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January 30, 2009

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Via E-Mail and Overnight Delivery filed electronically in docket office on 01/30/09

Chairman Eddie Roberson
Attention: Sharla Dillon, Docket & Records Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

**Re: Petition of Tennessee Water Service, Inc.
to Change and Increase Certain Rates and Charges
Docket No. 09- 00017**

Dear Ms. Dillon:

Enclosed please find the following documents for filing with the Tennessee Regulatory Authority on behalf of our client, Tennessee Water Service, Inc. ("TWS"):

1. Original and five (5) copies of the Petition to Change and Increase Certain Rates and Charges which includes the testimony of Kirsten Weeks, Manager of Regulatory Accounting for Utilities, Inc., (parent company of TWS), and Martin J. Lashua, Regional Director of Operations for Tennessee Water Service, Inc.; and
2. Original and five (5) copies of Application of Christopher J. Ayers to Appear Pro Hac Vice on behalf of TWS, along with a letter of recommendation by Attorney J. Keith Coates, Jr.

Also included in the overnight package is our check in the amount of \$25.00, payable to the Tennessee Regulatory Authority, to cover the cost of the filing fee. Please file-stamp and return the additional copy of each of the documents to me in the enclosed return envelope.

If you have any questions regarding the petition and application, please do not hesitate to contact me.

Thank you for your assistance.

Sincerely,

Christopher J. Ayers

Enclosures



WOOLF · McCLANE

WOOLF, McCLANE, BRIGHT, ALLEN & CARPENTER, PLLC

— A T T O R N E Y S —

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January 29, 2009

Honorable Eddie Roberson, Chairman
Tennessee Regulatory Authority
Attention: Sharla Dillon, Docket & Records Manager
460 James Robertson Parkway
Nashville, TN 37243-0505


**Re: In the Matter of Tennessee Water Service, Inc.
Petition to Change and Increase Certain Rates and Charges
TRA Docket No. 09-_____**

Dear Ms. Dillon:

Enclosed is the Application to Appear Pro Hac Vice of Christopher J. Ayers on behalf of Tennessee Water Service, Inc. in connection with the attached filing. As a member in good standing of the Tennessee Bar, I recommend approval of this request.

Thank you for your attention to this matter.

Sincerely,



J. Keith Coates, Jr.

JKC:mw

Enclosure

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

**IN RE: PETITION OF TENNESSEE WATER SERVICE, INC., TO
 CHANGE AND INCREASE CERTAIN RATES AND CHARGES**

DOCKET NO. _____

APPLICATION TO APPEAR PRO HAC VICE

Pursuant to Rule 19 of the Rules of the Supreme Court of Tennessee and the Rules of the Tennessee Regulatory Authority ("TRA"), Christopher J. Ayers, attorney for Tennessee Water Service, Inc. ("TWS"), a subsidiary of Utilities, Inc., hereby makes application for permission to appear and to participate in the above-referenced case on behalf of TWS, and in support of his application states as follows:

1. The undersigned, Christopher J. Ayers, is an associate in the firm of Hunton & Williams LLP, One Bank of America Plaza, Suite 1400, 421 Fayetteville Street, Raleigh, North Carolina 27601.

2. Mr. Ayers desires to enter an appearance on behalf of TWS in the above-referenced matter.

3. Mr. Ayers is currently licensed and is in good standing and admitted to practice in the following courts:

- a. The North Carolina General Court of Justice, 2002;
- b. The United States Court of Appeals for the Fourth Circuit, 2003;
- c. The United States District Court, Eastern District of North Carolina, 2003;
- d. The United States Supreme Court, 2005.

4. Mr. Ayers is currently licensed and is in good standing and admitted to practice in the State of North Carolina (Bar No. 28412) and no disciplinary actions or investigation of his conduct are pending.

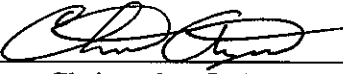
5. Mr. Ayers has associated himself for purposes of this proceeding with Mr. J. Keith Coates, Jr., Woolf, McClane, Bright, Allen & Carpenter, PLLC, Suite 900, Riverview Tower, 900 S. Gay Street, Knoxville, Tennessee 37902.

6. Mr. Coates is a member in good standing of the Bar of this Court upon whom all pleadings, motions, notices and other papers can be served in conformance with the Federal Rules of Civil Procedure and the Local Rules of this Court.

7. Mr. Ayers agrees to subject himself to the jurisdiction of this Authority in any manner arising out of his conduct in such proceedings and agrees to be bound by the rules governing the conduct of attorneys appearing before this Authority.

WHEREFORE, the undersigned requests that he be admitted *pro hac vice* to appear and participate in the above-styled case on behalf of Tennessee Water Service, Inc.

Respectfully submitted, this the 29th day of January 2009.



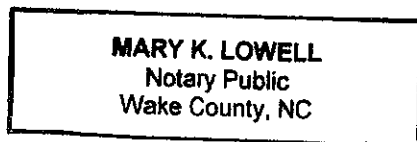
Christopher J. Ayers

Sworn to and subscribed before me
this 29th day of January, 2009.



Notary Public

My Commission Expires: 3/18/2011



TENNESSEE WATER SERVICE, INC.

PETITION OF TENNESSEE WATER SERVICE, INC. FOR APPROVAL TO AMEND ITS RATES AND CHARGES

DOCKET #09-_____
FILE DATE: _____

Tennessee Water Service, Inc.
5701 Westpark Drive
Suite 101
Charlotte, NC 28217
Phone: (704) 525-7990

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

**IN RE: PETITION OF TENNESSEE WATER SERVICE, INC. TO
CHANGE AND INCREASE CERTAIN RATES AND CHARGES**

DOCKET NO. 09-_____

Petition of Tennessee Water Service, Inc.
To Change and Increase Certain Rates and Charges

Tennessee Water Service, Inc. ("TWS"), a Tennessee corporation authorized to conduct and conducting a public utility business in the State of Tennessee, does hereby file with the Tennessee Regulatory Authority ("Authority") this petition and revised tariff to become effective thirty (30) days after the date of filing and requests that the Authority, pursuant to T.C.A. § 65-5-201, et seq., hear and determine that the increased rates as reflected in the revised tariff are just and reasonable. In support of this request, TWS submits the following:

1. TWS is a public utility as defined by T.C.A. § 65-4-101 and its public utility operations are subject to the jurisdiction of this Authority. In January 1984, TWS was granted its original Certificate of Convenience and Necessity in Docket No. U-83-7240 to provide water service to customers located in the Chalet Village Subdivision in Sevier County, Tennessee.

2. TWS is a wholly-owned operating subsidiary of Utilities Inc ("UI"). Utilities Inc. is a holding company for approximately 80 subsidiary operating companies that provide residential water and/or wastewater services to more than 235,000 customers in sixteen states. UI, through its operating subsidiary TWS, serves approximately 564 water customers in Tennessee.

