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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 rebuttal testimony would set forth in the annexed transcript consisting of 13 pages.

Sheila A. Miller

Sheila A. Miller

Sworn to and subscribed before me
this 12th day of August 2008.

Vanessa S. Turner

Notary Public

My commission expires July 6, 2012

OFFICIAL SEAL
NOTARY PUBLIC
STATE OF WEST VIRGINIA
VANESSA S. TURNER
95 Oakwood Drive
Madison, WV 25130
My Commission Expires July 6, 2012

BEFORE THE TENNESSEE REGULATORY AUTHORITY

DOCKET NO. 08-00039

REBUTTAL TESTIMONY:
SHEILA A. MILLER

ON BEHALF OF TENNESSEE AMERICAN WATER COMPANY

TENNESSEE-AMERICAN WATER COMPANY
PSC CASE NO. 08-00039
REBUTTAL TESTIMONY OF SHEILA A. MILLER

1. Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?

A. Sheila A. Miller, 1600 Pennsylvania Avenue, Charleston, West Virginia.

2. Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?

A. Yes.

3. Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

I will address several items discussed by the consumer advocate witness Mr. Terry Buckner. The significant items I will cover in my testimony include:

1. Waste disposal
2. Miscellaneous expense
3. Maintenance expense
4. Accumulated amortization of the capital lease
5. RWIP as an element of rate base
6. Calculation of CWIP
7. Accumulated Deferred Income Taxes
8. Other water utility revenues
9. Gross receipts tax
10. Revenue conversion factor

4. Q. ARE THERE ANY OTHER ITEMS YOU WOULD LIKE TO ADDRESS?

A. Yes. I will also explain the revised adjustments to the Company's fuel and power expense and the chemical cost increase.

5. Q. DO YOU DISAGREE WITH THE METHODOLOGY USED BY MR. BUCKNER IN HIS ADJUSTMENT FOR WASTE DISPOSAL?

A. Yes I do. First, Mr. Buckner's methodology is a prime example of how the CAPD's insistence on generating their case on historical year's different than the one used in the Company's filing creates serious problems and discrepancies. Mr. Miller addresses the policy problems, confusion created, and additional costs associated with the CAPD's approach in his rebuttal. Second, Mr. Buckner's methodology does not properly reflect the known and measurable normalization of the historical test-year for rate increases by the Chattanooga Sanitary Board of 3% effective on October 1, 2007, and another 3% on April 1, 2008. Instead, Mr. Buckner applied an inflation factor of 4.34% to his historical twelve-month test period balance as of March 31, 2008. Mr. Buckner's substitution of an inflation factor instead of known and measurable changes is an inappropriate methodology that improperly distorts economic realities. For instance, the sanitary sewer tariffs changes understate the expense for the attrition period by $9,553. Accordingly, the Company correctly applied the respective 3% increases to the monthly expenses for the historical twelve-month test period ending November 30, 2007, except for October and November 2007, which already included the 3% increase that became effective October 1. The City of Chattanooga sewer rates for both rate increases were included in the Company's working papers as part of the TRA's first data request, question 13 and labeled as TN-TRA-01-A013-WASTE DISPOSAL, Page 2 of 14. The Company believes the TRA should adopt the Company's waste disposal adjustment since it reflects a known and measurable change to the historical test-year for the twelve months ended November 30, 2007 in arriving at the appropriate attrition year expense. Mr. Buckner's insistence on using different test-years (March 2008 in this case) and inflation factors, without properly reflecting known and measurable changes for the attrition year, does not produce accurate results, and generates additional unnecessary problems in TAWC's rate cases.

6. Q. ARE THERE SIGNIFICANT DIFFERENCES IN THE CALCULATION OF ADJUSTMENTS TO THE MISCELLANEOUS EXPENSE CATEGORY?

Yes, there are. Time and again, the approach Mr. Buckner uses with different test-years and inflation factors ignores appropriate known and measurable adjustments that should be reflected in the attrition year. While Mr. Buckner appropriately eliminated the expenses for lobbying and penalties in his adjustment, he failed to account for known and measurable increases in expenses that should be reflected in the attrition year. This one-sided approach is inappropriate and inaccurate — inflation factors should not be substituted for known and measurable adjustments.

7. Q. PLEASE EXPLAIN THE ADDITIONAL ADJUSTMENTS THE COMPANY INCLUDED IN THE MISCELLANEOUS EXPENSE CATEGORY.

A. The first adjustment reflects an increase to gasoline expense. The Company detailed the gallons of gasoline purchased during the historical test year and applied the average fuel cost as of February 14, 2008 to the gallons purchased. This amounted to an additional $27,000 in fuel cost for the attrition period. As is widely known, the average fuel cost as of February 14, 2008 is well below the current price of gasoline. Consequently, that figure is a very conservative estimate given the increases in fuel costs over the past year, which indisputably and vastly exceeds Mr. Buckner's inflation factor of 4.34%. In spite of this economic reality, Mr. Buckner did not include this expense in his normalized adjustments, nor did he question the additional expense or seek information during the discovery phase of this rate filing. The Company believes that this is a legitimate expense that should be included in the overall revenue requirement in this filing. Rebuttal Exhibit SAM-1 is a schedule prepared by the US Energy Information Administration showing a 66% increase in the cost of the national average for all grades of gasoline since early 2007.

In addition, the Company deferred the cost of the management audit in the amount of $285,000 and is seeking a five year amortization of this expense. The Company added an adjustment of $57,000 to the miscellaneous expense category to reflect this amortization for the attrition year ending August 31, 2009. Mr. Buckner ignored this amortization adjustment in his calculation of the miscellaneous expense, and gave no justification for not including the adjustment of the management audit that the TRA ordered the Company to perform.

Mr. Buckner also failed to give any consideration to known and measurable adjustments regarding annual fees paid by the Company to the Tennessee Department of Environment and Conservation. This fee is an annual water utility maintenance fee required of all community water systems per TCA Chapter 68, Rule 1200-5-1-.32. This expense is prepaid and written off over a twelve-month period. In the Company's twelve month historical test year ending November 30, 2007, only seven months of the write off was included. An adjustment was made to normalize the expense for the entire twelve-month period. Mr. Buckner also failed to include this known and measurable expense required to normalize the attrition year expense.

8. Q. WERE THERE ITEMS OVERLOOKED IN THE MAINTENANCE EXPENSE CATEGORY?

A. Yes, there were two significant adjustments that were overlooked in Mr. Buckner's calculation of the maintenance expenses.

