mr. John Watson (*w/o enclosure*)
Mr. Michael A. Miller (*w/o enclosure*)

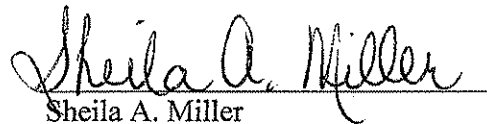
TENNESSEE REGULATORY AUTHORITY

STATE OF WEST VIRGINIA

COUNTY OF KANAWHA

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Sheila A. Miller, being by me first duly sworn deposed and said that:

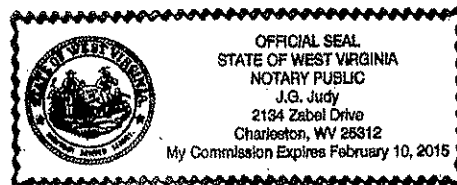
She is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, her amended testimony would set forth in the annexed transcript consisting of 3 pages.


Sheila A. Miller

Sworn to and subscribed before me
this 8th day of August 2008.


Notary Public

My commission expires February 10, 2015.



1 **TENNESSEE-AMERICAN WATER COMPANY**
2 **CASE NO. 08-00039**
3 **AMENDMENT TO THE DIRECT TESTIMONY**
4 **Sheila A. Miller**
5

6 **In response to TN-TRA-05-Q01, three items were eliminated from the**
7 **working capital element of the rate base calculation. As a result, the original**
8 **direct testimony of Sheila A. Miller is amended as follows:**
9

10 **Page 14, lines 12 through 17 are amended to read as follows:**
11

12 **CONSTRUCTION WORK IN PROGRESS**

13 **The amount shown in Exhibit 1, Schedule 2 is the 13 month**
14 **average of the CWIP balance from August 2008 through the**
15 **attrition year ending August 30, 2009. These amounts represent**
16 **the forecasted project work for utility plant that is not in service**
17 **as of August 31, 2009.**
18

19 **Page 14, lines 23 through 27 are eliminated**

20 **Page 15, line 1 eliminate the words Prepaid Insurance**

21 **Page 15, lines 9 through 14 are eliminated**
22

23 **Question 26 is amended as follows:**
24

25 **26. Q. PLEASE DETAIL THE COMPONENTS THAT COMPRISE**
26 **RATE BASE SHOWN ON EXHIBIT 1, SCHEDULE 2.**

27 **A. UTILITY PLANT IN SERVICE**

28 **Includes the original cost of all land, land rights, easements,**
29 **structures and improvements, together with equipment in service**

1 at November 30, 2007. The Utility Plant balance was calculated
2 through August 31, 2009 by adding net additions and retirements
3 through the end of the attrition period. The 13-month average of
4 the Utility Plant balances from August 1, 2008 through August 31,
5 2009 was calculated to arrive at the utility plant balance for the
6 attrition period. These additions and retirements are summarized
7 on Exhibit 1, Schedule 2, page 3 of 3, and are addressed in greater
8 detail in Mr. Watson's direct testimony. As with the revenues and
9 expenses, we eliminated utility plant associated with Walden's
10 Ridge.

11 CONSTRUCTION WORK IN PROGRESS

12 The amount shown in Exhibit 1, Schedule 2 is the 13 month
13 average of the CWIP balance from August 2008 through the
14 attrition year ending August 30, 2009. These amounts represent
15 the forecasted project work for utility plant that is not in service
16 as of August 31, 2009.

17 WORKING CAPITAL

18 Working capital shown on Exhibit 2, Schedule 2, is further
19 detailed on Exhibit 2, Schedule 3, and I will explain each of those
20 components.

21 Prepaid Taxes, and Materials and Supplies represent an average
22 of the thirteen month end balances for the test year ending
23 November 30, 2007.

