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Office of the Attorney General



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Reply to:
Consumer Advocate and Protection Division
Post Office Box 20207
Nashville, TN 37202

April 29, 2009

Honorable Sharla Dillon
Docket Office
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

filed electronically on 04/29/09

IN RE: Tennessee Wastewater Systems, Inc.
Docket No. 08-00202

Dear Chairman Tate:

Enclosed for filing please find the testimony of Terry Buckner previously filed in this case under seal. We are filing the testimony, exhibits and one workpaper for public view; the remaining workpapers remain confidential at this time. The workpapers that are still confidential relate to affiliate companies of Tennessee Wastewater that are not regulated by the TRA.

Should you have any questions, please contact me at 615-741-8733. Thank you.

Sincerely,

A handwritten signature in black ink that reads "Vance L. Broemel".

Vance Broemel
Assistant Attorney General

cc: All Parties of Record.

Before the

TENNESSEE REGULATORY AUTHORITY

IN RE:

PETITION OF TENNESSEE
WASTEWATER SYSTEMS, INC. FOR
APPROVAL TO AMEND ITS RATES
AND CHARGES

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DOCKET NO. 08-00202

DIRECT TESTIMONY
OF
TERRY BUCKNER

April 17, 2009

Before the

TENNESSEE REGULATORY AUTHORITY

IN RE:

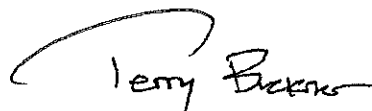
PETITION OF TENNESSEE
WASTEWATER SYSTEMS, INC. FOR
APPROVAL TO AMEND ITS RATES
AND CHARGES

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DOCKET NO. 08-00202

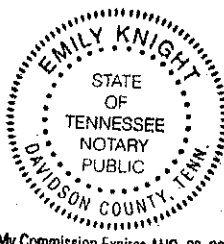
AFFIDAVIT

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

Sworn to and subscribed before me
this 17th day of April, 2009.



My Commission Expires AUG. 23, 2011


NOTARY PUBLIC

My commission expires: Aug. 23, 2011

INTRODUCTION

1

2

3 **Q. Please state your name for the record.**

4 **A. My name is Terry Buckner.**

5

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

7 **A. I am employed by the Consumer Advocate and**
8 **Protection Division ("Consumer Advocate") in the Office of**
9 **the Attorney General for the State of Tennessee ("Office") as a**
10 **Regulatory Analyst.**

11

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

14 **A. Approximately thirty years. Before my current**
15 **employment with the Office, I was employed by the**
16 **Comptroller of the Treasury for the State of Tennessee for**
17 **nearly two years as the Assistant Director responsible for public**
18 **utility audits. Prior to that, I was employed for approximately**
19 **eight years with the Office. Formerly, I was employed with the**
20 **Tennessee Public Service Commission ("Commission") in the**
21 **Utility Rates Division as a financial analyst for approximately**
22 **six years. My responsibilities included testifying before the**
23 **Commission as to the appropriate cost of service for public**
24 **utilities operating in Tennessee. Prior to my employment with**

1 the Commission, I was employed by TDS Telecom for eight
2 years and the First Utility District of Knox County for three
3 years.

4
5 **Q. What is your educational background and what degrees do**
6 **you hold?**

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

12
13 **Q. Would you briefly describe your responsibilities as a**
14 **Regulatory Analyst with the Consumer Advocate?**

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

20
21 **Q. What is the purpose of your testimony?**

22 A. The purpose of my testimony is to present the forecasted
23 financial exhibits prepared by the Consumer Advocate
24 ("Exhibits of Consumer Advocate") and provide my exhibit of

1 work papers ("Work Papers of Consumer Advocate") for
2 forecasted Operating Revenues, Operating Expenses, Income
3 Taxes, and Operating Margin for Tennessee Wastewater
4 Systems, Inc. ("TWW") for the normalized results from the test
5 year ending December 31, 2008.