3. TWS's existing rates for water service are not adequate to permit it an opportunity to recover its reasonable operating costs and to earn a fair and reasonable rate of return on its investment. In order for TWS to maintain its facilities and provide services in accordance with the reasonable requirements of its customers and the requirements of the Authority, attract capital on terms which are reasonable, and to produce a reasonable rate of return on invested capital, TWS must be granted a general increase in its rates.

4. As shown on the Company Exhibit to this Petition, using current rates during the historical test period of twelve months ending December 31, 2006, TWS is projected to experience a net operating loss of \$57,712 on a rate base of \$513,943 which results in an overall return of -11.23%. Such a return is not fair and reasonable and inhibits TWS's ability to maintain its facilities and provide adequate water service.

5. The Company proposes that it be allowed to place into effect customer rates that will produce an overall rate of return of 6.89% on a rate base of \$513,943. The projected increase in revenue will allow the company to cover its expenses, make necessary facility repairs and replacements and continue to provide customers with quality service.

6. TWS has filed simultaneously with this Petition a revised tariff effective March 1, 2009 designed to produce the additional gross revenues needed of \$150,902, which is attached as Exhibit A.

7. The full name and address of the principal place of business of the Company are:

Tennessee Water Service, Inc.
5701 Westpark Drive
Suite 101
Charlotte, NC 28217

8. All correspondence and communication with respect to this Petition should be sent to the following:

Kirsten Weeks
Manager of Regulatory Accounting
Utilities, Inc.
23353 Sanders Road
Northbrook, IL 60062-6196

With copies to:

J. Keith Coates, Jr.
Woolf, McClane, Bright, Allen & Carpenter, PLLC
Post Office Box 900
Knoxville, TN 37901-0900

Christopher J. Ayers, Esq.
Hunton & Williams LLP
Post Office Box 109
Raleigh, NC 27602

9. In further support of its Petition, TWS has attached the following documentation:
- a. **Prepared Direct Testimony of Kirsten Weeks** regarding a general overview of Tennessee Water Service, Inc.'s operations, a summary of the rate relief requested and exhibits providing a balance sheet, calculations of the Company's net operating income before and after the proposed rate adjustment, rate base, rate of return, rate design and future and proposed rates. (Exhibit B)
 - b. **Prepared Direct Testimony of Martin Lashua** regarding a general overview of Tennessee Water Service, Inc's operations and recent upgrades to the system. (Exhibit C)


TWS submits that the proposed changes are necessary and proper and will allow TWS to continue providing economically feasible sewer service to its customers. TWS's revised tariffs are fair and reasonable and in the best interest of all parties and therefore should be approved.

WHEREFORE, TWS respectfully requests:

1. That the Authority schedule a hearing upon proper notice for the presentation of evidence as to the rates necessary to provide adequate water service to its customers and a fair rate of return to TWS.
2. That the Authority find that the existing rates of TWS are inadequate and that the new rates proposed by the Company are fair, just and reasonable and in the public interest;
3. That TWS be granted such other and/or further relief as may be warranted.
4. That the Authority enter an Order approving TWS's revised schedule of rates to become effective on March 1, 2009, or as soon as lawfully permitted.

Respectfully submitted this the 30th day of January, 2009.

TENNESSEE WATER SERVICE INC.

By: 
Christopher J. Ayers
Hunton & Williams LLP
421 Fayetteville Street
Suite 1400
Raleigh, NC 27601
919-899-3129

J. Keith Coates, Jr.
Woolf, McClane, Bright, Allen & Carpenter, PLLC
Post Office Box 900
Knoxville, TN 37901-0900
865-215-1000

Attorneys for Petitioner

TENNESSEE WATER SERVICE, INC.

**PETITION OF TENNESSEE WATER SERVICE, INC.
FOR APPROVAL TO AMEND ITS RATES AND CHARGES**

Docket # 09 _____

EXHIBIT A

Revised Tariff

TENNESSEE WATER SERVICE

FIFTH SHEET NO. 1
CANCELLING FOURTH SHEET NO. 1

Applies to Chalet Village North

WATER SERVICE

METERED SERVICE

Base Facility Charge per month	\$24.23
All Gallons per month usage	\$11.23 per 1000 gallons

MINIMUM CHARGE: \$24.23 per month

DELAYED PAYMENT CHARGE:

An additional charge amounting to ten per cent (10%) of net bill will be added to all water bills under the foregoing schedule, if not paid within twenty-one (21) days of the billing date.

NEW ACCOUNT CHARGE:

Each new account shall pay a one-time service fee of \$20 at the time application for service is filed with the Company.

DEPOSIT:

Each new customer shall pay a refundable deposit of \$45 upon application for water service. The company shall accrue interest on all customer deposits at an annual interest rate of not less than 6%.

FACILITIES CHARGE:

Each new customer applying for initial water service to a structure that has not previously been provided water service by Company shall pay a non-refundable fee equal to \$468.75 to the Company before water service is instituted.

NSF CHECK CHARGE:

A charge of \$10 will be applied to customers whose check is returned by the bank due to non-sufficient funds (one charge per check each time it is returned).

RECONNECTION CHARGE:

If water service cut off by utility for good cause: \$35.00

If water service discontinued at customer's request: \$35.00

(Customers who ask to be reconnected within 9 months of disconnection will be charged the base facility charge for the service period they were disconnected.)

FREQUENCY OF BILLING:

Bills will be rendered bi-monthly in arrears.

Issued TBD

Effective TBD

Issued By Lawrence N. Schumacher, CEO
Issuing Officer Title

2335 Sanders Road, Northbrook, IL 60062
Address of Officer

TENNESSEE WATER SERVICE

ILL. C. C. No. 1.1

Second Sheet No. 1.1

Cancelling First Sheet No. 1.1

Applies to Chalet Village North

WATER SERVICE

CONTRIBUTIONS IN AID OF CONSTRUCTION

ADVANCES IN AID OF CONSTRUCTION

All contributions and advances, whether in the form of property or cash, shall be increase by a cash payment to the utility, in an amount equal to 33% of the contribution or advance. The contribution or advance will be equal to the "original cost" if in the form of property or face value if in the form of cash.

Issued TBD

Effective TBD

Issued By Lawrence N. Schumacher,
Issuing Officer

CEO
Title

2335 Sanders Road, Northbrook, IL 60062
Address of Officer

TENNESSEE WATER SERVICE, INC.

**PETITION OF TENNESSEE WATER SERVICE, INC.
FOR APPROVAL TO AMEND ITS RATES AND CHARGES**

Docket # 09 _____

EXHIBIT B

**Testimony of
Kirsten Weeks
Manager of Regulatory Accounting
Utilities, Inc.**

1 **Q. Please state your name, occupation and business address for the record.**

2 A. My name is Kirsten Weeks. I am employed as a Manager of Regulatory Accounting at
3 Utilities, Inc., 2335 Sanders Road, Northbrook, Illinois 60062.