24 Deferred Regulatory Expense consists of an average of the
25 unamortized balances at August 31, 2009, the attrition year end.
26
27

1 The amounts included in rate base include \$962,885 for rate case
2 expense, \$30,384 for the cost of service study expense, and \$27,000
3 for depreciation study expense.

4 Other Deferred Debits consist of three items which include the
5 thirteen month average of the unamortized transition costs of the
6 Customer Call Center totaling \$433,326, the unamortized
7 transition costs of the Shared Services Center in the amount of
8 \$162,358, and the unamortized balance of the management audit
9 totaling \$256,500.

10 Lead-Lag Study – The Company is utilizing a Lead/Lag Study
11 that was performed based on historical data for the twelve months
12 ending July 31, 2002.

TENNESSEE-AMERICAN WATER COMPANY
CASE NO. 08-00039
AMENDED DIRECT TESTIMONY
Sheila A. Miller

1. Q. WILL YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD?

A. My name is Sheila A. Miller and my business address is 1600 Pennsylvania Avenue, Charleston, WV 25302.

2. Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by American Water Works Service Company as an Assistant Manager of Rates and Regulation.

3. Q. WHAT ARE YOUR RESPONSIBILITIES IN THIS POSITION?

A. My responsibilities include the preparation and presentation of rate filings requested by three operating companies comprising the Southeast Region of the American Water Works Service Company. I present testimony in formal rate cases and other regulatory proceedings. I am also responsible for various accounting duties including budget preparation, account reconciliation, and financial statement analysis.

4. Q. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE?

A. In 1983, I graduated Summa Cum Laude with a Bachelor of Arts degree from Glenville State College with a major in Accounting

1 and Management, and a minor in Economics. In 1988, I received
2 my Certified Public Accountant (CPA) license.

3
4 I have worked with the American Water System for 23 years and
5 began my career in December 1984, as a Junior Accountant. In
6 that capacity I worked in the Construction Accounting
7 Department for American Water Works Service Company. In
8 1985 I was promoted to Accountant, Construction Accounting
9 Supervisor for the Southeast Region in 1988, Construction
10 Accounting Superintendent for West Virginia American Water
11 Company in 1992, Assistant Director of Accounting for West
12 Virginia American in 1995, Director of Accounting for West
13 Virginia American in 1997, Director of Accounting for the
14 Southeast Region in 2000, transferred to Senior Financial Analyst
15 (Rates) for the Southeast Region in 2002 and promoted to my
16 current position of Assistant Manager Rates & Regulation in
17 2007. I have vast accounting knowledge and expertise in the
18 financial aspects of the company.

19
20 In addition, I assisted with the system-wide acquisition integration
21 of Citizens Water by serving on the Acquisition Team. I was
22 instrumental in the set up of a system-wide conversion process for
23 the Shared Services Center by assisting the team with the
24 integrity and comparative reports that were created and used by
25 the American System. I also served in the communication link as
26 a member of the Customer Advisory Team throughout the
27 transition phase. I assisted with the implementation of our

1 financial software system (JDEdwards), prepared source
2 documentation, and trained employees in the areas of general
3 ledger, purchase orders, fixed assets, accounts payable, and
4 reporting.

5
6 I have previously prepared testimony and rate case exhibits for
7 Tennessee American Water, Kentucky American Water, Virginia
8 American Water, and West Virginia American Water.

9
10 **5. Q. WERE THE COMPANY'S ACCOUNTING EXHIBITS**
11 **PREPARED BY YOU OR UNDER YOUR SUPERVISION?**

12 **A. Yes, they were.**
13

14 **6. Q. WHAT IS THE SOURCE OF THE INFORMATION USED IN**
15 **THE COMPANY'S ACCOUNTING EXHIBITS?**

16 **A. The information contained in the Accounting Exhibits was**
17 **prepared from the financial and operational records of the**
18 **company.**
19