6
7 **SUMMARY OF RESULTS**
8

9 **Q. Please summarize the results of the Consumer Advocate's**
10 **analysis of TWW's earnings for the test year.**

11 **A.** The test year in this case is the twelve months ending
12 December 31, 2008. TWW, however, used a forecasted attrition
13 year ended March 31, 2009. In its first request for a rate
14 increase since 1999, TWW asked for a \$350,000 rate increase
15 whereas the Consumer Advocate's results show that TWW's
16 request should instead be cut by at least \$66,517¹, which
17 primarily is a difference between TWW's forecast and the
18 Consumer Advocate's analysis. Thus, the Consumer Advocate
19 believes TWW's requested increase should be reduced by at
20 least 19%. The Consumer Advocate realizes that any rate
21 increase is a difficult matter for ratepayers, but would note that
22 the cumulative rate of inflation since 1999, the date TWW's
23 rates were last set, has been 25.1%² and the rate increase the

¹ Exhibits of Consumer Advocate, Schedule 1.

² Work Papers of Consumer Advocate, CA-16, Index of Work Papers, Page 17.

1 Consumer Advocate proposes is 31%. Obviously, the size of
2 TWW has changed significantly in ten years. The approximate
3 \$67,000 difference is due to the following areas: (1) The
4 Consumer Advocate's regulated revenues are approximately
5 \$109,000 higher than the revenue³ estimates included in TWW's
6 rate increase petition; (2) the Consumer Advocate is projecting
7 about \$77,000 more in operating expenses than the amount
8 projected by TWW; (3) the Consumer Advocate computes
9 about \$25,000 less in federal and state income taxes than
10 TWW's income tax computations; and (4) the amount of
11 revenue required for TWW to have an opportunity to earn a
12 fair operating margin is about \$10,000 less than the Consumer
13 Advocate's analysis.

14 Accordingly, the Consumer Advocate's position is that
15 TWW has requested over \$67,000 more in customer rates than
16 the company actually needs to meet their expenses and provide
17 a fair return.

18
19

³ The Consumer Advocate reserves the right to further examine and possibly challenge TWW's categories of "regulated" and "unregulated" income in later proceedings, particularly in the TRA Docket No. 09-00033 dedicated to looking at the use of affiliates by water companies. Given the time constraints of the present rate case which require a decision within six months from the filing of the case, and the procedural issues involved in determining how King's Chapel was to proceed, the Consumer Advocate decided that it was not possible to fully examine the division of "regulated" and "unregulated" income in this rate case; this issue, however, will be examined in the separate affiliates docket, 09-00033.

1 Q. Please summarize the reasons why the Consumer Advocate is
2 projecting \$109,000 more in regulated operating revenues
3 than TWW.

4 A. TWW projects total regulated operating revenues of
5 \$805,512 for the year ending March 31, 2009 (which is their
6 attrition year in this case), but the Consumer Advocate used
7 \$914,250⁴ for the year ended December 31, 2008, which is the
8 reported regulated revenues by TWW to the TRA in their 2009
9 Inspection Fee Report. Obviously, the Consumer Advocate
10 believes that an actual total operating revenue number using
11 their known operations should be adopted for setting rates over
12 a forecasted amount, which was based on a future operational
13 model that as of this date has yet to be completed.

14
15 Q. Please summarize why the Consumer Advocate is projecting
16 about \$77,000 more in operating expenses than TWW.

17 A. There are 26⁵ operating expense line items shown for
18 comparative purposes, which net to a difference of about
19 \$77,000. The Consumer Advocate normalized the test period
20 ending December 31, 2008, under current operating conditions.⁶
21 However, the Consumer Advocate used a different method for
22 allocating overhead costs to TWW, which will be further
23 explained below. TWW's petition made various adjustments in

⁴ Consumer Advocate Response #14.

⁵ Exhibits of Consumer Advocate, Schedule 3.

⁶ Work Papers of Consumer Advocate, CA-8, Index of Work Papers, Page 9.

1 their forecast of operating expenses for their attrition year
2 ended March 31, 2009 and eliminated approximately \$90,000⁷ in
3 treatment expenses for the South Ridge subdivision with the
4 expectation that an addition of a lagoon treatment facility
5 would occur in the near term.

6 Additionally, the Consumer Advocate has made no
7 determination and does not normally assess the prudence of a
8 utility's operating expenses, but would note that the average
9 monthly operating expense per TWW customer was \$56.61 in
10 2008. Nearly 40% of TWW's average monthly expense was
11 from the Adenus affiliated companies.

