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August 13, 2008

VIA E-MAIL AND HAND DELIVERY

filed electronically 8/13/08

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

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 Rebuttal Testimony filed on behalf of the following witnesses: Sheila A. Miller, Paul H. Herbert, John J. Spanos, Joseph Van den Berg, Michael J. Vilbert, Mark Manner, and Dr. Edward L. Spitznagel in this docket. Two disks are included with this submission. The first disk contains adobe images of each production. The second disk contains all of the documents submitted in the native format. For certain witnesses, attestations will follow under separate cover.

Please return three (3) copies of this Rebuttal Testimony 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.

Sincerely



Erin M. Everitt

Chairman Tre Hargett
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Enclosures

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*)

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 13th 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
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<input type="checkbox"/> Overnight	2nd Floor
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BEFORE THE
TENNESSEE REGULATORY AUTHORITY

REBUTTAL TESTIMONY OF
PAUL R. HERBERT

ON BEHALF OF TENNESSEE-AMERICAN WATER COMPANY

CASE NO. 08-00039

CONCERNING

COST OF SERVICE ALLOCATION

AND

CUSTOMER RATE DESIGN

AUGUST 2008

BEFORE THE TENNESSEE REGULATORY AUTHORITY

RE: TENNESSEE-AMERICAN WATER COMPANY

CASE NO. 08-00039

REBUTTAL TESTIMONY OF PAUL R. HERBERT

1 1. Q. Please state your name and address.

2 A. My name is Paul R. Herbert. My business address is 207 Senate
3 Avenue, Camp Hill, Pennsylvania.

4 2. Q. By whom are you employed?

5 A. I am employed by Gannett Fleming, Inc.

6 3. Q. Are you the same Paul R. Herbert that submitted direct testimony in
7 this case?

8 A. Yes, I am.

9 4. Q. What is the subject of your rebuttal testimony?

10 A. My rebuttal testimony will address Chattanooga Manufacturers
11 Association (CMA) witness Mr. Michael Gorman direct testimony and
12 exhibits, and CAPD witness Mr. Terry Buckner concerning the
13 Company's proposed rate design.

14 5. Q. What do Mr. Gorman and Mr. Buckner recommend with regard to the
15 proposed rate design?

16 A. Both Mr. Gorman and Mr. Buckner recommend an across-the-board
17 increase for all classes and districts.

18 6. Q. How does this differ from the Company's proposal?

1 A. The Company's plan is to move toward two separate tariffs – a
2 Chattanooga Tariff and a Mountain Tariff. The Mountain Tariff
3 reflects the additional facilities and electric power required to serve
4 those areas at higher elevations. The Company's proposal in this
5 case would merge the Lookout Mountain and Lakeview tariffs into one
6 Mountain Tariff and begin to merge the Lone Oak and Suck Creek
7 tariffs into the Mountain Tariff over time. Since the areas that are
8 merging into the Mountain Tariff have existing rates that are all
9 different, varying increases are required to merge the two districts into
10 the Mountain Tariff in this case and the other two districts in future
11 cases.

12 7. Q. Did Mr. Gorman or Mr. Buckner address the Company's proposal in
13 their testimony?

14 A. No, they did not. They simply stated that an across-the-board
15 increase is preferable without mention of the Company's plan. I
16 suspect they don't fully understand what the Company proposed and
17 the reasons for moving to two tariffs. Ironically, Mr. Gorman opposed
18 the Company's proposed across-the-board increase in the last case.

19 8. Q. Mr. Gorman criticizes the Company for not supporting the increases
20 proposed for the various districts. Is a cost of service study by district
21 necessary?

22 A. No, it is not. The Mountain Tariff is based on the additional costs
23 necessary to provide service to higher elevations. They include the
24 additional electric power for pumping and the additional facilities such

1 as pumping stations and storage tanks to pump the water to these
2 areas at higher elevations. The additional costs are divided by the
3 consumption in these areas to determine the additional rate to be
4 added to the Chattanooga tariff rate. The calculation of the additional
5 rate of \$0.727 per ccf and the derivation of the Mountain Tariff are
6 shown on Exhibit No. PRH-R1, attached to my rebuttal testimony. A
7 similar rate differential has been in existence for Lookout Mountain
8 and Lakeview for many years.