20 **7. Q. PLEASE EXPLAIN THE INCREASE IN RATES THAT THE**
21 **COMPANY IS SEEKING IN THIS PROCEEDING.**

22 **A. The Company is seeking a rate increase that would produce**
23 **additional annual revenues of \$7.645 million or 20.58%. The**
24 **Company last filed for a rate increase in November 2006.**
25

26 **8. Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
27 **CASE?**

1 **A. My testimony will 1) sponsor the Company's Accounting Exhibits**
2 **Nos. 1, 2, 3, and 4 which support the proposed revenue increase of**
3 **\$7,644,859 and 2) support the Company's attrition year level of**
4 **Labor, Fuel and Power, Chemicals, Waste Disposal, Group**
5 **Insurance, Insurance Other than Group, General Taxes, and Rate**
6 **Base. I will also address the Company's Operating Revenues per**
7 **books for the test year and for the attrition year under both**
8 **present and proposed rates, except for average daily usages for**
9 **both the residential and commercial customer classes.**

10
11 **9. Q. WHO WILL ADDRESS THE COMPANY'S PROPOSED**
12 **AVERAGE DAILY USAGE FOR THE RESIDENTIAL AND**
13 **COMMERCIAL CUSTOMER CLASSES?**

14 **A. The Company has retained the services of Dr. Edward L.**
15 **Spitznagel, Jr., Professor, Washington University in St. Louis,**
16 **Missouri, to provide weather normalizations for both the**
17 **residential and commercial customer classes. I will explain how**
18 **Dr. Spitznagel's averages were used in the Company's bill**
19 **analysis.**

20
21 **10. Q. WHAT IS THE TEST PERIOD REFLECTED IN THIS CASE?**

22 **A. The Company has used a historical test period of twelve months**
23 **ending November 30, 2007. The Company has adjusted the test**
24 **period for two levels of adjustments. The first adjustment**
25 **normalizes the test year. The second level adjusts the normalized**
26 **year to arrive at the attrition year which is the twelve months**
27 **ended August 31, 2009.**

1
2 **11. Q. MS. MILLER, ARE THERE ANY EXHIBITS YOU WISH TO**
3 **SPONSOR BEFORE YOU CONTINUE?**

4 **A. Yes, I would like to give a brief description of the accounting**
5 **schedules which detail and support the rate base, revenues,**
6 **expenses, capitalization and bill analysis for the test year and**
7 **attrition year.**

8
9 **Exhibit 1 is a financial summary of the filing which details how**
10 **the Company arrived at the amount of the requested revenue**
11 **increase. There is also a rate base summary for the test year and**
12 **attrition year with supporting schedules.**

13
14 **Exhibit 2 is an operating income summary for the test year and**
15 **attrition year with supporting schedules broken down by major**
16 **account group.**

17
18 **Exhibit 3 provides a cost of capital summary for the attrition year**
19 **and supporting schedules which provide detail on each component**
20 **of the capital structure.**

21
22 **Exhibit 4 provides a bill analysis for the attrition year at both**
23 **present and proposed rates.**
24

25 **12. Q. HOW DID THE COMPANY DETERMINE THE OPERATING**
26 **REVENUES SHOWN IN ITS ACCOUNTING EXHIBIT?**

27 **A. The Company's operating revenues are obtained from (i) metered**
28 **sales, (ii) private fire service, and (iii) miscellaneous, service**
29 **revenues, rents from property, and other water revenues. The**
30 **Company uses a bill analysis reflecting the actual billing**
31 **determinants for the test year, twelve months ended November**
32 **30, 2007. Exhibit No. 4, Schedules 1 and 2, set forth the individual**

1 bill analysis by customer class. This schedule multiplies attrition
2 year billing determinants by present and proposed rates.