12
13 **Q. Please explain why the Consumer Advocate's forecast of state**
14 **and federal income taxes is about \$25,000 lower than TWW's**
15 **income tax calculation.**

16 **A.** Primarily, this difference in income taxes is due mainly to
17 the Consumer Advocate's application of the Internal Revenue
18 Service's ("IRS") tax rate schedule for corporations. Due to the
19 lower amount of taxable income calculated by the Consumer
20 Advocate in this docket, the IRS tax rate schedule provides a
21 lower graduated federal tax rate of approximately 22%. TWW
22 used a federal tax rate of 34%, which corresponds to their

⁷ TWW Direct Testimony, C. Hyatt, Question 10.

1 estimated taxable income, but is an inappropriate tax rate using
2 the taxable income calculated by the Consumer Advocate.

3
4 Q. Please summarize the \$10,000 difference in operating
5 margins.

6 A. Given current economic conditions, the Consumer
7 Advocate believes an operating margin of no more than 6.5% is
8 a fair return⁸. TWW's petition includes an operating margin of
9 approximately 7.6%, which given the economic conditions and
10 magnitude of the rate increase is too high. The management of
11 TWW has great discretion in determining their operating
12 expenses. Therefore, TWW can increase the operating margin
13 to their petition level by controlling operating expenses.

14
15 **RATEMAKING THEORY AND PRACTICE**

16
17 Q. What is a public utility?

18 A. In the context of this case, a public utility is a business
19 formed as a shareholder-owned corporation. Even though the

⁸ Because this utility's plant consists primarily of customer contributed property, and the utility has little or no rate base, rates are based upon the operating ratio methodology. The operating ratio will be explained further below. Furthermore, with regard to the contributed property, the Consumer Advocate believes that property used to provide services to customers should not be encumbered by any liens or claims. Thus, the Consumer Advocate is concerned about the impact of the Deed of Trust by and between Community Bank and Trust and TWW of record at Book 3465, Page 622, Williamson County Register of Deeds Office and as modified at Book 106, Page 768, attached hereto as Exhibit A. This Deed of Trust appears to give a bank a recorded interest in property used to provide utility services but the Company has informed the Consumer Advocate team that this Deed of Trust was for a letter of credit that is no longer valid (the Company also addressed this issue in their response to the Consumer Advocate team's Data Request No. 54.)

1 public utility in this case is a for-profit corporation, it is also
2 important to note that this public utility is:

3 an organization that has been designated by law as
4 a business affected with a significant public interest,
5 and that also possesses all of the following
6 characteristics: (1) The business is essentially free
7 from direct competition, i.e., it operates in a
8 monopolistic environment; (2) The business is
9 required by law to charge rates for its services that
10 are reasonable and not unjustly discriminatory; (3)
11 The business is allowed to earn (but not
12 guaranteed) a "reasonable" profit; and (4) The
13 business is obligated to provide adequate service to
14 its customers, on demand.⁹
15

16 **Q. Does TWW possess these public utility characteristics?**

17 **A.** Yes. TWW is a public utility that has been granted the
18 advantage of operating in a monopolistic environment in
19 exchange for special obligations, namely, the requirement to
20 provide adequate service to all customers at rates that are just,
21 reasonable, and non-discriminatory.
22

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

25 **A.** Normally, in a rate case, the TRA is asked to establish the
26 amount of revenues that the utility should collect in order to
27 cover its reasonable and necessary expenses and to reasonably

⁹ *Accounting for Public Utilities*, Hahne and Aliff §1.01.

1 compensate the utility's investors for their investment in the
2 plant and equipment necessary to provide utility service to the
3 public. However, this case involves elements not found in most
4 rate cases. TWW has no investment in plant and equipment.
5 The investment has been contributed to TWW by various land
6 developers¹⁰. Consequently, there is no rate base to calculate
7 the compensation for the utility's investors. Therefore, in my
8 opinion given the absence of an investor owned rate base it is
9 proper in this case to determine a just and reasonable operating
10 margin (Revenues minus Expenses) in order to compensate
11 TWW.