4
5 **Q. Please summarize your professional background.**

6 A. I have been employed by Utilities, Inc. since August of 2002. Since that time I have been involved
7 in several phases of rate-making in many regulatory jurisdictions, and have provided written
8 and/or oral testimony in Florida, South Carolina, North Carolina, Illinois, Pennsylvania, New
9 Jersey, Kentucky, and Louisiana. I graduated from Coe College in 2001, and I have passed the
10 CPA exam. I had one year of public accounting/auditing experience prior to joining Utilities, Inc.
11 I have successfully completed the utility regulation seminar sponsored by NARUC.

12
13 **Q. Please explain your job responsibilities at Utilities, Inc.**

14 A. My responsibilities include: financial analysis of individual subsidiaries of Utilities, Inc.,
15 preparation of rate applications, facilitation of regulatory audits, and the submission of testimony
16 and exhibits to support rate applications, as well as overall management of the regulatory process.

17
18 **Q. Please describe Tennessee Water Service.**

19 A. Tennessee Water Service ("TWS") is a wholly owned subsidiary of Utilities, Inc. ("UI"). As of
20 December 31, 2006, TWS served approximately 564 water customers in Sevier County.

21
22 **Q. Please describe UI.**

23 A. UI is unique within the water and sewer industry in many respects. From its inception almost 40 years
24 ago UI has concentrated on the purchase, formation and expansion of smaller water and/or sewer
25 utility systems. Most often these are the types of systems that cause state regulators and health
26 authorities an inordinate amount of both time and concern, due to problems related to product quality,

1 customer service, financial stability and rates.

2
3 At the present time, UI has over 90 systems that provide service to approximately 300,000 customers
4 in 15 states.

5
6 In March, 2002, UI was purchased by Nuon nv, and in February 2006, Nuon sold its interest in UI to
7 Hydro Star.

8
9 **Q. Do TWS customers benefit from the company's affiliation with UI?**

10 **A.** Yes. The affiliation with UI has many benefits for TWS customers. One of the primary benefits is
11 TWS' access to a large pool of human resources from which to draw upon. There are experts in
12 various critical areas, such as construction, engineering operations, accounting, data processing,
13 billing, regulation, customer service, etc. Nowhere could one obtain this combined expertise and level
14 of experience in a more cost effective manner.

15
16 While operating only water and sewer systems, UI personnel have the ability to meet the challenges of
17 the rapidly changing utility industry. Because the UI companies are focused on the water and sewer
18 industry, our companies enjoy some unique advantages, one of which is that capital is available for
19 improvements and expansion at a reasonable cost. With increasingly more stringent health and
20 environmental standards, ready access to capital will prove vital to continued quality service in the
21 water and sewer utility business.

22
23 In addition, the UI group of companies has national purchasing power that results in lower costs to rate
24 payers. Expenditures for insurance, vehicles, chemicals and meters are a few examples of purchases
25 where national contracts provide tangible benefits to rate-payers.

1

2 **Q. What is the purpose of your testimony?**

3 A. The purpose of my testimony is to explain why TWS has requested Regulatory Authority approval
4 to increase its water rates. I shall discuss some of the factors that have contributed to the need for
5 these increases and their impact on TWS customers. I shall discuss the terms regarding the cost of
6 debt, the overall cost of capital and rate of return on rate base. In addition, I will sponsor the
7 Company's financial exhibits, including pro-forma income statements and balance sheets.

8

9 **Q. Why is TWS requesting rate relief at this time?**

10 A. Under present rates, TWS is not able to meet its operating costs and earn a reasonable return on its
11 investment in the TWS system. The utility's current income statement is shown in Schedule 4-
12 Income Statement at Current Rates.

13

14 Without satisfactory rate relief, TWS' ability to continue to provide safe, reliable and efficient
15 water services to its customers will be placed in jeopardy, and TWS will be unable to meet its
16 financial obligations. In addition, capital will become more costly.

17

18 **Q. What are TWS customers currently charged for water utility service?**

19 A. The current charges for TWS customers have been attached as Schedule D.

20

21 **Q. What rates are you proposing?**

22 A. The proposed charges for TWS customers have been attached as Schedule E.

23

24

25

1 **Q. What percentage increase is being requested?**

2 **A. The utility is requesting a 72.82% increase in the base charge and a 69.97% increase in the usage**
3 **charge as documented in Schedule 11 line 9.**

4
5 **Q. Were the financial schedules attached to TWS application for rate relief prepared by you**
6 **and/or under your direction?**

7 **A. Yes, the schedules attached to the General Rate Case Application were prepared by me or under my**
8 **direction.**

9
10 **Q. Are they incorporated herein by reference?**

11 **A. Yes.**

12
13 **Q. Please describe these schedules.**

14 **A. The General Rate Case Application includes the financial statements for TWS. The subsections**
15 **are as follows:**

16 **Schedule A- Balance Sheet**

17 **Schedule B- Income Statement**

18 **Schedule C- Rate Base**

19 **Schedule D- Test Year Revenues**

20 **Schedule E- Revenues at Proposed Rates**

21 **Schedule 1- Revenue Deficiency**

22 **Schedule 2- Adjustments Summary**

23 **Schedule 3- Rate Base**

24 **Schedule 4- Income Statement at Current Rates**

25 **Schedule 5- Income Statement at Proposed Rates**

1 Schedule 6- Taxes Other Than Income Taxes

2 Schedule 7- Excise and Income Taxes

3 Schedule 8- Revenue Conversion Factor

4 Schedule 9- Cost of Capital

5 Schedule 10- Summary of Billed Revenue

6 Schedule 11- Price Out Schedule

7
8 **Q. Please explain how test year expenses were adjusted.**

9 **A. Pro forma adjustments were made to the test year expenses based on known and measurable changes**
10 **to actual expenses.**

11
12 **Q. What are the known and measurable pro forma adjustments made to the income statement**
13 **Schedule 5?**

14 **A. The following adjustments have been made to the income statement:**

- 15 • Uncollectible accounts are adjusted based on the proposed increase in revenues;
- 16 • Salaries, wages, and benefits have been adjusted to reflect a 3.5% increase;
- 17 • Regulatory commission expense has been adjusted to reflect the cost of the current case over
18 three years;
- 19 • Depreciation and amortization expense is adjusted to account for known and measurable
20 additions to plant;
- 21 • Taxes other than income have been adjusted for increases in payroll taxes, utility taxes, and gross
22 receipts tax;
- 23 • Income taxes are computed on taxable income at current rates (34% for federal and 6.5% for
24 state);

- IDC is eliminated for ratemaking purposes;
- Interest on debt is computed using a 59.36%/ 40.64% debt/equity ratio and a 6.40% cost of debt; and,
- A consumer price index increase of 5.47% has been included.