3 **13. Q. DID THE COMPANY MAKE ANY ADJUSTMENTS TO PER**
4 **BOOK REVENUES FOR THE TEST YEAR?**

5 **A. Yes, the Company made a total of five adjustments, as follows:**

6 (1) normalized test year adjustments which include eliminating
7 the extra month of billing on routes with 13 bills; eliminated
8 revenues for Velsicol Chemical Corporation due to the closing of
9 the plant; annualized the rate increase for the Catoosa Utility
10 District that was effective June 2007 and Fort Oglethorpe
11 effective May 2008; and annualized the rate increase effective
12 May 22, 2007 for TAWC customers; (2) weather normalization
13 adjustment for the residential and commercial customer classes;
14 (3) eliminated net change in accrued revenues; (4) eliminated
15 Walden's Ridge revenues from the filing, and (5) added revenue
16 for the estimated number of new customers to be added during
17 the attrition year. The estimate is based on historical results.

18
19 **14. Q. HOW WERE THE OPERATING EXPENSE ADJUSTMENTS**
20 **IN THE ACCOUNTING EXHIBIT CALCULATED?**

21 **A. The adjustments reflect an ongoing level of operating expenses**
22 **consistent with the test year matching principles. Known and**
23 **measurable price adjustments have been included to restate test**
24 **year expense levels to rate year levels, the first 12 month period in**
25 **which new rates will be in effect.**

26
27 **15. Q. WHAT METHODOLOGY DID THE COMPANY UTILIZE IN**

1 **CALCULATING GOING-LEVEL LABOR EXPENSE IN ITS**
2 **COST OF SERVICE?**

3 **A. The Company calculated labor expense by individual employee.**
4 **Each employee's wages during the twelve months ended**
5 **November 30, 2007 were adjusted to account for the wage level to**
6 **be paid during the first twelve-months in which the new rates will**
7 **be in effect. This is the same approach the Company has used in**
8 **prior filings. Since 20.28% of the labor expense is capitalized, this**
9 **amount is eliminated from the O & M expenses.**

10
11 **16. Q. HOW WERE THE WAGE LEVELS FOR THE ATTRITION**
12 **YEAR DETERMINED?**

13 **A. Hours worked during the historical test year were obtained from**
14 **the Company's actual payroll records for union employees.**
15 **Adjustments were then made to overtime hours to restate those**
16 **hours to a level equivalent to the employee's hourly pay rate. For**
17 **example, the hours paid at time and a half wage rates were**
18 **multiplied by 1.5 to yield hours that could be applied to the**
19 **employee's hourly wage rate. Similar adjustments were made for**
20 **other premium overtime hours. Each employee's equivalent**
21 **hours were then applied to their average attrition year wage rate**
22 **to determine going-level wages.**

23
24 **17. Q. HOW WERE THE AVERAGE RATE YEAR WAGE RATES**
25 **CALCULATED?**

26 **A. For union employees, the Company's existing bargaining**
27 **agreements were examined. The agreements contain negotiated**

1 wage rates through the attrition year. The wage rates for each pay
2 class in effect for the attrition year were pro-rated based upon the
3 number of days in the attrition year. The result is an average
4 attrition year wage rate for each union employee.

5
6 For non-union hourly and clerical employees, current wage rates
7 that became effective on April 1, 2007 were adjusted for wage
8 increases of 3.6% on April 1, 2008 and April 1, 2009. The test
9 year wage rate was calculated based upon the number of days
10 each of those wages were in effect, just as the union wage rates
11 were calculated.

12
13 18. Q. HOW WERE THE ATTRITION YEAR WAGE LEVELS FOR
14 SALARIED EMPLOYEES DETERMINED?

15 A. Salaried employees are exempt from overtime pay. For that
16 reason, the current annual salary for each employee has been
17 adjusted for wage increases that would become effective April 1,
18 2008 and April 1, 2009. Consistent with the other employee
19 classes, the 2008 and 2009 salaries were calculated based upon the
20 number of days each of the salary amounts would be in effect.

21
22 19. Q. WHAT IS THE BASIS UPON WHICH FUEL AND POWER
23 COST WAS CALCULATED FOR THIS RATE ADJUSTMENT?