12
13 **Q. Please explain the difference between a "Test Year" and an**
14 **"Attrition Year."**

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

¹⁰ The Consumer Advocate reserves the right to examine this practice in the upcoming affiliates' docket 09-00033. In particular, the Consumer Advocate is concerned that the "contributed" land is ultimately paid for by the homeowners/ratepayers since the developer may include the cost of the contributed land in the price of lots.

1 The selection of the timing of the test year may be
2 the most significant single factor in the rate-making
3 process. The more outdated the test year levels of
4 operations, the more critical is the need for
5 significant restatement to produce representative
6 levels of future conditions.¹¹

7
8 An "attrition year," also known as a forecast period, is the
9 "finished product" and is to be representative of the period for
10 any rate adjustment. The attrition year can also be viewed as
11 the first year during which the TRA's rate order will be applied.

12 In this docket, TWW's filing used a test year ended
13 December 2007 and an attrition year ending March 2009. In an
14 effort to eliminate outdated financial information, to use a more
15 appropriate cost allocation method, and to shorten the forecast
16 window, the Consumer Advocate has adopted the test year
17 ended December 2008 as representative of the period for any
18 rate adjustment.

19
20 ALLOCATION OF COSTS

21
22 **Q. Please explain the difference in the allocation of costs**
23 **between the Consumer Advocate and TWW.**

24 **A.** TWW is a public utility, which is a part of the Adenus
25 affiliation of companies. At the end of 2008, the Adenus family

¹¹*Accounting for Public Utilities*, Hahne and Aliff §7.03.

1 of companies included the following: Adenus Group, Adenus
2 Solutions, Adenus Capacity, Adenus Technologies, Adenus
3 Utilities, Adenus Operations, Georgia Wastewater, Alabama
4 Wastewater, Commonwealth Wastewater, and TWW.¹²
5 Adenus Group is a holding company, which owns all of the
6 other Adenus companies.¹³ Over \$1.4 million¹⁴ in costs was
7 subject to allocation by Adenus Group in 2008. Adenus
8 Utilities is a holding company that owns the utility companies
9 as well as Adenus Operations.¹⁵ Approximately \$339,000¹⁶ in
10 costs was subject to allocation by Adenus Utilities in 2008.
11 Most of the costs subject to allocation were allocated based on
12 the percent of revenues¹⁷, which is problematic. The Consumer
13 Advocate believes that cost allocation based on revenues is not
14 the best allocation method. For example, a rate increase to
15 TWW will cause more in allocation of costs using the TWW
16 allocation methodology. The increased revenues from a rate
17 proceeding by TWW will cause their revenues to be a higher
18 percentage of the total Adenus revenues. Thus, using the
19 Adenus allocation method, a higher percentage of the cost
20 allocation will be applied to TWW. Conceivably, if all of the
21 other Adenus companies recorded no revenues, then most of

¹² TWW Exhibit 9-A, Charles Pickney.

¹³ TWW Direct Testimony, C. Pickney, Question 7, Lines 41-42.

¹⁴ Consumer Advocate Response #40.

¹⁵ TWW Direct Testimony, C. Pickney, Question 7, Lines 44-45.

¹⁶ Consumer Advocate Response #40.

¹⁷ TWW Exhibit 4-A, Charles Hyatt.

1 the allocated cost would inure to TWW which would be
2 insufferable to the ratepayers.

3 Ideally, costs should be directly assigned to the cost
4 causing entity. TWW's current accounting practices currently
5 make such an assignment of costs difficult; accordingly, the
6 TRA should consider ordering TWW to adopt accounting
7 practices that facilitate direct assignment of costs to the cost
8 causing entity. While this may be more burdensome for
9 Adenus, rate payers should not be burdened by inappropriate
10 cost allocation. Such a determination, however is probably best
11 suited to the recently opened affiliate docket 09-00033. One of
12 the basic goals of cost allocation is to "prevent or limit, to the
13 extent possible, any cross-subsidization of one activity or entity
14 by another."¹⁸ With the goal of limiting cross-subsidization and
15 assigning cost to the causer, the Consumer Advocate has
16 adopted a three component allocation methodology for the
17 costs subject to allocation by Adenus Group and Adenus
18 Utilities. The three components are: (1) Gross Plant and
19 Investment; (2) Number of Customers; and (3) Direct
20 Operations and Maintenance Expenses.¹⁹ This allocation
21 methodology is utilized by Atmos Energy.²⁰

¹⁸ *Accounting for Public Utilities*, Hahne and Aliff §19.02.