9. Q. WOULD YOU PLEASE EXPLAIN THOSE DIFFERENCES?

A. Mr. Buckner eliminated the cost for net negative salvage just as the Company had done, but he once again failed to include the **additional** expenses added to the maintenance line without explanation or justification. First, the Company became aware of an increase in the asphalt price per square foot in February 2008, and provided for that increase in the paving costs. The cost during the historical test year had been $7.50 per square foot. That price will increase to $8.00 per square foot going forward. Accordingly, the Company analyzed the paving invoices paid during the historical test year and recalculated the square footage at the new rate. This adjustment resulted in a $12,267 increase in paving costs.

Second, Mr. John Watson addressed the need for an additional $50,000 for the preventative maintenance of pumps and motors in his direct testimony. As a result, the Company added this expense to the maintenance category. In contrast, Mr. Buckner failed to recognize this adjustment in his calculation of maintenance expenses without any explanation or justification. This is another example where the only correct assessment in Mr. Buckner's opinion is that the attrition year should be limited to inflationary increases, even when service requirements and known and measurable cost changes are present. Mr. Buckner's use of the inflation adjustment without consideration or challenging known and measurable adjustments is simply not in compliance with established regulatory principles.

10. Q. ARE YOU IN AGREEMENT WITH MR. BUCKNER'S CALCULATION OF RATE BASE?

A. Most variances between the Company and Mr. Buckner's rate base relate to adding the utility plant for Walden's Ridge, the variance in depreciation rates, or his utilization of a different historical test year. However, his calculation of the accumulated amortization of the capital lease is incorrect.

11. Q. WILL YOU PLEASE ELABORATE ON THE DISCREPANCY?

A. Mr. Buckner calculated a twelve-month average rather than a thirteen-month average of this rate base item. He also utilized an incorrect beginning balance as of August 2008. Attached as Rebuttal Exhibit SAM-2 is a screen print of this account balance as of July 31, 2008, which equals $1,078,005. This balance carried forward with the additional amortization of $8,836 per month will calculate to a thirteen-month average balance of $1,139,857, which agrees with the Company's amount included as a rate base reduction. This correction will add an additional $86,418 to rate base.

12. Q. DO YOU AGREE WITH THE ELIMINATION OF RETIREMENT WORK IN PROGRESS FROM THE RATE BASE CALCULATION?

A. No. The Tennessee Regulatory Authority has consistently included retirement work in progress (RWIP) as an element of rate base in previous rate filings. RWIP should be included in the rate base because it represents cost of removal, which will be cleared by debiting account 108, accumulated deprecation, which increases rate base. The RWIP represents a cost that TAWC has expended for the rate base and should be included in the rate base for this case as it has in previous TAWC rate cases. For instance, in docket number 03-00118, the rate base accepted by the TRA included RWIP. Page 16 of the Final Order in that rate case details the rate base approved and RWIP was an element included in that calculation. Similarly, in docket number 04-00288, the Company and Consumer Advocate were in agreement that RWIP would be included as an element of the rate base. On page 7 of the order approving the settlement agreement in that case, the TRA determined the rate base to be $87,611,390, which included RWIP as an element of that calculation. The rate base calculation was detailed on Exhibit CAPD-RTB Schedule 2. Finally, the balance of RWIP in docket number 06-00290 was zero and was therefore not an issue. In the CAPD's calculation of rate base, Mr. Buckner not only failed to include RWIP in his calculation but he also failed to provide any support for this omission in his testimony.

13. Q. DID THE COMPANY APPROPRIATELY APPLY THE CONSTRUCTION WORK IN PROGRESS BALANCE TO THE RATE BASE CALCULATION?

A. No. In the Company's original filing, the Company utilized in the rate base calculation the attrition year end (at August 2009) construction work in progress (CWIP) balance. The Company should have included the thirteen-month average of CWIP in the rate base calculation. This was corrected in response to TRA discovery request 5, question 1. This results in a decrease of $1,086,539 to the rate base.

14. Q. DID THE COMPANY'S CALCULATION OF CWIP AGREE WITH THE CALCULATION OF THE CONSUMER ADVOCATE?

A. No. The Consumer Advocate only included CWIP for the CITCO project. Although the CITCO project is the largest project included in the forecasted attrition year, there are other projects and expenditures that will not be in service at the end of the attrition period and thus should be included in CWIP consistent with the methods used to establish rate base in each of the last three cases of TAWC as identified in the response to the previous question.

The Company included an additional $945,500 in CWIP as identified in the Company's working papers filed in response to TN-TRA-01-Q013 and included on the CD filed with that response. This schedule is detailed on pages 37 and 38 of the file labeled as TN-TRA-01-Q013-RATE BASE BACK-UP.pdf

While the Company does not agree with Mr. Buckner's elimination of CWIP for projects other than the CITCO Treatment Plant, Mr. Buckner has elected to ignore the offsetting AFUDC included as a reduction to expense in the CAPD's filing. Mr. Buckner has elected to only adjust the side of the equation that lowers his revenue requirement. If the TRA elected to adopt Mr. Buckner's CWIP, then a corresponding decrease in the AFUDC would need to be reflected in the Company's filing for his adjustment to properly reflect his CWIP adjustment. It is entirely inappropriate for Mr. Buckner to eliminate the CWIP but not adjust the AFUDC offset driven by the very CWIP he eliminated. This certainly does not comply with the matching principle.

15. Q. DID MR. BUCKNER ACCURATELY CALCULATE THE ACCUMULATED DEFERRED INCOME TAX USED IN DETERMINING HIS RATE BASE RECOMMENDATION?

A. No. Mr. Buckner failed to eliminate the net negative salvage ("NNS") from the deferred income tax balance as of March 31, 2008. The net negative salvage amount of $2,290,945 was reclassified in the accumulated depreciation balance provided to Mr. Buckner in a supplemental response to TN-CAPD-01-Part IV-Q063. Mr. Buckner used this in his calculation of the average accumulated depreciation for his attrition year rate base calculation. Since the accumulated depreciation balance included the reclassification of the net negative salvage, however, Mr. Buckner should have made the offsetting adjustment to the accumulated deferred income tax balance. Mr. Buckner's use of the March 2008 Deferred Income Tax Balance — which included the NNS liability and his use of the Accumulated Depreciation Balance at March 2008 provided by the Company, which incorporated the NNS liability — effectively reduced his rate base twice for the same NNS liability. Had Mr. Buckner properly reclassified the net negative salvage in his

Accumulated Deferred Income Taxes calculation, his average accumulated deferred income tax balance would have calculated to be $15,242,360. This oversight by Mr. Buckner has resulted in an understatement of rate base by $2,290,945. The net affect of this error results in an additional revenue requirement of $261, 999.