Q. What are the pro forma adjustments made to the Rate Base (Schedule 3)?

A. The following adjustments were made to the rate base statement:

- Working capital has been calculated based on pro forma expenses;
- Pro forma plant is adjusted for planned capital investments, including Project Phoenix;
- January 2006 through December 2006 capital additions have been included;
- Accumulated depreciation has been adjusted to account for pro forma plant, 2006 additions and retirements.

Q. Please explain Project Phoenix in more detail.

A. Project Phoenix is a systems implementation project that will vastly improve UI's reporting standards and upgrade UI's ability to run different reports. The current system is old and antiquated, and does not help the Company facilitate ongoing regulatory reporting requirements with ease and efficiency, which is extremely important to UI. The new system (JD Edwards) will help aid Regulatory Authority audits and help fulfill many more regulatory requests in a more effective and proficient manner. In addition, requests will be filled in a more timely manner, as we will not be held up by some of the limitations of our current system.

Q. Why must one determine the overall cost of capital for a public utility?

A. The proper balance of rate-payer and shareholder interests occurs when the Regulatory Authority

1 authorizes a public utility a rate of return on its rate base equal to its overall cost of capital. If the
2 authorized rate of return on rate base exceeds the overall cost of capital, then ratepayers bear the
3 burden of excessive prices. Conversely, if the authorized rate of return on rate base is lower than the
4 overall cost of capital, then the utility will be unable to raise capital at a reasonable cost. Ultimately,
5 the utility may be unable to raise sufficient capital to meet demands for service, thereby impairing
6 service quality. Therefore, ratepayer interests are served best when the authorized rate of return on
7 rate base is neither higher nor lower than the overall cost of capital.

8
9 **Q. How does TWS raise capital?**

10 **A.** TWS is a wholly owned subsidiary of Utilities, Inc. (UI), which raises capital for its subsidiaries.
11 Accordingly, adopting UI's capital structure to determine the overall cost of capital for TWS is
12 appropriate but most importantly, beneficial to customers.

13
14 **Q. Does this conclude your testimony?**

15 **A.** Yes it does.

Tennessee Water Service
Balance Sheet
December 31, 2006

Schedule A

ASSETS

Plant In Service

Water
Sewer

Total

Accumulated Depreciation-Water
Accumulated Depreciation-Sewer

Total

Net Utility Plant

Plant Acquisition Adjustment-Water
Plant Acquisition Adjustment-Sewer

Total

Construction Work In Process-Water
Construction Work In Process-Sewer

Total

Current Assets

Cash
Accounts Receivable - Net
Other Current Assets

Total

Deferred Charges

TOTAL ASSETS

LIABILITIES AND OTHER CREDITS

Capital Stock and Retained Earnings

Common Stock and Paid In Capital
Retained Earnings

Total

Current and Accrued Liabilities

Accounts Payable-Trade
Taxes Accrued
Customer Deposits
Customer Deposits - Interest
A/P - Assoc. Companies

Total

Advances In Aid of Construction

Water
Sewer

Total

Contributions In Aid of Construction

Water
Sewer

Total

Accumulated Deferred Income Tax

Unamortized ITC
Deferred Tax - Federal
Deferred Tax - State

Total

TOTAL LIABILITIES AND OTHER CREDITS

\$ 1,556,520
0

\$ 1,556,520

\$ (238,492)
0

\$ (238,492)

\$ 1,318,028

\$ 0
0

\$ 0
0

\$ 0
0

\$ 0
0

\$ 1,646
40,855

\$ 0
42,500

\$ 2,039

\$ 1,362,567

\$ 233,960
86,586
\$ 320,545

\$ 14,747
5,623
2,385
112
121,227

\$ 144,094

\$ 0
0

\$ 0

\$ 825,155
0

\$ 825,155

\$ 2,319
69,172
1,282

\$ 72,773

\$ 1,362,567

	Per Books	Pro Forma Adjustments	Pro Forma Present	Proposed Increase	Pro Forma Proposed
Operating Revenues					
Service Revenues - Water	\$ 209,584	\$ 2,240	\$ 211,824	\$ 150,902	\$ 362,726
Service Revenues - Sewer		-			
Miscellaneous Revenues	3,433	-	3,433		3,433
Uncollectible Accounts	(25)	(0)	(25)	(18)	(43)
Total Operating Revenues	\$ 212,992	\$ 2,240	\$ 215,231	\$ 150,884	\$ 366,116
Maintenance Expenses					
Salaries and Wages	\$ 14,224	\$ 6,681	\$ 20,905	\$ -	\$ 20,905
Purchased Power	22,359	1,223	23,582	-	23,582
Purchased Water	162,018	8,861	170,879	-	170,879
Maintenance and Repair	23,362	1,691	25,053	-	25,053
Maintenance Testing	954	58	1,012	-	1,012
Meter Reading	1,831	100	1,931	-	1,931
Chemicals	1,160	1,076	2,236	-	2,236
Transportation	-	2,245	2,245	-	2,245
Operating Exp. Charged to Plant	(2,786)	(1,372)	(4,158)	-	(4,158)
Outside Services - Other	2,920	114	3,034	-	3,034
Total	\$ 226,042	\$ 20,677	\$ 246,719	\$ -	\$ 246,719
General Expenses					
Salaries and Wages	\$ 8,577	\$ (1,792)	\$ 6,784	\$ -	\$ 6,784
Office Supplies & Other Office Exp.	5,235	(4)	5,231	-	5,231
Regulatory Commission Exp.	-	17,979	17,979	-	17,979
Pension & Other Benefits	3,801	1,060	4,861	-	4,861
Rent	-	-	-	-	-
Insurance	1,883	103	1,986	-	1,986
Office Utilities	2,025	1	2,026	-	2,026
Miscellaneous	1,165	64	1,229	-	1,229
Total	\$ 22,686	\$ 17,411	\$ 40,097	\$ -	\$ 40,097
Depreciation					
Taxes Other Than Income	\$ 23,779	\$ 8,476	\$ 32,256	\$ -	\$ 32,256
Income Taxes - Federal	8,469	8,335	16,804	-	16,804
Income Taxes - State	(25,407)	(14,358)	(39,765)	47,966	8,201
Amort. Investment Tax Credit	(52)	(8,079)	(8,131)	9,807	1,677
Amortization of CIAC	(49)	-	(49)	-	(49)
	(15,016)	(21)	(15,037)	-	(15,037)
Total	\$ (8,275)	\$ (5,646)	\$ (13,873)	\$ 57,774	\$ 43,901
Total Operating Expenses	\$ 240,453	\$ 32,441	\$ 272,943	\$ 57,774	\$ 330,717
Net Operating Income	\$ (27,461)	\$ (30,202)	\$ (57,712)	\$ 93,111	\$ 35,399
Interest During Construction					
Interest on Debt	\$ -	\$ -	\$ -	\$ -	\$ -
Net Income	\$ (48,214)	\$ (28,976)	\$ (77,239)	\$ 93,111	\$ 15,871