¹⁹ Work Papers of Consumer Advocate, CA-1 through CA-12, Index of Work Papers Pages 1-13.

²⁰ TRA Docket #08-00197, MFR #57.

1 First of all, using the Atmos Energy three component
2 allocation methodology, the Adenus Group charges were
3 allocated to the following companies: Adenus Solutions,
4 Adenus Capacity, Adenus Technologies, Adenus Utilities, and
5 Adenus Operations. This is fairly consistent with the Adenus
6 corporate structure²¹ and fairly consistent with the first
7 company allocation of Adenus Group charges²² with the
8 exception of Adenus Operations and Adenus Utilities. Adenus
9 Operations "is a company that provides operation and
10 maintenance services to cities, water/wastewater authorities,
11 commercial customers, and public utilities."²³ While Adenus
12 Operations is a part of the Adenus Utilities holdings, the
13 Consumer Advocate believes that Adenus Operations should
14 also be included in the allocation on a standalone basis for
15 Adenus Group charges. In fact, Adenus Group Management
16 Fees are recorded separately on the Adenus Operations
17 statement of Profit and Loss in 2008.²⁴ Also, the company's first
18 allocation of Adenus Group is applied to a rolled-up amount of
19 Adenus Utilities, which includes all of their various holdings.
20 Yet, Adenus Utilities has investment, employees, and direct
21 operating expenses. Therefore, Adenus Utilities should be

²¹ TWW, Direct Testimony, C. Pickney, Exhibit 9-A.

²² TWW Direct Testimony, C. Hyatt, Exhibit 4-A.

²³ TWW Direct Testimony, C. Pickney, Question 7.

²⁴ Consumer Advocate Response #14.

1 included in the allocation on a standalone basis for Adenus
2 Group charges as well.

3 These companies indicate where the Adenus
4 management has utilized their external financing²⁵, i.e.
5 investment, where their business customers are, and where
6 Adenus management has deployed their human resources, i.e.
7 employees²⁶. As of December 31, 2008, Adenus Solutions had
8 twelve employees; Adenus Capacity had zero employees;
9 Adenus Technologies had ten employees; Adenus Utilities had
10 three employees; and Adenus Operations had five employees.
11 This employment level is actually higher than TWW's petition
12 employment level.²⁷ It should be noted, there are no TWW
13 employees and most of TWW's plant investment has been
14 contributed. Secondly, the same methodology was utilized to
15 allocate the Adenus Utilities charges to the following
16 companies: TWW, Alabama Wastewater, Georgia Wastewater,
17 Commonwealth Wastewater, and Adenus Operations. These
18 companies serve the public utility ratepayers.

19 Finally, the allocation methodology adopted for Adenus
20 Operations' costs was based on the average number of
21 customers in 2008. Adenus Operations, however, does not
22 perform the maintenance for TWW's East Tennessee customers.

²⁵ Consumer Advocate Response #15.

²⁶ Consumer Advocate Response #37.

²⁷ TWW Direct Testimony, C. Pickney, Exhibit 10-A.

1 Therefore, those customers were excluded from the
2 development of the allocation percentages. Additionally,
3 Adenus Operations performs maintenance for a large non-
4 affiliated entity, Wilson County Water & Wastewater
5 Authority. Consequently, these customers were included in the
6 cost allocation methodology adopted for Adenus Operations.
7 While Adenus Operations does not currently allocate costs, this
8 methodology assigns and identifies their costs by entity.
9 Finally, ten percent of the allocated costs to TWW were
10 assigned to their non-regulated revenues, which was the
11 percentage of non-regulated revenue to the total operating
12 revenue of TWW. As stated previously, the Consumer
13 Advocate reserves the right to examine these categories of
14 regulated and unregulated income in the affiliates' docket, 09-
15 00033.