16. Q. DID MR. BUCKNER UTILIZE CORRECT BILLING DETERMINANTS IN HIS ANALYSIS OF THE OTHER WATER UTILITY CUSTOMERS FROM DOCKET NUMBER 06-00290?

A. The usage Mr. Buckner included in total is correct, but the usage by individual customer is incorrect. Mr. Buckner included usage from the bill analysis in docket number 06-00290. The line labeled as Ft. Oglethorpe includes usage for that customer, as well as usage for Catoosa Utility District and the Town of Signal Mountain through September 2005. This was noted on working paper TN-TRA-01-Q013-REVENUES page 75 of 133, which was included in that docket number. Rebuttal Exhibit SAM-3 details a reconciliation of those billing determinants in comparison to those used by Mr. Buckner. As you can see from Rebuttal Exhibit SAM-3, there was an increase in usage for all three Sale for Resale customers identified in the Company's filing. However, one must consider that the historical test year was one of the hottest and driest years on record in over a decade. The Sale for Resale customers in Catoosa County, Ft. Oglethorpe, and Town of Signal Mountain are primarily residential and they too had higher sales in 2007 due to the very hot, dry year. In addition, Catoosa Utility District utilizes springs for a source of supply. During the drought conditions of 2007, those springs went dry resulting in additional purchases of water from Tennessee American Water Company. Except for the elimination of the Walden's Ridge customer, the largest difference in the Company's usage and that of Mr. Buckner is the use of different historical test years. Mr. Buckner's historical test year ending March 2008 includes more usage than the historical test year of November 2007 used by the Company. However, if you look at the time period of twelve months ending June 30, 2008, the Town of Signal Mountain and Catoosa Utility District have usage less than either of the twelve month periods ending March 2008 or November 2007. These comparisons are reflected on rebuttal exhibit SAM-4. The Company did not weather normalize the Sale for Resale class of customers, and thus the Company's filing likely overstates the sales to this class of customers in the attrition year under a weather normalized year. As a result, the TRA should utilize the attrition year revenues for this class of customers as calculated in the Company's revenue requirement.

17. Q. DOES MR. BUCKNER NEED TO MAKE ANY ADJUSTMENTS FOR THE USAGE HE INCLUDED IN HIS HISTORICAL TEST YEAR TWELVE MONTHS ENDING MARCH 2008 FOR THE OTHER WATER UTILITY CUSTOMERS?

A. Yes he does. Mr. Buckner used 563,910 CCF for his March 2008 based test year for the Town of Signal Mountain. Mr. Buckner's usage includes billing for thirteen months. Rebuttal Exhibit SAM-4 details the usage by customer from December 2006 through July 2008. As evidenced on this schedule, he has overstated the revenues for this customer by $25,971.

18. Q. DO YOU AGREE WITH THE EXCISE TAX DEDUCTION TAKEN BY MR. BUCKNER IN THE CONSUMER ADVOCATE'S CALCULATION OF GROSS RECEIPTS TAX?

A. No. Mr. Buckner used the total state income tax amount from the December 2007 analysis of income — this is incorrect. This amount of $361,898 includes the current state tax liability, prior year adjustments, deferred state tax for the amortization of the regulatory assets and liabilities, and a prior year adjustment for regulatory liabilities. The Company used the actual current state tax calculated for the historical test period ending November 31, 2007 of $189,372 based on its estimate at the time of filing this case. Attached is Rebuttal Exhibit SAM-5 detailing the actual 2008 Tennessee American Excise Tax calculation. The deduction that will be taken on the Gross Receipts tax return for 2008 will be $215,767. The TRA should utilize this actual figure, which is $110,131 less than the deduction taken by Mr. Buckner and actually slightly higher than the deduction taken by the Company. This results in an increase of $146,131 in Mr. Buckner's recommendation, or a decrease in TAWC's recommendation of $26,395.

19. Q. DID THE COMPANY ALLOW FOR FORFEITED DISCOUNTS IN THE REVENUE CONVERSION FACTOR?

A. The Company did not include a factor for forfeited discounts (referred to as delayed payment penalty in the Company's filing) in the calculation of the revenue conversion factor. Rather, the Company deducted the additional late payment penalties from the overall revenue requirement in the case as shown on Rebuttal Exhibit SAM-6. This effectively reduced the overall revenue requirement applicable to the tariff water customers by .84% which is comparable to the .86% factor used by Mr. Buckner in his calculation. The Company's calculation was included in response to the Consumer Advocate Data Request 1, Part 4, question 52. Mr. Buckner's proposed adjustment to the revenue conversion factor effectively duplicates the reduction already reflected in the Company calculations. The Company's methodology has been utilized in past cases, but regardless of that fact, the Company revenue requirement should not be reduced twice for the same adjustment. The TRA should adopt the Company's method or increase Mr. Buckner's revenue requirement result for the like amount.

20. Q. DO YOU BELIEVE IT IS APPROPRIATE TO INCLUDE THE GROSS RECEIPTS TAX IN THE REVENUE CONVERSION FACTOR?

A. Mr. Buckner is correct in that the rate on the latest gross receipts tax return is 1.8%. The gross receipts tax that will be paid in August of 2009 will be based on the revenues collected during the twelve months ending December 31, 2008. To properly match the expenses and revenues, the gross receipts percentage is a valid factor that should be included in the revenue conversion factor. If the tax is not collected at the time the revenues from this case are effective, the Company will have an accrual of expense during the attrition year which will not be recovered in rates for the attrition year. In other words, Mr. Buckner attempts to use the timing of the payment of that tax to exclude the tax from the period in which that tax liability is created.

21. Q. DID THE COMPANY MAKE SPECIFIC ADJUSTMENTS TO THE ORIGINAL FILING IN REGARD TO CHEMICALS AND FUEL AND POWER EXPENSE:

A. Yes. The Company received the 2009 chemical contract prices on August 1, 2008 and the cost of chemicals will be increasing significantly above the level included for the attrition year in the Company's original filing. The chemical contract prices for 2009 increase the Company's chemical expense in this case by $509,950. This constitutes a known and measurable expense increase for the attrition year in this case and should be recognized for rate recovery in this case. The adjustment was reflected in the amended accounting exhibits provided in response to TN-TRA-05-Q01. The 2009 chemical contracts prices are attached as Rebuttal Exhibit SAM-7.

22. Q. THE COMPANY MADE AN ADJUSTMENT FURTHER REDUCING THE FUEL AND POWER EXPENSE IN RESPONSE TO TN-TRA-05-Q01. CAN YOU EXPLAIN THAT ADJUSTMENT?