- [a] Water revenues are adjusted to tie to test year consumption data at test year rates, and adjusted again for the proposed increase.
- [b] Salaries, wages and benefits are adjusted for annualization as of 6/30/07.
An adjustment of 3.5% to annualized wages has also been included to reflect yearly increases to salaries.
Overtime has been included in the annualized wages. In addition, bonuses have been excluded from pro forma salaries.
- [c] Operating expense charged to plant has been adjusted to reflect an increase in operator salaries.
- [d] Regulatory expense has been adjusted for the total estimated cost of this case, amortized over three years.
- [e] Depreciation and amortization expense are annualized to reflect actual and estimated pro forma plant additions, actual and estimated capitalized time additions, and actual and estimated general ledger plant additions at the approved depreciation rate of 1.5%.
Depreciation and amortization expense have been adjusted for retirement of certain assets.
Depreciation expense regarding Project Phoenix is also included. Please see w/p[m] entitled "Project Phoenix" for worksheet documentation.
- [f] Taxes other than income are adjusted for annualized payroll taxes, utility commission taxes, and gross receipts taxes at present and proposed rates.
- [g] Income taxes are computed on taxable income at present and proposed rates.
- [h] AFUDC is eliminated for rate making purposes.
- [i] Interest on debt has been computed using a 59.36%/40.64% debt / equity ratio and a 6.40% cost of debt.
- [j] Uncollectible accounts are adjusted based on the percentage of uncollectible accounts to revenues in the test year applied to the pro forma proposed revenues.
- [k] Intentionally left blank.
- [l] Transportation expense account has been adjusted to reflect allocation of costs incurred from Company 80 to Company 92.
Please refer to w/p [q] for a schedule of transportation expense allocation.
- [m] Purchase power, purchase water, maintenance and repair, maintenance testing, meter reading, chemicals, insurance and miscellaneous expenses are increased by CPI index. After doing analysis of utility components, a CPI index of 5.47% was utilized to increase expenses due to general rising costs on a yearly basis.
- [n] These adjustments refer to the regional office allocation. Please refer to w/p [o] for a detailed schedule.
- [o] These adjustments refer to the regional office allocation. Please refer to w/p [p] for a detailed schedule.

Tennessee Water Service

Water Operations

Rate Base and Rate of Return

Test Year Ended December 31, 2006

Schedule C
Page 1 of 3

	Per Books	Pro Forma Adjustments		As Adjusted	Proposed Increase	Effect of Proposed Increase
Net Operating Income	\$ (27,461)	\$ (30,202)		\$ (57,712)	\$ 93,111	\$ 35,399
Gross Plant In Service	1,556,520	15,391	(i)	1,571,912	-	1,571,912
Accumulated Depreciation	(238,492)	10,024	(b) (ii) (i)	(228,468)	-	(228,468)
Net Plant In Service	1,318,028	25,415		1,343,443	-	1,343,443
Cash Working Capital	32,150	5,884	(c)	38,034	-	38,034
Contributions In Aid of Construction	(825,155)	-		(825,155)	-	(825,155)
Accumulated Deferred Income Taxes	(70,454)	-		(70,454)	-	(70,454)
Customer Deposits	(2,497)	-		(2,497)	-	(2,497)
Advances In Aid of Construction	-	-		-	-	-
General Ledger Additions/ Capitalized Time	-	2,253	(d) (e)	2,253	-	2,253
Pro Forma Plant	-	46,010	(f) (ii)	46,010	-	46,010
Pro Forma Plant Retirements	-	(21,056)	(f)	(21,056)	-	(21,056)
Regional Office Allocation	-	3,364	(a)	3,364	-	3,364
Total Rate Base	\$ 452,072	\$ 58,505		\$ 513,942	\$ -	\$ 513,942
Return on Rate Base	-6.07%			-11.23%		6.89% (g)

Explanation of Adjustments to Rate Base and Rate of Return
Test Year Ended December 31, 2006

- [a] These adjustments are for the rate base allocation. Please refer to w/p [o] for rate base allocation.
- [b] Accumulated depreciation is adjusted to reflect actual and estimated general ledger additions, capitalized time additions and pro forma plant additions and retirements that will all be completed by 12/31/07.
Accumulated depreciation on plant adjustments has been rolled forward to reflect accumulated depreciation balances at 12/31/06. Also includes accumulated depreciation from Project Phoenix. Please refer to w/p [n] for additional information.
- [c] Cash working capital is calculated based on the 1/8 method using maintenance, general expenses, and taxes other than income.
- [d] A pro forma adjustment has been made to include actual and estimated capitalized time that will be completed by 12/31/07.
- [e] A pro forma adjustment has been made to include actual and estimated general ledger plant additions that will be completed by 12/31/07.
- [f] A pro forma adjustment has been made to include actual and estimated construction work in progress (pro forma plant) that will be completed by 12/31/07.
- [g] The Return on Rate Base shown above is provided solely as a matter of information and convenience for the Commission and is not intended to reflect a request for this specific return on rate base (or any return on equity). Applicant will make its request for a return on rate base (and return on equity) by way of evidence to be introduced at hearing.
- [h] This refers to Project Phoenix (new software implementation). This adjustment is an addition of gross asset of \$17,935.
Please refer to w/p [n].
- [i] This refers to the transportation allocation for Tennessee Water Service employees of \$15,391 added to gross plant in service and \$6,991 for accumulated depreciation.
Please refer to w/p [q].