16 A normalized test period ending December 31, 2008, was
17 adopted to perform a new cost allocation methodology at a
18 time when all of the various Adenus entities' financial
19 statements could be used for the development of allocated
20 costs. The normalization primarily included: (1) the
21 elimination of salaries for people not on the payroll at
22 December 31, 2008; (2) the elimination of half of travel and
23 entertainment costs; (3) the elimination of penalties; (4) the
24 elimination of charitable contributions and (5) the elimination

1 of non-recurring amounts. As a result, the combined effect of
2 the new methodology reduces TWW's allocated and assigned
3 costs from the three entities: Adenus Group; Adenus Utilities;
4 and Adenus Operations by approximately \$27,000²⁸ for the test
5 year.

6
7 **Q. Does the Consumer Advocate intend to participate in TRA**
8 **Docket #09-00033 to evaluate affiliate transactions of**
9 **wastewater companies?**

10 A. Yes, the Consumer Advocate is likely to participate in
11 that docket to provide further input as to the propriety of
12 affiliate transactions for wastewater companies such as TWW.
13 Among other issues, the Consumer Advocate intends to
14 examine: (1) the allocation of costs among affiliates; (2) the
15 division of income into regulated and unregulated revenue;
16 and (3) the value of property contributed by developers to
17 TWW for wastewater treatment.

18
19 **RATE DESIGN**

20
21 **Q. Please discuss TWW's proposed rate design.**

22 A. The average percentage increase requested by TWW is
23 70% for residential customers, 5% for commercial customers,

²⁸ Work Papers of Consumer Advocate, CA-14, Index of Work Papers, Page 15.

1 and 0% for Cabin or Overnight customers.²⁹ Additionally,
2 TWW has proposed no change in the amount collected from
3 customers for TWW's escrow account. TWW's last rate
4 increase was in 1999.

5 In this docket, the Consumer Advocate's annual revenue
6 calculation of \$283,600 results in 31% increase over 2008 actual
7 regulated revenues. Consequently, the rate increase is
8 significant. As a general concept, the Consumer Advocate
9 believes that a rate increase should be spread evenly among
10 rate-payers. Therefore, the Consumer Advocate proposes an
11 equivalent percentage rate increase for each class of customer
12 except for residential customers living in the South Ridge
13 subdivision in Montgomery County.³⁰ The South Ridge
14 subdivision homeowners have expected the TWW lagoon
15 treatment facility to be completed for some time now and have
16 voiced considerable opposition to a rate increase. When the
17 facility is completed, the usage based charge from the City of
18 Clarksville should disappear and be replaced by a flat monthly
19 charge of \$24 to cover the cost of building the treatment facility.
20 That \$24 charge has already been approved by the TRA. At
21 that time, all the residential customers in South Ridge will pay

²⁹ TWW Direct Testimony, M. Pickney, Page 3, Line 8, Exhibit 7-C.

³⁰ The residents of the South Ridge subdivision in Montgomery County currently pay a base rate of \$23.94 plus a usage-based charge for treatment. The usage charge is imposed by the City of Clarksville and passed on to TWW customers on a pro rata basis. The current average rate for these customers (the base charge, the usage charge, plus an escrow payment) is approximately \$60.32. (This is an average figure; a customer's actual bill depends upon the amount of water the customer uses.) Under the rate design proposed by the Consumer Advocate, the base rate for South Ridge customers will not be increased.

1 a flat monthly charge of \$58.95 (the current base rate plus a
2 19.5% increase, if approved, plus the \$24 fee, plus an escrow
3 charge).

4 It is important to note that the total charges in South
5 Ridge are higher than TWW charges in other developments
6 because South Ridge customers will be paying—in addition to
7 the base rate—the cost of the new treatment facility. Also, the
8 possibility of future rate increases from the City of Clarksville
9 would only exacerbate the problem of the South Ridge usage
10 charge. In other TWW service areas, the treatment facility is
11 built while the subdivision is being developed and the costs of
12 the facility are paid by the developer and passed on to the
13 residents through the sale of lots and houses rather than passed
14 on by TWW to its customers through rates. Additionally, Mr.
15 Mike Chrysler of the Consumer Advocate is submitting
16 testimony for the proffering of proposed rate increases by
17 TWW for miscellaneous charges.