A. The Company revised the fuel and power expense based on the actual tariff rates of the Electric Power Board (EPB) that were effective April 1,

2008. The rates increased 6% over the prior tariff and the Company had estimated a 7.5% increase in the original filing. The fuel cost adjustment (FCA), which is revised quarterly, was also increased by the EPB July 1, 2008. Due to the fluctuations of this cost, the Company calculated an average over the last three quarters which totaled a 30.89% increase. This additional increase was added to the FCA used in the Company's revised calculation. Attached is an article, marked as Rebuttal Exhibit SAM-8, from the Chattanooga Times Free Press indicating that the FCA could increase as much as 20% on October 1, 2008. The Company believes this substantiates the Company's increase for the attrition year, because this article also indicates that more increases are expected.

23. Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Back to Contents **Data 1: U.S. Weekly Retail**

Sourcekey	MG_RCO_US	MG_RR_US	MG_RT_US	MG_MCO_US	MG_MR_US	MG_MT_US	MG_PCO_US	MG_PR_US	MG_PT_US	MG_TCO_US	MG_TR_US	MG_TT_US
Date	U.S. Regular Conventional Retail Gasoline Prices (Cents per Gallon)	U.S. Regular Reformulated Retail Gasoline Prices (Cents per Gallon)	U.S. Regular All Formulations Retail Gasoline Prices (Cents per Gallon)	U.S. Midgrade Conventional Retail Gasoline Prices (Cents per Gallon)	U.S. Midgrade Reformulated Retail Gasoline Prices (Cents per Gallon)	U.S. Midgrade All Formulations Retail Gasoline Prices (Cents per Gallon)	U.S. Premium Conventional Retail Gasoline Prices (Cents per Gallon)	U.S. Premium Reformulated Retail Gasoline Prices (Cents per Gallon)	U.S. Premium All Formulations Retail Gasoline Prices (Cents per Gallon)	U.S. All Grades Conventional Retail Gasoline Prices (Cents per Gallon)	U.S. All Grades Reformulated Retail Gasoline Prices (Cents per Gallon)	U.S. All Grades All Formulations Retail Gasoline Prices (Cents per Gallon)
Jan 01, 2007	229.6	241.4	233.4	239.2	254	244.2	250.5	262.4	254.7	234	246.5	238.2
Jan 08, 2007	225.8	240.6	230.6	235.7	253.4	241.8	247.3	261.4	252.3	230.4	245.8	235.4
Jan 15, 2007	217.3	234.8	222.9	227.9	248	234.7	239.4	256.1	245.3	222	240.1	228
Jan 22, 2007	210.7	228.7	216.5	221.3	242.4	228.5	232.9	250.7	239.1	215.5	234.1	221.6
Jan 29, 2007	211.9	226.1	216.5	221.7	239.2	227.7	233.1	247.3	238.1	216.4	231.3	221.3
Feb 05, 2007	215.1	227.5	219.1	224.4	240.7	230	235	248.1	239.6	219.4	232.6	223.7
Feb 12, 2007	219.8	233.2	224.1	229.2	246.3	235	239.5	253.1	244.2	224	238.2	228.7
Feb 19, 2007	225.1	239	229.6	233.9	252	240.1	244.6	258.5	249.5	229.2	243.9	234.1
Feb 26, 2007	233.8	247.7	238.3	242.6	260.8	248.8	253.3	267	258.1	237.9	252.6	242.8
Mar 05, 2007	246	259.9	250.5	254.9	272.6	260.9	266.7	278.6	270.9	250.4	264.7	255.1
Mar 12, 2007	249.9	268.6	255.9	258.9	281.7	266.7	270.4	287.3	276.3	254.2	273.4	260.5
Mar 19, 2007	251.1	271.8	257.7	260.5	284.9	268.8	271.4	290.5	278.1	255.4	276.5	262.3
Mar 26, 2007	254	275.5	261	262.8	288.7	271.6	274	294.5	281.2	258.2	280.4	265.5
Apr 02, 2007	263.6	285.5	270.7	272.5	298.6	281.4	283.8	304.8	291.2	267.8	290.4	275.3
Apr 09, 2007	274.6	292	280.2	283.8	304.7	290.9	295.3	310.8	300.7	279	296.8	284.8
Apr 16, 2007	282.2	298.8	287.6	291.6	311.5	298.3	303.4	317.4	308.3	286.6	303.6	292.2
Apr 23, 2007	281.1	298.8	286.9	290.8	312	298	302.8	318.1	308.2	285.7	303.8	291.7
Apr 30, 2007	292.2	307.3	297.1	301.6	319.9	307.9	312.9	326.2	317.6	296.6	312.1	301.7
May 07, 2007	300.2	316.2	305.4	308.9	328.4	315.5	319.4	334.5	324.7	304.3	320.8	309.7
May 14, 2007	306.9	317.3	310.3	314.6	329.5	319.7	324.4	335.9	328.4	310.6	322	314.3
May 21, 2007	321.1	323.3	321.8	328.8	335.2	330.8	338.5	342.2	339.8	324.7	328	325.8