Tennessee Water Service
Supplemental Schedule for Accumulated Depreciation
Test Year Ended December 31, 2006

Accumulated Depreciation

Plant	@ 1.5%	w/p [l] w/p [l]
	2,253	
	28,075	
	<u>30,328</u>	
	1.50%	
	<u>(455)</u>	

Project Phoenix	@ 20%	w/p [n]
	17,935	
	20%	
	<u>(3,587)</u>	

Vehicle A/D	w/p [q]
	(6,991)
	<u>(6,991)</u>

Subtotal of A/D (11,033)

Retirement	w/p [k]
	21,056
	<u>21,056</u>

TOTAL A/D 10,024
to record on Rate Base Schedule

WATER

Bill code	Description	Gallons	Gallons Applicable to Usage Charge	Usage Charge	Units	BFC	Revenues
65101	5/8" Residential Water	28,756,000	17,736,000	\$ 6.61	3,355	\$ 28.04	\$ 211,309
65102	1" Residential Water	61,000	27,000	\$ 6.61	12	\$ 28.04	\$ 515
Total		28,817,000	17,763,000		3,367		\$ 211,824

per t/b	\$	209,584
difference \$	\$	2,240
difference %		1.07%

WATER

Bill code	Description	Test Year Gallons	Gallons Applicable to Usage Charge	Proposed Usage Charge	Test Year Units	Proposed BFC	Revenues
65101	5/8" Residential Water	28,756,000	17,736,000	\$ 11.23	3355	\$ 48.46	\$ 361,843
65102	1" Residential Water	61,000	27,000	\$ 11.23	12	\$ 48.46	\$ 884
Total		28,817,000	17,763,000		3,367		\$ 362,726

Tennessee Water Service
Index To Schedules
Test Year Ended December 31, 2006

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Schedule 1

**Revenue Deficiency
For 12 Months Ending December 31, 2006**

<u>Line No.</u>	<u>Tennessee Water Service</u>	
1	Rate Base	513,943 A/
2	Operating Income at Present Rates	(57,712) B/
3	Earned Rate of Return	-11.23% C/
4	Fair Rate of Return	6.89% D/
5	Required Operating Income	35,399
6	Operating Income Deficiency	93,111
7	Gross Revenue Conversion Factor	<u>1.62067418</u> E/
8	Revenue Deficiency (Surplus)	<u><u>150,902</u></u>
A/	Schedule 3, Line 13	
B/	Schedule 4, Line 8	
C/	Schedule 2, Line 46	
D/	Schedule 9, Line 5	
E/	Schedule 8, Line 10	

Adjustments Summary

Comparison of Rate Making Components

Line No.		Tennessee Water Service
1	Water Revenue	\$ 211,824
2	Uncollectible Accounts	-25
3	Miscellaneous Revenues	3433
4	Other Revenues	n/a
5	AFUDC	n/a
6	Total Revenues	\$ 215,232
7	Labor (Salaries & Wages)	27,889
8	Meter Reading	1,931
9	Purchased Power	23,582
10	Purchases Water	170,879
11	Maintenance and Repair	25,053
12	Maintenance Testing	1,012
13	Chemicals	2,236
14	Transportation	2,245
15	Operating Exp. Charged to Plant	(4,158)
16	Outside Services-Other	3,034
17	Regulatory Commission Expense	17,979
18	Pension and Other Benefits	4,861
19	Rent	-
20	Insurance	1,986
21	Office Utilities	2,026
22	Miscellaneous	1,229
25	Office Supplies & Other Office Expense	5,231
26	Total Operating and Maintenance Expense	286,815
27	Depr. & Amort Expense	17,170
28	Taxes Other Than Income Taxes	18,804
29	Income Taxes	(47,845)
30	Total Operating Expense	\$ 272,944
31	Net Operating Income ("NOI")	\$ (57,712)
Rate Base		
32	Plant in Service	1,571,912
33	Advances in Aid of Construction	-
34	Gen. Ledger Add/Capitalized Time	2,253
35	Cash Working Capital	38,034
36	Pro Forma Plant	46,010
37	Regional Office Allocation	3,364
38	Total	\$ 1,661,573
Less Deductions:		
39	Customer Deposits	2,497
40	Accumulated Depreciation	228,468
41	Pro Forma Retirements	21,056
42	Contributions & advances in aid of construction	825,155
43	Accumulated Deferred Income Tax	70,454
44	Total Deductions	1,147,630
45	Rate Base (line 38- Line 44)	513,943
46	Rate of Return Line (Line 31 / Line 45)	-11.23%
47	Fair Rate of Return	6.89%
48	Deficient (Excess) Rate of Return	18.12%
49	Deficient (Excess) NOI	93,111
50	Gross Revenue Conversion Factor	1.62067418
51	Revenue Deficiency-(Surplus)	150,902.02

Schedule 3

Rate Base
For 12 Months Ending December 31, 2006

<u>Line No.</u>		<u>Tennessee Water Service</u>
1	Utility Plant In Service	1,571,912
2	Construction Work In Progress	-
3	Cash Working Capital	38,034
4	Gen. Ledger Add./Capitalized Time	2,253
5	Pro Forma Plant (additions)	46,010
6	Regional Office Allocation	3,364
	Total Additions	<u>1,661,573</u>
7	Accumulated depreciation	228,468
8	Accumulated Deferred Income Tax	70,454
9	Advances In Aid of Construction	825,155
10	Pro Forma Retirements	21,056
11	Customer Deposits	2,497
12	Total Deductions	<u>1,147,630</u>
13	Rate Base	<u>513,943</u>

Income Statement at Current Rates
For 12 Months Ending December 31, 2006

<u>Line No.</u>		<u>Tennessee Water Service</u>	
1	Water Service Revenues	\$	211,824
2	Miscellaneous Revenues		3,408
	Total Revenue		215,232
3	Other Operating and Maintenance		286,815
4	Depreciation and Amort. Exp.		17,170
5	Taxes Other Than Income		16,804
6	Income taxes-Federal		(39,714)
7	Income Taxes- State		(8,130)
	Total Operating Expense		272,944
8	Net Operating Income for Return		(57,712)

Tennessee Water Service
Income Statement at Proposed Rates
For 12 Months Ending December 31, 2006

Schedule 5

Line No.		Current Rates	Rate Adjustments	Proposed Rates
1	Water Service Revenues	211,824	150,902	362,726
2	Miscellaneous Revenues	3,433	-	3,433
3	Uncollectible Accounts	(25)	(18)	(43)
4	Total Revenue	215,232	150,884	366,116
5	Other Operating and Maintenance	286,815		286,815
6	Depreciation	32,256	-	32,258
7	Amort. Of CIAC	(15,037)	-	(15,037)
8	Amort. Invet. Tax Credit	(49)	-	(49)
9	Taxes Other Than Income	16,804		16,804
10	Income taxes-Federal	(39,714)	47,966	8,252
11	Income Taxes- State	(8,130)	9,807	1,677
	Total Operating Expense	272,944	57,774	330,718
12	Net Operating Income for Return	(57,712)	93,111	35,399

Taxes other Than Income Taxes
For 12 Months Ending December 31, 2006

<u>Line</u> <u>No.</u>		<u>Tennessee Water Service</u>
1	Property Tax (Real Estate)	4,020
2	State Gross Receipts Tax	220
3	Payroll Tax	10,093
4	Franchise Tax	1,830
5	Other General Taxes	-
6	TRA Utility Fee	605
7	Unknown	36
8		
9		
10		
11	Total Taxes Other Than Income Taxes	16,804

Tennessee Water Service
Excise and Income Taxes
For 12 Months Ending December 31, 2006