18 In summary, the Consumer Advocate recommends that
19 the TRA order: (1) TWW to submit new tariffs that would
20 reduce TWW's requested increase in annual rates by
21 approximately \$67,000; (2) TWW to provide the same
22 percentage rate increase for each class of customer; and (3)
23 TWW to withhold an increase to the South Ridge tariff rates
24 until the treatment facility is completed.

1 Q. Does this conclude your testimony?

2 A. Yes, it does.

Before the

TENNESSEE REGULATORY AUTHORITY

IN RE:

PETITION OF TENNESSEE
WASTEWATER SYSTEMS, INC. FOR
APPROVAL TO AMEND ITS RATES
AND CHARGES

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DOCKET NO. 08-00202

EXHIBITS
OF
TERRY BUCKNER

April 17, 2009

Tennessee Wastewater Systems, Inc
Index to Schedules
For the Twelve Months Ended December 31, 2008

	<u>Schedule No.</u>
Revenue Deficiency (Surplus)	1
Income Statement at Current Rates	2
Operating Expenses	3
Excise and Income Taxes	4

Tennessee Wastewater Systems, Inc.
Revenue Deficiency (Surplus)
For the Twelve Months Ended December 31, 2008

<u>Line No.</u>		<u>CAPD</u>	<u>Company</u>	<u>Difference</u>
1	Operating Margin at Present Rates	\$ 77,816	\$ (261,960)	\$ (339,776)
2	Earned Operating Margin	6.50%	-32.52%	-39.02%
3	Fair Operating Margin %	6.50%	8.26%	1.76%
4	Required Operating Margin	77,816	88,157	10,341
5	Revenue Deficiency (Surplus)	<u>\$ - A/</u>	<u>\$ 350,117</u>	<u>\$ 350,117</u>

A/ Net of \$283,600 Rate Increase

Tennessee Wastewater Systems, Inc
Income Statement at Current Rates
For the Twelve Months Ended December 31, 2008

Line No.		CA		Company E/	Difference
1	Revenues - Sales, forfeited discounts & other	1,197,850	A/	805,512	392,338
2	Operating Expenses	1,090,791	B/	1,013,810	76,981
3	State Excise Tax	6,959	C/	9,218	(2,259)
4	Federal Income Tax	22,284	D/	44,444	(22,160)
5	Total Operating Expense	1,120,034		1,067,472	52,562
6	Net Operating Income for Return	77,816		(261,960)	339,776

A/ Includes \$283,600 annual rate increase

6.50%

B/ Schedule 3, Line 27

C/ Schedule 4, Line 12

D/ Schedule 4, Line 20

E/ Company Exhibit 2-A.

Tennessee Wastewater Systems, Inc
Operating Expenses
For the Twelve Months Ended December 31, 2008

Line No.		CA	A/	Company	B/	Difference
1	Purchased Water Treatment	72,004		-		72,004
2	Purchased Power	30,404		22,849		7,555
3	Telemetry Monitoring	15,119		13,440		1,679
4	Bioxide	3,039		-		3,039
5	Materials and Supplies	12,126		-		12,126
6	Contractual Services Professional	39,132		52,637		(13,505)
7	Contractual Services Testing	9,465		12,726		(3,261)
8	Sign-up Costs	210		984		(774)
9	Contract Maintenance	560,091		507,630		52,461
10	Subcontract work	3,648		204		3,444
11	Access Fees	39,697		31,617		8,080
12	Lawn Mowing	1,868		-		1,868
13	One-Call Expenses	2,233		5,500		(3,267)
14	Contractual Profit Sharing	-		24,675		(24,675)
15	Adenus Utilities Group MGMT Fees	157,593		103,104		54,489
16	Adenus Group MGMT Fees	-		78,057		(78,057)
17	Rents	7,333		7,333		-
18	Insurance	375		382		(7)
19	Rate Case Work	-		25,304		(25,304)
20	Filing Fee	100		102		(2)
21	Inspection Fee	3,443		2,692		751
22	Regulatory Commission Expense	-		293		(293)
23	Bad Debt	7,700		-		7,700
24	Miscellaneous	45,726		44,521		1,205
25	Other Taxes	78,623		73,352		5,271
26	Non-Utility Miscellaenous	862		6,408		(5,546)
27	Total Operating Expenses	<u>1,090,791</u>		<u>1,013,810</u>		<u>76,981</u>

A/ Consumer Advocate Work Paper CA-8.