May 28, 2007	319.5	323.8	320.9	327.4	335.4	330.2	337.7	342.9	339.5	323.3	328.5	325
Jun 04, 2007	313.2	320.8	315.7	321.8	332.8	325.5	332.3	340.5	335.1	317.2	325.7	320
Jun 11, 2007	304	315.1	307.6	313.8	327.7	318.5	324.1	335.5	328.1	308.3	320.2	312.2
Jun 18, 2007	297.4	308.3	300.9	306.8	320.9	311.6	318.2	328.7	322.2	301.8	313.5	305.7
Jun 25, 2007	295.1	304.6	298.2	304.6	317.3	308.9	316	326.2	319.6	299.5	308.9	302.9
Jul 02, 2007	293.3	301.2	295.9	302.5	314.1	306.4	313.4	323.3	316.8	297.6	306.6	300.5
Jul 09, 2007	297.1	300.4	298.1	304.8	313.2	307.7	315.9	322.4	318.2	301	305.8	302.6
Jul 16, 2007	304.6	305.5	304.9	312.5	317.7	314.3	322.9	326.7	324.2	308.4	310.7	309.2
Jul 23, 2007	293.8	300.1	295.8	302.6	313.1	306.2	313.8	322.5	316.8	298	305.6	300.5
Jul 30, 2007	284.9	293.4	287.6	294.4	306.9	298.7	306.5	316.4	309.9	289.4	299	292.6
Aug 06, 2007	281.6	288.5	283.8	291.2	302.7	295.1	303.1	312	306.2	286.1	294.3	288.8
Aug 13, 2007	275.2	281.3	277.1	284.5	294.8	288	296.9	304.4	299.5	279.7	286.9	282.1
Aug 20, 2007	278.3	279.1	278.5	286.7	292.2	288.6	298.5	302.1	299.7	282.5	284.7	283.2
Aug 27, 2007	275.6	273.4	274.9	284.3	286.6	285.1	296	296.8	296.3	279.9	279	279.6
Sep 03, 2007	281.8	274.9	279.6	289.7	287.6	289	300.8	297.5	299.7	285.7	280.4	284
Sep 10, 2007	284	277.3	281.8	291.8	290.1	291.2	303	299.4	301.8	287.9	282.7	286.2
Sep 17, 2007	279.2	277.6	278.7	288.2	291	289.2	300.3	299.9	300.1	283.6	283.1	283.5
Sep 24, 2007	281.6	280.4	281.2	290.6	293.8	291.7	303.2	302.3	302.9	286.1	285.8	286
Oct 01, 2007	278.4	279.6	278.8	288.7	293.4	290.3	300.8	302.2	301.3	283.2	285.2	283.8
Oct 08, 2007	276.1	278.9	277	286.3	293.2	288.7	298.7	301.7	299.7	280.9	284.6	282.1
Oct 15, 2007	274.6	279.6	276.2	284.6	294.4	287.9	297.1	302.5	299	279.3	285.4	281.3
Oct 22, 2007	280.6	285.9	282.3	290.4	300.1	293.7	302.9	307.7	304.6	285.3	291.4	287.3
Oct 29, 2007	285.9	290	287.2	295.5	303.8	298.3	307.8	311.6	309.2	290.5	295.4	292.1
Nov 05, 2007	300.7	302.5	301.3	309.7	315.4	311.7	321.9	323.4	322.4	305.1	307.7	306
Nov 12, 2007	310.1	313	311.1	319.5	326.5	321.8	331.4	334.5	332.5	314.6	318.4	315.8
Nov 19, 2007	307.7	314.4	309.9	317	328.1	320.8	329.7	336.2	332	312.3	319.9	314.8
Nov 26, 2007	307.2	314.9	309.7	316.8	328.7	320.9	329.2	336.9	331.9	311.8	320.4	314.7
Dec 03, 2007	302.9	312.8	306.1	313.1	326.7	317.8	325.9	335.4	329.2	307.7	318.4	311.3
Dec 10, 2007	295.7	309.1	300	306.5	322.8	312.1	319.4	331.8	323.8	300.7	314.7	305.3
Dec 17, 2007	296.2	307.5	299.8	306.6	321.2	311.6	319.4	330.3	323.2	301.1	313.1	305
Dec 24, 2007	294.3	305.9	298	304.7	319.9	309.9	317.2	329	321.4	299.1	311.6	303.2
Dec 31, 2007	302.8	310.6	305.3	312.9	324	316.7	325.7	333	328.3	307.6	316.1	310.4
Jan 07, 2008	308.8	315.4	310.9	318.7	328.5	322	331.3	337.5	333.5	313.5	320.8	315.9
Jan 14, 2008	304.1	312.3	306.8	314.7	325.7	318.5	327.2	335	330	309	317.9	311.9
Jan 21, 2008	299.1	307.2	301.7	309.7	321.2	313.8	322.7	330.9	325.6	304.1	313	307
Jan 28, 2008	295.3	302.6	297.7	306.3	316.2	309.7	319.4	326.1	321.7	300.4	308.3	303
Feb 04, 2008	296.6	300.2	297.8	306.9	314.1	309.4	319.6	324.2	321.2	301.4	306.1	303
Feb 11, 2008	294.7	298.6	296	304.9	312.3	307.4	317.3	322.3	319	299.5	304.3	301.1
Feb 18, 2008	303.5	305.6	304.2	313.6	318.8	315.3	325.8	328	326.6	308.2	311.1	309.2
Feb 25, 2008	311.5	315.9	313	321.8	329	324.3	334.1	337.9	335.4	316.3	321.3	318
Mar 03, 2008	313.7	321.6	316.2	323.9	335.1	327.7	336.2	343	338.6	318.5	326.9	321.2
Mar 10, 2008	320	327.7	322.5	329.4	341.2	333.4	342	348.7	344.3	324.6	332.9	327.3
Mar 17, 2008	325.7	334	328.4	335.9	347.3	339.8	347.6	354.5	350	330.3	339.1	333.2
Mar 24, 2008	322.4	333.3	325.9	333	346.9	337.8	345.4	354.4	348.6	327.3	338.6	331
Mar 31, 2008	325.8	335.5	329	336.1	349.1	340.5	348.4	356.3	351.2	330.6	340.7	333.9
Apr 07, 2008	329.9	340.3	333.2	339.6	353.6	344.4	352.2	360.2	355	334.5	345.3	338.1