9 9. Q. Mr. Gorman also criticizes the contract rate charged to Walden Ridge.
10 Does his criticism have any merit?

11 A. No. The Company removed the revenues, expenses and rate base
12 associated with serving Walden Ridge in this case. Any rate
13 deficiency that may exist would not affect the remaining customers.

14 10. Q. Did Mr. Buckner offer any meaningful reasons to oppose the
15 Company's rate design?

16 A. No, he did not. He simply states that an across-the-board increase is
17 a long-standing recommendation of the CAPD. He did not address
18 the Company's proposal to consolidate rates for a Mountain tariff as
19 discussed earlier in my testimony.

20 11. Q. Mr. Buckner also makes comparisons of rates for other water utilities
21 in five other Tennessee cities. Please comment.

22 A. Mr. Buckner's comparison is meaningless without a comparison of
23 each city's costs to provide water service including, but not limited to,
24 the age of the systems, the cost of capital, if depreciation is

1 recognized, whether income taxes or property taxes are paid by the
2 utility and whether the city utility rate fully reflects the cost of water
3 service or is subsidized by the city general fund.

4 Furthermore, if Mr. Buckner is so concerned with high water
5 bills, why does he oppose the Company's proposal to reduce the
6 average residential bills for Lone Oak and Suck Creek that are
7 significantly higher (\$47.16 for Lone Oak and \$38.25 for Suck Creek)
8 than the \$19.39 average residential bill (based on 5,000 gallons per
9 month) for Chattanooga Tariff customers? His across-the-board
10 increase would only exacerbate this variance.

11 12. Q. Does this conclude your rebuttal testimony?

12 A. Yes, it does.

Tennessee-American Water Company
Analysis of Additional Pumping Costs Associated with the Mountain Tariff

	Depreciation Expense	Rate Base	Return & Taxes on Rate Base @ 14.9%	Total Revenue Requirement
<u>Lookout Mountain Tariff</u>				
Pumping Structures	\$ 547	\$ 3,890	\$ 580	\$ 1,127
T & D Reservoirs & Standpipes	4,185	100,106	14,914	19,099
Pumping Equipment	<u>7,563</u>	<u>239,014</u>	<u>35,609</u>	<u>43,172</u>
Subtotal	12,295	343,010	51,103	63,398
Plus : Power Costs				<u>264,172</u>
Total Lookout Mtn. Revenue Requirement				<u>\$ 327,570</u>
<u>Lakeview Tariff</u>				
Pumping Structures	49	1,150	171	220
Pumping Equipment	2,302	50,144	7,471	9,773
Tank Painting	<u>17,950</u>	<u>136,063</u>	<u>20,271</u>	<u>38,221</u>
Subtotal	20,301	187,357	27,913	48,214
Plus : Power Costs				<u>91,302</u>
Total Lakeview Revenue Requirement				<u>\$ 139,516</u>
Combined Lookout Mtn. and Lakeview Rev. Req.				<u>\$ 467,086</u>
Combined Lookout Mtn. and Lakeview Consumption, CCF				642,660
Cost per CCF				\$ 0.727

Calculation of Mountain Tariff Rate per CCF:

	Proposed Chattanooga Tariff Rate	Pumping Differential	Chattanooga Rate Plus Differential	Proposed Mountain Tariff Rate
Volumetric				
First 400 Cubic Feet	\$0.236	\$0.727	\$0.963	\$0.970
Next 6,100 Cubic Feet	3.705	0.727	4.432	4.432
Next 43,500 Cubic Feet	2.349	0.727	3.076	3.076
Next 450,000 Cubic Feet	1.755	0.727	2.482	2.482
Next 1,000,000 Cubic Feet	1.342	0.727	2.069	2.070
All Over 1,500,000 Cubic Feet	0.797	0.727	1.524	1.524

TENNESSEE REGULATORY AUTHORITY

COMMONWEALTH OF PENNSYLVANIA


COUNTY OF CUMBERLAND

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

He 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, his testimony would be set forth in the annexed transcript consisting of 6 pages.


Paul R. Herbert

Sworn to and subscribed before me
this 13th day of August 2008.


Notary Public

My commission expires February 20, 2011.