24 A. Fuel and power is based upon expected water pumped to the
25 system during the attrition year (system delivery), and its cost to
26 pump and treat. Attrition year water sales, non-revenue usage
27 water (which is water used for system flushing, street cleaning,

1 sewer flushing, etc.) and an estimated unaccounted for water is
2 combined to arrive at system delivery. Fuel and power is based
3 on kilowatt hours (KWH's) per million gallons system delivery.
4

5 Fuel and power costs are based on estimated KWH usage and
6 kilowatt demand (KWD) required to produce the projected
7 system delivery and deliver the water to the customer for the
8 attrition year. The attrition year system delivery is multiplied by
9 the KWH's per thousand gallons to arrive at total kilowatt hours.
10 Total kilowatt hours are priced at the rates charged by the
11 Chattanooga Electric Power Board to arrive at the attrition year
12 energy charges. An adjustment was made for the increase in rates
13 that will be effective April 1, 2008, as well as the increase in the
14 fuel cost adjustment amount. The KWH's per thousand gallons
15 required is based on the latest 12 months actual, with adjustments
16 for any known changes that will affect KWH usage. KWD usage
17 is also priced at the rates charged by the Chattanooga Electric
18 Power Board. The total energy charges plus the demand charges
19 equate to the fuel and power cost. The total attrition year fuel
20 and power expense is \$1,986,259 which represents a decrease of
21 \$288,609 over the test year expense. This is due to a decrease in
22 system delivery in the attrition period and the elimination of
23 Walden's Ridge fuel & power expense from the rate filing.
24

25 20. Q. WHAT IS THE BASIS FOR THE CHEMICAL COSTS?

26 A. Chemical costs are based upon expected water pumped to the
27 system (system delivery) for the attrition year and the cost to treat

1 that water. Attrition year water sales, non-revenue usage (used
2 for street cleaning, sewer flushing, etc.) and an estimated
3 unaccounted for water is combined to arrive at system delivery.
4 System delivery, plus water used at the treatment plant, is
5 combined to produce total treatment rate. Historical chemical
6 usage per pound is priced at the current contract chemical costs
7 to arrive at a total chemical cost for the historical test year. The
8 total cost of each chemical is divided by the historical system
9 delivery to arrive at an average cost per pound of chemical per
10 CCF. The average costs per pound of chemical are then applied
11 to the normalized system delivery and attrition year system
12 delivery to arrive at the appropriate adjustments for chemical
13 expense. The total attrition year chemical expense is \$1,049,272
14 which is a decrease of \$25,900 over the test year expense due to
15 the decrease in system delivery.

16
17 **21. Q. WHAT IS THE BASIS FOR THE COST OF WASTE**
18 **DISPOSAL?**

19 **A. Waste disposal is based upon the 2007 actual expenditures paid to**
20 **the City of Chattanooga Sanitary Board to treat the water plant**
21 **residuals adjusted for a 3% increase which was effective October**
22 **2007 and another 3% increase effective April 2008.**

23
24 **22. Q. PLEASE EXPLAIN THE ADJUSTMENT FOR GROUP**
25 **INSURANCE.**

26 **A. The group insurance expense for the normalized test year was**
27 **calculated first by determining the annualized group insurance**

1 cost. The cost is determined by applying the group insurance
2 rates in effect at November 30, 2007 to the proforma insurance
3 coverages based upon the employee complement and salary and
4 wage information. From this number, an amount representing
5 the employee contribution for their healthcare coverage is
6 subtracted. The result is the Company's annualized group
7 insurance cost.

8
9 Since group insurance is an employee benefit, the cost for group
10 insurance is charged based upon direct labor charges. Since
11 20.28% of labor was not charged to expense (as previously
12 explained) this percentage of group insurance cost is excluded
13 from the Company's claim for group insurance expense.