Schedule 7

Line No.		Test Year Pro Forma	Proposed Pro Forma
1	Total Revenue	215,232	366,116
2	Other Operating and Maintenance	286,815	286,815
3	Depreciation & Amortization	17,170	17,170
4	Taxes Other Than Income	16,804	16,804
5	NOI Before Excise And Income Taxes	(105,557)	45,328
	Less: Interest Expense	19,525	19,525
6	Pre-Tax Book Income	(125,082)	25,803
7	Excise taxable Income		
8	Excise Tax Rate	6.50%	6.50%
9	Excise Tax	(8,130)	1,677
10	Pre-Tax Book Income	(125,082)	25,803
11	Excise Tax	(8,130)	1,677
12	FIT Taxable Income	(116,951)	24,126
13	FIT Rate	34.00%	34.00%
14	FIT Before Amortization of Def. Tax	(39,763)	8,203
15	Amortization of Deferred Tax Liability	(49)	(49)
16	Federal Income Tax Expense	(39,714)	8,252
17	Total Income Taxes	(47,845)	9,929

Revenue Conversion Factor
For 12 Months Ending December 31, 2006

<u>Tennessee Water Service</u>			
<u>Line No.</u>			
1	Operating Revenues		1.000000
2	Add Forfeited Discounts		
3	Balance		1.000000
4	Uncollectible Ratio	0.000118	0.000118
5	Balance		0.999882
6	State Excise Tax	0.065000	0.064992
7	Balance		0.934890
8	Federal Income Tax	0.340000	0.317862
9	Balance		0.617027
10	Revenue Conversion Factor (1/Line9)		1.62067418

Tennessee Water Service
Cost of Capital
For 12 Months Ending December 31, 2006

Schedule 9

<u>Line No.</u>		<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
1	Short term Debt	0.00%	0.00%	0.00%
2	Long Term Debt	59.36%	6.40%	3.80%
3	Preferred Stock	0.00%	0.00%	0.00%
4	Stockholder's Equity	40.64%	7.60%	3.09%
5	Total	100.00%		6.89%

Tennessee Water Service
Summary of Billed Revenue
For 12 Months Ending December 31, 2006

Schedule 10

Service Revenues - Water

Line No.	Total Gallons	Test Year Total Volume	Volume Applicable to Usage Charge	Oct-Sep Usage Charge	Oct-Sep Units	Oct-Sep Bill Multiplier	BFC	Base Charge	Volumetric Charge	Revenues
1	28,756,000	28,756,000	17,736,000	\$ 6.61	3,355	-	\$ 28.04	94,074	117,235	\$ 211,309
2	61,000	61,000	27,000	6.61	12	-	28.04	336	178	\$ 515
3								94,411	117,413	
4			As Billed at Present Rates				TOTAL			\$ 211,824

Tennessee Water Service
Price Out Schedule
For 12 Months Ending December 31, 2006

Schedule 11

Service Revenues - Water

Line No.	Total Gallonage	Test Year Total Volume	Volume Applicable to Usage Charge	Oct-Sep Usage Charge	Oct-Sep Units	Oct-Sep Bill Multiplier	BFC	Base Charge	Volumetric Charge	Revenues
1	28,756,000	28,756,000	17,736,000	\$ 6.61	3,355	-	\$ 28.04	94,074	117,235	\$ 211,309
2	61,000	61,000	27,000	6.61	12	-	28.04	336	178	\$ 515
3								94,411	117,413	
4			As Billed at Present Rates					TOTAL		\$ 211,824
			Revenue Deficiency							160,903
5	28,756,000	28,756,000	17,736,000	\$ 11.23	3,355	-	\$ 48.46	162,582	199,260	
6	61,000	61,000	27,000	\$ 11.23	12	-	\$ 48.46	582	303	
7								163,164	199,564	
8			Billed at Proposed Rates					TOTAL		\$ 362,727
9			Increase			150,902		72.82%	69.97%	70.25%

Service Revenues - Other Revenues

10								Miscellaneous Revenues	\$ 3,433
11								Uncollectible Accounts	\$ (25)
12							@ Present Rates		\$ 3,408
13								Miscellaneous Revenues	\$ 3,433
14								Uncollectible Accounts	\$ (45)
15							@ Proposed Rates		\$ 3,388
16							Total Revenue Present		\$ 215,232
17							Revenue Deficiency		\$ 150,882
18							Total Revenue Proposed		\$ 366,115

TENNESSEE WATER SERVICE, INC.

**PETITION OF TENNESSEE WATER SERVICE, INC.
FOR APPROVAL TO AMEND ITS RATES AND CHARGES**

Docket # 09 _____

EXHIBIT C

**Testimony of
Martin J. Lashua
Regional Director of Operations
Tennessee Water Service, Inc.**

**BEFORE THE
TENNESSEE REGULATORY AUTHORITY**

IN RE:)
)
Application of Tennessee Water Service, Inc.)
for adjustment of rates and charges and)
modifications to certain terms and)
conditions for the provision of water)
service.)

**DIRECT TESTIMONY
OF
MARTIN J. LASHUA**

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Martin J. Lashua, and my business address is 5701 Westpark Drive,
Suite 101, Charlotte NC 28217.

Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am Regional Director of Operations for Tennessee Water Service, Inc. in
Tennessee and for eleven other operating subsidiaries of Utilities, Inc., in North Carolina,
Kentucky and Virginia.

**Q. HOW LONG HAVE YOU BEEN EMPLOYED IN THE WATER AND SEWER
UTILITY INDUSTRY AND HOW LONG IN YOUR PRESENT POSITION?**

A. Over 20 years in the industry and also with my current employer and since
October 2007 in my present capacity as Regional Director.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

1 **A.** I attended the University of North Carolina and received a Bachelors Degree in
2 Biology in 1984. I was employed with Bommer Industries from 1984 to 1988 in various
3 roles from chemist, wastewater treatment manager and production manager. In 1988, I
4 became employed as Area Operations Manager with Utilities, Inc. in the Charlotte, NC
5 regional office. I was later promoted to Regional Manager and then to Regional Director
6 currently responsible for all operations of the Company's State of North Carolina,
7 Kentucky and Virginia systems as well as our system in Tennessee. I hold the highest
8 levels of water and wastewater certifications for Water Treatment and Wastewater
9 Treatment from the State of North and South Carolina as well as numerous other licenses
10 in distribution, collection, subsurface disposal and spray irrigation disposal.

11
12 **Q. WHAT ARE YOUR DUTIES WITH TENNESSEE WATER SERVICE, INC.?**

13 **A.** I am responsible for making sure our customers receive the best possible service. As
14 such, I am responsible for all operating personnel, facilities, maintenance and capital
15 projects. In addition, I am responsible for communications with state and federal
16 regulators, including state utility commissions and environmental authorities as well as
17 other operational issues.