Back to Contents Data 1: U.S. Weekly Retail

Sourcekey	MG_RCO_US	MG_RR_US	MG_RT_US	MG_MCO_US	MG_MR_US	MG_MT_US	MG_PCO_US	MG_PR_US	MG_PT_US	MG_TCO_US	MG_TR_US	MG_TT_US
Date	U.S. Regular Conventional Retail Gasoline Prices (Cents per Gallon)	U.S. Regular Reformulated Retail Gasoline Prices (Cents per Gallon)	U.S. Regular All Formulations Retail Gasoline Prices (Cents per Gallon)	U.S. Midgrade Conventional Retail Gasoline Prices (Cents per Gallon)	U.S. Midgrade Reformulated Retail Gasoline Prices (Cents per Gallon)	U.S. Midgrade All Formulations Retail Gasoline Prices (Cents per Gallon)	U.S. Premium Conventional Retail Gasoline Prices (Cents per Gallon)	U.S. Premium Reformulated Retail Gasoline Prices (Cents per Gallon)	U.S. Premium All Formulations Retail Gasoline Prices (Cents per Gallon)	U.S. All Grades Conventional Retail Gasoline Prices (Cents per Gallon)	U.S. All Grades Reformulated Retail Gasoline Prices (Cents per Gallon)	U.S. All Grades All Formulations Retail Gasoline Prices (Cents per Gallon)
Apr 14, 2008	335	346.9	338.9	345	360.4	350.2	357.4	366.9	360.7	339.7	352	343.6
Apr 21, 2008	346.7	359.5	350.8	356.9	372.2	362.1	369.3	379.5	372.9	351.5	364.5	355.7
Apr 28, 2008	356.6	368.1	360.3	366.8	380.7	371.6	379.7	388.8	382.9	361.5	373.2	365.3
May 05, 2008	357.1	369.9	361.3	367.3	382.5	372.5	380.4	391.1	384.2	362	375.1	366.3
May 12, 2008	369.4	378.1	372.2	379.1	390.4	383	391.9	399.2	394.4	374.1	383.3	377.1
May 19, 2008	376.2	385.1	379.1	386	397	389.7	399.1	406.6	401.7	381	390.3	384
May 26, 2008	391.3	398.9	393.7	401.1	411	404.5	413.6	420.1	415.9	396	404	398.6
Jun 02, 2008	393.2	406.6	397.6	403.2	419.1	408.6	416.1	427.6	420.1	398	411.8	402.6
Jun 09, 2008	397.9	416.5	403.9	407.7	429.7	415.2	421	437.2	426.7	402.7	421.7	409
Jun 16, 2008	400.7	424	408.2	410.5	438.2	419.9	424.2	444.8	431.4	405.6	429.3	413.4
Jun 23, 2008	400.2	424.1	407.9	410.1	438.4	419.7	423.6	445.3	431.2	405.1	429.5	413.1
Jun 30, 2008	402.7	423.8	409.5	412.1	438	420.9	425.9	445	432.6	407.5	429.2	414.6
Jul 07, 2008	405.1	424.7	411.4	414.8	438.7	422.9	428.3	445.9	434.4	409.9	430.1	416.5
Jul 14, 2008	405.4	423.5	411.3	415.3	437.4	422.8	428.3	444.9	434.1	410.2	428.9	416.4
Jul 21, 2008	400.5	419	406.4	410.9	433.7	418.6	424.2	441.6	430.3	405.4	424.6	411.8
Jul 28, 2008	389.6	407.7	395.5	400.5	423	408.2	414.5	431.7	420.5	394.8	413.7	401
Aug 04, 2008	382.8	398.8	388	393.7	414.1	400.6	407.5	423.1	413	388	404.8	393.5
	153.2	157.4	154.6	154.5	160.1	156.4	157	160.7	158.3	154	158.3	155.3
	66.72%	65.20%	66.24%	64.59%	63.03%	64.05%	62.67%	61.24%	62.15%	65.81%	64.22%	65.20%

Rebuttal Exhibit SAM-2

[09214] - T/B by Object Account

Functions Options Tools Help

Object/Sub [illegible]
Subledger *

Thru Date/Period 07/31/08
Company 00026
Ledger Type AA
Scaling Factor
Cum/Period(C/P) C

OP	Account Number	LD	Description	Balance
	260205.110110	9	Acc Amort UP Cap Leas	1,078,005.42-
			** TOTAL	1,078,005.42-
	.114000	9	Utility Plant Acq Adj	
			** TOTAL	
	260305.114300	9	UPAA Post 1/1/06	74,850.17
			** TOTAL	74,850.17
	.120000	9	Other Property and In	

Opt: 1=Acct Ledger Inq 2=Acct Bal by Period F2=Alt Format F24=More MW

Tennessee American Water Company
Sale for Resale Billing Determinants & Revenues

Information from Docket No. 06-00290

	Billing determinants per 06 rate case			Per CAD usage	Per filing		growth in billing determinants per CO	Per Cad		growth in billing determinants per CAD
	Bill Det.	ADJ	Adj Bill Det	from 06 RC	usage	revenues	filing	usage	revenues	filing
Ft. Oglethorpe	481,098	(41,658)	439,440	799,363	489,860	438,981	11.47%	494,558	443,173	12.54%
Catoosa Co	397,954	0	397,954	162,740	501,752	449,620	26.08%	529,187	474,205	32.98%
Signal Mt*	458,747	(30,037)	428,710	304,001	515,804	410,580	20.32%	563,910	448,872	31.54%
Walden's Ridge	173,844	(173,844)						501,919	470,549	
	1,511,643	(245,539)	1,266,104	1,266,104	1,507,416	1,299,181		2,089,574	1,836,799	

As shown on Bill Determinants working paper from Docket No. 06-00290 TN-TRA-01-Q013-REVENUES Page 75 of 133

Ft. Oglethorpe-Catoosa-Signal Mtn thru Sept	841,021	includes billing determinants for all of Ft. Oglethorpe, & Catoosa & Signal Mtn thru Sept billed at a rate of $.766
Catoosa Co	162,740	includes billing determinants for Catoosa after October when rate changed to $.796
Signal Mt	334,038	includes billing determinants for Signal Mtn after October
Walden's Ridge	173,844	eliminated from filing
	1,511,643	

***Signal Mtn includes an extra month of billing. This results in additonal usage of 32, 627 and additional revenues of $25,971 in the historical test period ending March 2008 used by CAD.**

Tennessee American Water
Sale for Resale

Revenues

	City of Fort Oglethorpe	Town of Signal Mountain	Catoosa County	Walden's Ridge
Dec 2006	29,590.50	24,298.70	31,548.66	25,528.13
Jan 2007	35,117.13	23,626.08	16,095.92	24,590.63
Feb	29,982.93	23,897.51	4,478.30	27,830.63
Mar	29,232.30	25,971.09	11,472.75	25,434.38
Apr	30,383.32	26,998.73	33,293.50	33,214.69
May	31,106.09	33,494.09	28,006.46	34,974.38
June	38,197.65	51,396.13	44,526.65	49,898.44
July	33,815.67	37,320.46	58,847.15	41,542.50
Aug	34,964.30	43,620.80	45,697.52	46,479.38
Sept	36,924.85	42,511.18	61,670.50	47,431.88
Oct	31,972.14	48,166.76	49,224.57	45,815.63
Nov	28,641.67	29,278.47	39,091.47	32,069.06
Dec	35,757.12	27,844.08	41,563.81	31,770.94
	396,095.17	414,125.38	433,968.60	441,052.54
Jan 2008	28,722.86	29,742.54	24,456.36	36,979.69
Feb	30,528.99	24,604.36	17,951.57	32,985.94
Mar	32,653.51	27,923.68	12,206.67	37,386.56
Apr	31,363.99	25,047.73	1,907.80	31,699.69
May	30,757.44	26,992.36	15,898.61	33,614.06
June	39,879.55	38,123.62	50,305.26	48,651.56
July	42,736.00	42,039.15		48,152.81
Aug				
Sept				
Oct				
Nov				
Dec				
Total 2008	236,642.34	214,473.44	122,726.27	269,470.31
12 mo @ Nov 07	438,981.00	410,580.00	449,619.97	449,619.97
12 mo @ Mar 08	393,668.17	422,901.28	456,536.23	470,549.09
12 mo @ June 08	395,982.09	401,176.04	418,821.29	466,426.89
Per CAD	443,173.00	448,872.00	474,205.00	470,549.00