14
15 **23. Q. ARE THERE ANY OTHER PAYROLL-RELATED**
16 **EXPENSES?**

17 **A. Yes, there are. The Company's claim for payroll taxes is based on**
18 **historic and future test year salary and wage expense. As is the**
19 **case with group insurance, 20.28% of the calculated payroll taxes**
20 **are eliminated, representing the portion not charged to**
21 **operations.**

22
23 **24. Q. PLEASE EXPLAIN THE ADJUSTMENT FOR OTHER**
24 **GENERAL TAXES.**

25
26 **A. Certainly. I will address them individually.**

27
28 **PROPERTY TAXES**

29 **Property taxes for the test year were \$2,901,497. This amount was**

1 actually over-accrued which created a normalized adjustment of
2 (\$317,200). An effective property tax rate based on the latest
3 property tax returns was applied to the attrition year rate base to
4 arrive at the attrition year adjustment of \$268,883.

5
6 **GROSS RECEIPTS TAXES**

7 Gross receipts tax was based on projected jurisdictional revenues
8 for Tennessee American Water including Other Operating
9 revenues. The revenues, adjusted for the Franchise Tax, Excise
10 Tax, and a \$5,000 exemption, were multiplied by the current 3%
11 tax rate to arrive at the attrition year level. The forecasted
12 amount was prepared using 83% of the Gross Receipts Tax
13 Return based on 2007 revenues. This return is due August 2008
14 and is for the taxable period ending June 2009. The remaining
15 17% is based on 2008 budgeted revenues and adjusted for any
16 rate increase included in this filing. This properly matches the
17 Gross Receipts Tax with the attrition period in this case.

18
19 **PSC FEES**

20 The PSC Inspection Fee is paid in advance and based on the
21 previous years' revenues. This calculation was also matched to
22 the attrition period in this rate filing. One third (September 2008
23 thru December 2008) was based on 2007 revenues and two thirds
24 (January 2009 thru August 2009) was based on projected 2008
25 jurisdictional revenues. The revenues were reduced by
26 uncollectibles and a \$5,000 exemption to arrive at taxable
27 revenues. The result was multiplied by the Tennessee statutory
28 rates that were taken from the 2007 return.

1
2 **FRANCHISE TAX**

3 Franchise tax, as imposed by the state of Tennessee, applies to the
4 company's apportioned net worth or value of property owned and
5 used in Tennessee, whichever is greater, as shown at the close of
6 the corporation's fiscal year. The Franchise Tax is paid in
7 arrears and is based on the previous years original cost of assets.
8 For this filing, we utilized the balances as of December 2007 as a
9 basis for one third of the attrition year tax and two thirds was
10 calculated using the projected balance at December 2008. Those
11 values were then multiplied by the statutory rate of \$.25 per \$100.
12

13 **RATE BASE:**

14 **25. Q. HAS THE COMPANY CHANGED THE METHODOLOGY IN**
15 **CALCULATING REQUESTED RATE BASE FROM THE**
16 **APPROACH ADVOCATED IN ITS LAST CASE?**

17 **A. Yes. The Company utilized a thirteen month average rate base**
18 **calculation as approved in Case No. 06-00290. Shown on Exhibit**
19 **No.1, Schedule 2, Column No. 1 of the Company's Accounting**
20 **Exhibit, is the rate base for the historical test year totaling**
21 **\$108,531,513. In Column No. 2, the Company has summarized its**
22 **requested ratemaking adjustments to rate base totaling**
23 **\$11,349,993. In column 3, the Company has shown its requested**
24 **rate base of \$119,881,506.**

25
26 **26. Q. PLEASE DETAIL THE COMPONENTS THAT COMPRISE**
27 **RATE BASE SHOWN ON EXHIBIT 1, SCHEDULE 2.**

1 **A. UTILITY PLANT IN SERVICE**

2 Includes the original cost of all land, land rights, easements,
3 structures and improvements, together with equipment in service
4 at November 30, 2007. The Utility Plant balance was calculated
5 through August 31, 2009 by adding net additions and retirements
6 through the end of the attrition period. The 13-month average of
7 the Utility Plant balances from August 1, 2008 through August 31,
8 2009 was calculated to arrive at the utility plant balance for the
9 attrition period. These additions and retirements are summarized
10 on Exhibit 1, Schedule 2, page 3 of 3, and are addressed in greater
11 detail in Mr. Watson's direct testimony. As with the revenues and
12 expenses, we eliminated utility plant associated with Walden's
13 Ridge.