18 **Q. WOULD YOU DESCRIBE YOUR EXPERIENCE IN WORKING WITH OR**
19 **TESTIFYING BEFORE STATE UTILITY COMMISSIONS REGARDING RATE**
20 **CASES?**

1 **A.** Yes. I have assisted in the preparation of testimony and other proceedings before the
2 North Carolina Utilities Commission and the Kentucky Public Service Commission.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING,**
4 **MR. LASHUA?**

5 **A.** The purpose of my testimony is to provide the Tennessee Regulatory Authority
6 (The “Authority”) with a brief overview of our Tennessee operations and our continued
7 efforts to provide our customers with the best possible water utility service and to support
8 the Company’s application for to change and increase certain rates and charges.

10 **Q. MR. LASHUA, WOULD YOU BRIEFLY DESCRIBE THE COMPANY’S**
11 **WATER OPERATIONS HERE IN TENNESSEE?**

12 **A.** Yes. Tennessee Water Service, Inc., which I will refer to as TWS herein,
13 currently serves approximately 564 water customers located in the Chalet Village North
14 system in Sevier County. We deliver safe and reliable water service to our customer’s
15 homes through the pumping and treatment of ground water via our (2) public water
16 supply wells as well as an interconnect with the municipal system of the City of
17 Gatlinburg.

18
19 **Q. WITHIN THE COMPANY, WHO IS RESPONSIBLE FOR ENSURING THAT**
20 **CUSTOMERS ARE RECEIVING THE BEST POSSIBLE SERVICE?**

1 **A.** I have the overall responsibility for ensuring that our customers receive the best
2 possible service. In order to discharge this responsibility, I make every effort to see that
3 the company hires and maintains a highly qualified and professional staff of individuals.
4 Together, we continue to make customer satisfaction the primary responsibility of each
5 and every employee.

6
7 **Q. WHAT ONGOING PROGRAMS DOES THE COMPANY HAVE IN PLACE TO**
8 **HELP ENSURE THAT CUSTOMERS RECEIVE QUALITY UTILITY**
9 **SERVICE?**

10 **A.** Our most valuable resource is our personnel. We provide continuing education
11 training resources in order to increase staff knowledge and education in the water and
12 wastewater fields. By keeping up to date with new methods and changing regulations,
13 we enable them to provide better service and hold down costs. This serves to reinforce
14 our customer service philosophy, as well as to keep each of us focused on what is
15 important – our customers. External continuing education programs are encouraged for
16 all employees.

17 To ensure that our customers are provided the best possible service we also
18 employ a capital improvements program, as well as ongoing operational programs such
19 as routine testing and periodic water main flushing to improve water quality, and a 24-
20 hour-a-day, seven-day-a-week on-call emergency service. These programs and
21 upgrades also ensure that company-wide facilities are properly maintained and safety
22 standards met.

1 Communication with our customers and community leaders regarding issues
2 which may have an impact on the quality or cost of service is also an important aspect of
3 our business. As increased environmental regulation continues to place upward pressure
4 on the cost of providing service, it becomes more important for us to inform customers of
5 the measures we must take to ensure that their drinking water is safe. Included in these
6 customer communication efforts would be attendance at Property Owners Association
7 (POA) meetings when we are notified, customer letters and back-of-the-bill messages,
8 annual Consumer Confidence Reports detailing the Safe Drinking Water Act compliance,
9 and new customer welcome packets introducing our company and providing contact
10 information for problems or concerns.

11 In addition to these efforts, the Company has also implemented an automated
12 message delivery system to notify customers if necessary in advance of scheduled
13 repairs, along with emergencies, periodic flushing of the water system, or other updates
14 regarding repairs being made.

15
16 **Q. MR. LASHUA, WHAT UPGRADES HAVE BEEN MADE TO THE FACILITY**
17 **RECENTLY.**

18 **A.** Recent upgrades to the Facilities have included the replacement of the well pump
19 and motor in well #2 as well as complete rebuilding of booster pump #1 and several
20 pressure sustaining and pressure reducing stations. We have also replaced our telemetry
21 control system. The old system relied on phone lines to transmit control commands to
22 booster pumps etc. These underground lines were subject to frequent problems and made

1 the control system unreliable. This caused substantial problems in early 2007 with
2 difficulty moving water into our storage reservoir to maintain system pressure. The new
3 control system operates on radio signals and is not subject to third party service. The
4 new system allows more precise control and allows us to communicate with and operate
5 from other locations to help troubleshoot problems and control

6
7 **Q. WILL ALL OF THE ITEMS CONTAINED IN UTILITY PLANT FOR WHICH**
8 **THE COMPANY IS REQUESTING RATE BASE TREATMENT BE USED AND**
9 **USEFUL?**

10 **A.** Yes.

11
12 **Q. DOES INCREASED FEDERAL REGULATION OF THE WATER UTILITIES**
13 **CONTINUE TO HAVE AN IMPACT ON THE COMPANY?**

14 **A.** Absolutely. The Safe Drinking Water Act, or SDWA has changed the way in
15 which water utilities conduct their business. Additional costs have been placed upon
16 water utilities to comply with more exacting limits in this area. While we have already
17 complied with many of the requirements contained in the reauthorization of the SDWA,
18 new requirements continue to be promulgated.

19
20 **Q. WHAT IMPACT DOES THIS HAVE ON THE COMPANY'S CUSTOMERS?**

21 **A.** For one thing, the cost of providing service obviously increases; but, in turn our
22 customers receive the benefit of safer drinking water that is free of harmful contaminants.

1 Our customers also benefit from our commitment to provide them with safe and reliable
2 utility service which is reinforced by compliance. Understandably, customers may be
3 unaware of our efforts to meet regulatory requirements since they do not necessarily see a
4 perceptible change in the quality of service and therefore, may also be largely unaware of
5 the hidden benefits of compliance. Without the benefits of compliance, residential
6 development simply cannot be sustained – much less begin. And, of course, these
7 benefits accrue to the overall well-being and value of the communities we serve.

8
9 **Q. MR. LASHUA, YOU ALSO STATED THAT A PURPOSE OF YOUR**
10 **TESTIMONY IS TO SUPPORT THE COMPANY'S REQUEST TO CHANGE**
11 **AND INCREASE CERTAIN RATES AND CHARGES; WOULD YOU PLEASE**
12 **ELABORATE?**

13 **A.** We are seeking rate relief to allow TWS to continue to operate as an independent
14 company and to maintain the type of services being provided today. In addition, it will
15 allow TWS to maintain its capabilities to make the improvements necessary to ensure
16 such services can continue to be provided in the future.

17
18 **Q. MR. LASHUA, WHEN WAS THE LAST TIME THAT TWS REQUESTED RATE**
19 **RELIEF?**

20 **A.** The last time we requested and received rate relief was in January 1990, almost
21 19 years ago [Docket number 89-11616].

1 **Q.** **DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A.** Yes it does.