Usage

	City of Fort Oglethorpe	Town of Signal Mountain	Catoosa County	Waldens Ridge
Dec	37,174	30,526	39,634	27,230
Jan	44,117.00	29,681.00	20,221.00	26,230.00
Feb	37,667.00	30,022.00	5,626.00	29,686.00
Mar	36,724.00	32,627.00	14,413.00	27,130.00
Apr	38,170.00	33,918.00	41,826.00	35,429.00
May	39,078.00	42,078.00	35,184.00	37,306.00
June	47,987.00	64,568.00	55,938.00	53,225.00
July	42,482.00	46,885.00	70,537.00	44,312.00
Aug	43,925.00	54,800.00	50,996.00	49,578.00
Sept	46,388.00	53,406.00	68,821.00	50,594.00
Oct	40,166.00	60,511.00	54,932.00	48,870.00
Nov	35,982.00	36,782.00	43,624.00	34,207.00
Dec	44,921.00	34,980.00	46,383.00	33,889.00
	497,607.00	520,258.00	508,501.00	470,456.00
Jan 2008	36,084.00	37,365.00	27,292.00	39,445.00
Feb	38,353.00	30,910.00	20,033.00	35,185.00
Mar	41,022.00	35,080.00	13,622.00	39,879.00
Apr	39,402.00	31,467.00	2,129.00	33,813.00
May	38,640.00	33,910.00	17,742.00	35,855.00
June	46,552.00	47,894.00	56,138.00	51,895.00
July	47,692.00	52,813.00		51,363.00
Aug				
Sept				
Oct				
Nov				
Dec				
	287,745.00	269,439.00	136,956.00	287,435.00
	489,860.00	515,804.00	501,752.00	463,797.00
	494,558.00	531,283.00	529,188.00	501,919.00
	493,917.00	503,990.00	472,249.00	497,522.00
	494,558.00	563,910.00	529,188.00	501,919.00
extra mo billing	-	(32,627.00)	-	
CAD revenues @ present rates	443,173	448,872	474,205	470,549
adj Signal Mtn revenues		422,901		
variance in Signal Mtn rev		25,971		

Tennessee American Water Company
Calculation of 2008 Excise Tax

1	Federal income or loss	3,231,565
	Additions:	
2	Any depreciation under the provision of IRC Section 168 not permitted for excise tax purposes due to Tennessee permanently decoupling from federal bonus depreciation and any expense/depreciation deducted as a result of "safe Harbor" lease elections	4,968,088
3	Any deduction for domestic production activities under the provisions of IRC Section 199	
4	Any gain on the sale of an asset sold within twelve months after the date of distribution to a non taxable entity	
5	Tennessee excise tax expense (to the extent reported for federal purposes)	448,777
6	Gross premiums tax deducted in determining federal income and used as an excise tax credit	
7	Interest income on obligations of states and their political subdivisions, less allowable amortization	
8	Depletion not based on actual recovery of cost	
9	Contribution carryover from prior periods	
10	Capital gains offset by capital loss carryover or carry back	
11	Excess fair market value over book value of property donated	
12	Total additions	5,416,865
	Deductions:	
13	Any depreciation under the provision s of IRC Section 168 permitted for exist ax purposes due to Tennessee permanently decoupling from federal bonus depreciation	5,206,126
14	Any excess gain (or loss) from the basis adjustment resulting from Tennessee permanently decoupling from federal bonus depreciation	
15	Any loss on the sale of an asset sold within twelve months after the date of distribution to a nontaxable entity	
16	Dividends received from corporations, at least 80% owned (attach schedule)	
17	Contributions in excess of amount allowed by federal government	
18	Donations to Qualified Public School Support Groups and nonprofit organizations	
19	Portion of current year's capital loss not included in federal taxable income	
20	Any expense other than income taxes, not deducted in determining federal taxable income for which a credit against the federal income tax is allowable	
21	Any income included for federal tax purposes and any depreciation or other expense that could have been deducted for "safe harbor" lease elections. (attach schedule)	
22	Nonbusiness earnings - Schedule M, Line 8	
23	Intangible expense to an affiliated business entity (intangible expense disclosure from MUST be completed to avoid the adjustment provided in T>C>A> Section 67-4-2008 (d) (3))	
24	Intangible income from an affiliated business entity if the corresponding intangible expense has not been disclosed or has been disallowed	
25	TOTAL deductions - Add lines 13 through 24	(5,206,126)
	COMPUTATION OF TAXABLE INCOME	
26	Total Business Income (Loss) - Add lines 1 and 12, less Line 25 (if loss, complete Schedule K)	3,442,304
27	Apportionment Ratio (Schedules N, O, P, or R if applicable or 100%)	96.4322%
28	apportioned business income (Loss) (Line 26 multiplied by Line 27)	3,319,489
29	Add: Nonbusiness earnings directly allocated to Tennessee (From Schedule M, Line 9)	
30	Deduct :Loss carryover from prior years (From Schedule U)	
31	Subject to excise tax (6.5%) (Line 28 plus Line 29, less Line 30) (enter here and on Schedule B, Line 4)	3,319,489
32	Excise tax (6.5%)	215,767
33	Add: Recapture of excise tax credit from Schedule T, Part 2	
34	Net Excise tax due	215,767

Rebuttal Exhibit SAM-6

TENNESSEE-AMERICAN WATER COMPANY
CALCULATION OF REVENUE CONVERSION FACTOR AND PROPOSED RATE INCREASE

RATE BASE REQUESTED		119,881,506
RATE OF RETURN REQUESTED		8.514%
WTD DEBT COST		3.405%
UNCOLLECTBLE RATIO		1.489%
GROSS RECEIPTS TAXES		2.876%
REVENUES:		1.00000000
EXPENSES:		
UNCOLLECTIBLES @		0.01489000
		0.98511000
GROSS RECEIPTS TAXES		0.02833275
		0.95677725
STATE INCOME TAX RATE		0.06219052
		0.89458673
FEDERAL INCOME TAX RATE	35.00%	0.31310536
		0.58148137
REVENUE CONVERSION		1.71974555

RATE BASE REQUESTED	119,881,506
RATE OF RETURN REQUESTED	8.514%
REQUIRED UOI	10,206,711
UOI AT PRESENT RATES	5,761,368
UOI DEFICIENCY	4,445,343
REVENUE INCREASE	7,644,859
Additional late payment penalty	64,211
REVENUE INCREASE water only	7,580,648
ADDITIONAL UNCOLLECTBLES	113,834
ADDITIONAL GROSS RECEIPTS	216,600
SIT	475,438
FIT	2,393,645