14
15 **CONSTRUCTION WORK IN PROGRESS**

16 The amount shown in Exhibit 1, Schedule 2 is the 13 month
17 average of the CWIP balance from August 2008 through the
18 attrition year ending August 30, 2009. These amounts represent
19 the forecasted project work for utility plant that is not in service
20 as of August 31, 2009.

21
22 **WORKING CAPITAL**

23 Working capital shown on Exhibit 2, Schedule 2, is further
24 detailed on Exhibit 2, Schedule 3, and I will explain each of those
25 components.

26 **Prepaid Taxes, and Materials and Supplies** represent an average
27 of the thirteen month end balances for the test year ending

1 November 30, 2007.

2 Deferred Regulatory Expense consists of an average of the
3 unamortized balances at August 31, 2009, the attrition year end.
4 The amounts included in rate base include \$962,885 for rate case
5 expense, \$30,384 for the cost of service study expense, and \$27,000
6 for depreciation study expense.

7 Other Deferred Debits consist of three items which include the
8 thirteen month average of the unamortized transition costs of the
9 Customer Call Center totaling \$433,326, the unamortized
10 transition costs of the Shared Services Center in the amount of
11 \$162,358, and the unamortized balance of the management audit
12 totaling \$256,500.

13 Lead-Lag Study – The Company is utilizing a Lead/Lag Study
14 that was performed based on historical data for the twelve months
15 ending July 31, 2002.

16 17 ACCUMULATED DEPRECIATION

18 The accumulated depreciation balance as shown on Exhibit 1,
19 Schedule 2 begins with the historical test year balance as of
20 November 30, 2007. Accumulated depreciation was calculated
21 through the end of the attrition period utilizing current
22 depreciation rates through August 31, 2008 and the new
23 depreciation rates as prepared by Mr. John Spanos through
24 August 31, 2009. A thirteen month average was then calculated
25 using the month end accumulated depreciation balances from
26 August 1, 2008 to August 31, 2009 to arrive at the accumulated
27 depreciation at the end of the attrition period.

1

2 **27. Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

3 **A. Yes.**

4

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 8th day of August, 2008, upon the following:

<input checked="" type="checkbox"/> Hand-Delivery	Timothy C. Phillips, Esq.
<input type="checkbox"/> U.S. Mail	Consumer Advocate and Protection Division
<input type="checkbox"/> Facsimile	Office of Attorney General
<input type="checkbox"/> Overnight	2nd Floor
<input checked="" type="checkbox"/> Email	425 5th Avenue North
	Nashville, TN 37243-0491
<input type="checkbox"/> Hand-Delivery	David C. Higney, Esq.
<input type="checkbox"/> U.S. Mail	Counsel for Chattanooga Manufacturers Association
<input type="checkbox"/> Facsimile	Grant, Konvalinka & Harrison, P.C.
<input checked="" type="checkbox"/> Overnight	633 Chestnut Street, 9th Floor
<input checked="" type="checkbox"/> Email	Chattanooga, TN 37450
<input checked="" type="checkbox"/> Hand-Delivery	Henry M. Walker, Esq.
<input type="checkbox"/> U.S. Mail	Counsel for Chattanooga Manufacturers Association
<input type="checkbox"/> Facsimile	Boult, Cummings, Conners & Berry, PLC
<input type="checkbox"/> Overnight	Suite 700
<input checked="" type="checkbox"/> Email	1600 Division Street
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