B/ Company Exhibit 2-A

Tennessee Wastewater Systems, Inc
Excise and Income Taxes
For the Twelve Months Ended December 31, 2008

Line No.		CAPD	Company
1	Operating Margin	1,197,850	805,512
2	Operating Expenses	1,090,791	1,013,810
3	Depreciation and Amortization Expense	-	-
4	Taxes Other Than Income	-	-
5	NOI Before Excise and Income Taxes	107,059	(208,298)
6	less Interest on Customer Deposits	-	-
7	less Interest Expense	-	-
8	Pre-tax Book Income	107,059	(208,298)
9	Schedule M Adjustments	-	-
10	Excise Taxable Income	107,059	(208,298)
11	Excise Tax Rate	6.50%	6.50%
12	Excise Tax	6,959	(13,539)
13	Pre-tax Book Income	107,059	(208,298)
14	Excise Tax	6,959	-
15	Schedule M Adjustments	-	-
16	FIT Taxable Income	100,100	(208,298)
17	FIT Rate	22.26% A/	34.00%
18	Subtotal FIT	22,284	-
19	Less: ITC Amortization	-	-
20	Federal Income Tax Expense	22,284	-

A/ Per IRS Corporate Tax Table

Tennessee Wastewater Systems, Inc.

TRA Docket #08-00202

HIGHLY CONFIDENTIAL

Office of the Attorney General - Consumer Advocate

Tennessee Wastewater Systems, Inc.

Profit & Loss

Work Paper CA-8

Operation and Maintenance (O&M) Expenses

For the year ended December 31, 2008

<u>Line Number</u>	<u>Account</u>	<u>Tennessee Wastewater A/</u>	<u>Adjustments</u>	<u>Test Year</u>	<u>12 MTD Feb 09</u>	<u>Adenus 2009 Budget</u>
1	703	\$ 4,519	(4,519)	\$ -	-	
2	710	72,004		72,004	74,331	
3	715	30,404		30,404	31,108	
4	716	15,119		15,119	15,109	
5	718	3,039		3,039	1,418	
6	720	12,126		12,126	12,126	
7	731	39,132		39,132	31,407	\$ 51,000
8	735	9,465		9,465	7,888	
9	736.01	210		210	465	
10	736.02	491,485	68,606 C/	560,091	470,569	524,847
11	736.04	3,648		3,648	3,648	
12	736.05	39,697		39,697	39,922	
13	736.08	1,868		1,868	1,868	
14	736.1	2,233		2,233	2,201	
15	736.12	152,793	4,800	157,593	128,439	144,100
16	736.9	142,483	(142,483)	-	149,383	
17	740	7,333		7,333	6,945	
18	755	375		375	710	
19	765.2	100		100	125	
20	765.3	3,443		3,443	3,443	
21	770	7,700		7,700	8,247	
22	775	45,726		45,726	41,497	346,908
23	408	57,621	21,002 D/	78,623	67,409	50,437
24	409	(4,081)	4,081	-	(4,081)	
25	426	1,042		1,042	2,217	
26	669	(180)		(180)	(180)	
27	Total Expense	\$1,139,304	\$ (48,513)	\$1,090,791	\$1,096,214	\$1,117,292
28	Less: Account 736.02	148,214				
29	Account 736.12	152,793				
30	Account 736.9	142,483				
31	Account 775.12	2,906				
32	Account 775.8	271				
33	Account 408	57,621				
34	Account 409	(4,081)				
35	Total Direct O&M Expense	\$ 639,097				
36	Account 736.02	491,485				
37	Account 775.12	2,906				
38	Account 775.8	271				
39	Account 408	57,621				
40	Account 409	(4,081)				
41	Reconciliation	\$1,187,299				
42	Total Direct Exp. Per Adenus	\$ 844,027 B/				

A/ Consumer Advocate Discovery #14.

B/ Consumer Advocate Discovery #39.

C/ Consumer Advocate work paper CA-6 less 2008 amount of \$205,280 per TWW.

D/ Elimination of \$264 in tax penalties per Consumer Advocate Discovery #14, net of \$21,266 per 2008 TN F&E tax return