Tennessee American Water						
2009 Chemical Contract prices						
	Basic Chemical	Basic Chemical	Brenntag	Brenntag	Nalco	Nalco
Product Code Descrip						
Carbon - Powdered Activated	No Bid	No Bid				
HTH	No Bid	No Bid	$ 0.2230	$ 0.2230		
Hydrofluosilicic Acid	No Bid	No Bid				
Polyaluminum Chloride	No Bid	No Bid				
Polymer - Nonionic	No Bid	No Bid			$ 2.9900	$ 3.1600
Sodium Hydroxide 0.50	No Bid	No Bid	$0.411/ wet lb	$0.411/ wet lb		
Zinc Orthophosphate	No Bid	No Bid				

Tennessee American Water						
2009 Chemical Contract prices						
	Carus	Carus	LCI	LCI	Southern Water	Southern Water
Product Code Descrip						
Carbon - Powdered Activated			NO BID	NO BID	NB	
HTH			NO BID	NO BID	NB	
Hydrofluosilicic Acid			**$0.3075/LB,45,000 LB Minimum I	**$0.3075/LB, 45,000 LB Minimum	NB	
Polyaluminum Chloride			NO BID	NO BID	$0.2746/lb Delivered	$0.2648/lb Delivered
Polymer - Nonionic			NO BID	NO BID	NB	
Sodium Hydroxide 0.50			NO BID	NO BID	NB	
Zinc Orthophosphate	$ 1.3100	$ 0.9400	NO BID	NO BID	NB	

2

Rebuttal Exhibit SAM-7

Tennessee American Water				
2009 Chemical Contract prices				
	Univar	Univar	Norit	Norit
Product Code Descrip				
Carbon - Powdered Activated	No Bid	No Bid	$ 0.6500	$ 0.6000
HTH	No Bid	No Bid	No Bid	No Bid
Hydrofluosilicic Acid	No Bid	No Bid	No Bid	No Bid
Polyaluminum Chloride	No Bid	No Bid	No Bid	No Bid
Polymer - Nonionic	No Bid	No Bid	No Bid	No Bid
Sodium Hydroxide 0.50	No Bid	No Bid	No Bid	No Bid
Zinc Orthophosphate	No Bid	No Bid	No Bid	No Bid

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Chattanooga Times Free Press

Tennessee: Rate hike largest in 75 years by TVA

Thursday, August 7, 2008

By:
Dave Flessner (Contact)

The Tennessee Valley Authority has brought some of nation's cheapest electricity to its seven-state region over the past 75 years, but soaring fuel costs are threatening to boost electric rates this year by the largest amount in agency history.

TVA President Tom Kilgore said Wednesday that electricity rates could jump as much as 20 percent on Oct. 1 when the utility makes its next quarterly rate change.

For the typical household in the Tennessee Valley, which uses 1,320 kilowatthours of electricity a month, the monthly power bill is likely to go up somewhere between $15 to $20, according to TVA.

PDF: Energy saving tips

In a briefing for reporters, Mr. Kilgore said coal prices have more than doubled so far this year and natural gas prices are up 65 percent since December 2007.

TVA generates nearly 60 percent of its power from coal and buys and produces nearly 10 percent of its power from natural-gas-fired generation. As an example of TVA's rising costs, the utility expects to spend $750 million on natural gas this year, compared with $493 million in 2007.

"Fuel prices are not just going up, they are skyrocketing," Mr. Kilgore said. "When supply and demand gets out of balance, prices go up, and that is what is happening."

Although TVA still is calculating its fuel-cost adjustment for this fall, Mr. Kilgore said another double-digit rate increase is expected after TVA's 11.8 percent rate increase in April and another 2.7 percent increase last month.

The combined rate hikes could push up TVA rates even higher than the 30.3 percent increase adopted in the summer and fall of 1970, when soaring coal prices also pushed up TVA's power-generation expenses.

"It's ridiculous," said Tammy Heard, an East Chattanooga resident who was paying her EPB electric bill Wednesday afternoon. "I can't afford my monthly electric bill now, and I can't bear to think about paying even more."

WHAT IT MEANS

* The average household in the Tennessee Valley uses 1,320 kilowatthours of electricity a month and pays a monthly light bill of about $120.

* The typical customer could pay from $15 to $20 more a month for electricity under a fuel-cost adjustment planned for October.

Source: Tennessee Valley Authority

EPB President Harold DePriest said he hates to see the increase, but TVA's increases are similar to those of other utilities trying to cope with soaring fuel expenses.

"It's awful, but it is being pushed by the same thing that is pushing gasoline prices to $4 a gallon," he said. "Energy around the world is going sky high, and I am concerned that this is not the end of it."

Mr. Kilgore said China is building more than 40 coal-fired power plants and no longer is exporting as much coal on the global market as it used to do. As demand rises and fuel supplies remain relatively stagnant, prices continue to jump for the main sources of electricity, sometimes even more than the rise in worldwide oil prices, he said.

TVA has limited some of the impact of rising fuel in the past with long-term contracts and hedge-pricing contracts for its coal and gas supplies. But over time, TVA must absorb the higher market price as the older, lower-priced contracts expire, Mr. Kilgore said.

The drought also has dried up much of TVA's cheapest source of power — electricity generated at the utility's 29 power-generating dams. To replace its reduced hydro generation, TVA is buying 12 percent more power from other providers than a year ago and is paying more than three times as much for the purchased power this year over last, officials said.

"This drought has really hurt TVA, but even more unbelievable has been the jump in coal prices by some of the biggest amounts since the 1970s," said Jack Simmons, president of the Tennessee Valley Public Power Association, the Chattanooga-based trade group that represents the 159 municipalities and co-ops that distribute TVA's power. "It makes my heart hurt to see how much what is happening in Brazil, Russia, India and China (pushes) up our costs."

Mr. Simmons and others expect electricity sales are likely to flatten in the year ahead. Mr. Kilgore, who urged consumers to conserve power, especially during peak demand periods, said TVA is reducing its growth forecasts in the year ahead because of anticipated higher electric rates and a slower economy.

TVA is just the latest in a group of other U.S. electric utilities also raising their rates, Mr. Kilgore said.

Progress Energy of North Carolina, Appalachian Power of West Virginia, Rockland Electric of New Jersey and Florida Power & Light and Energy have proposed or been granted double-digit rate increases this spring or summer because of rising coal and natural gas prices.

"Relatively speaking, we are still in pretty good position," Mr. Kilgore said. "In the valley and at TVA we think we are still going to be below most everybody else."

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