

**IN THE TENNESSEE REGULATORY AUTHORITY
AT NASHVILLE, TENNESSEE**

| | | |
|------------------------------------|---|---------------------|
| IN RE: |) | |
| |) | |
| PETITION OF TENNESSEE WATER |) | No. 09-00017 |
| SERVICE, INC. TO CHANGE AND |) | |
| INCREASE CERTAIN RATES AND |) | |
| CHARGES |) | |

**JOINT NOTICE OF FILING PROPOSED SETTLEMENT AGREEMENT WITH
CORRECTED PAGE 1**

Robert E. Cooper, Jr., Attorney General and Reporter for the State of Tennessee, by and through the Consumer Advocate and Protection Division of the Attorney General ("Consumer Advocate") together with Tennessee Water Service, Inc. ("TWS") (collectively referred to as "Parties" herein) respectfully submit this *Notice of Filing Proposed Settlement Agreement With Corrected Page 1* (hereinafter "Joint Notice"), which seeks to replace the Proposed Settlement Agreement previously filed with the Tennessee Regulatory Authority on August 17, 2008. By agreement of the Parties, the Joint Notice deletes only the following language from the Proposed Settlement Agreement: (1) the header on page 1 "For Settlement Purposes Only: Subject to the Final Approval of the Attorney General."

The original page 1 contained a header that was unnecessary, as the Proposed Settlement Agreement had already been finally approved by all Parties prior to its submission. The Proposed Settlement Agreement is otherwise unchanged.

RESPECTFULLY SUBMITTED,



MARY LEIGH WHITE (BPR #026659)

Assistant Attorney General

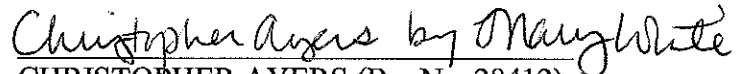
Office of the Attorney General

Consumer Advocate and Protection Division

P.O. Box 20207

Nashville, Tennessee 37202-0207

(615) 741-4657



CHRISTOPHER AYERS (Bar No. 28412)

Counsel for Tennessee Water Service, Inc.

Poyner Spruill LLP

301 Fayetteville Street

Suite 1900

Raleigh, North Carolina 27601

(919) 783-1152

Dated: August 20th, 2009.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Joint Notice was served via U.S. Mail or electronic mail upon:

Gary Hotvedt
Hearing Officer
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

J. Keith Coates
Woolf, McClane
P.O. Box 900
Knoxville, Tennessee 37901-0900

This the 20th day of August, 2009.



MARY LEIGH WHITE

**IN THE TENNESSEE REGULATORY AUTHORITY
AT NASHVILLE, TENNESSEE**

IN RE:

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

)
)
)
)
)

No. 09-00017

**PROPOSED SETTLEMENT AGREEMENT BETWEEN TENNESSEE WATER
SERVICE, INC. AND THE CONSUMER ADVOCATE AND PROTECTION DIVISION**

For the sole purpose of settling this case, Tennessee Regulatory Authority ("TRA" or "Authority") Docket Number 09-00017, Robert E. Cooper, Jr., the Tennessee Attorney General and Reporter, through the Consumer Advocate and Protection Division ("Consumer Advocate"), and Tennessee Water Service, Inc. ("Tennessee Water" or "Company") (collectively referred to as "Parties" herein) respectfully submit this Proposed Settlement Agreement ("Settlement Agreement") for TRA approval and consideration.

PROCEDURAL BACKGROUND

1. Tennessee Water is a public utility as defined by T.C.A. § 65-4-101 and its public utility operations are subject to jurisdiction of this Authority. Tennessee Water is engaged in the business of offering water services to customers located in the Chalet Village Subdivision in Sevier County, Tennessee. Its principal office is located at 5701 Westpark Drive, Suite 101, Charlotte, North Carolina 28217.

2. Tennessee Water is a wholly-owned operating subsidiary of Utilities, Inc. ("UI"). UI 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 Tennessee Water, serves approximately 564 customers in Tennessee.

3. The Company has properly published and posted notice of its petition for a rate increase in accordance with the TRA's rules.

4. On January 30, 2009, Tennessee Water filed a petition for an increase in its rates and approval of other revisions to its tariffs. This is Tennessee Water's first request for a rate increase since 1990.¹ In its petition in the present case, Tennessee Water sought a rate increase of approximately 70%; the average increase per customer is from approximately \$28.32 to \$48.52 per month.² The annual revenue increase sought was \$150,902.³

5. On March 2, 2009, the Consumer Advocate filed a petition to intervene in the rate case. The petition was subsequently granted without objection.

6. The Parties to this Settlement Agreement have engaged in substantial discovery and have undertaken extensive discussions to resolve all disputed issues in this case. As a result of the information obtained during discovery and the discussions between the Parties, and for the purpose of avoiding further litigation and resolving this matter upon acceptable terms, the Parties have reached this Settlement Agreement subject to TRA approval.

¹ Direct Testimony of Martin Lashua at page 7:20-21 (January 30, 2009).

² Direct Testimony of Kirsten Weeks at page 4:1-3 (January 30, 2009).

³ Petition of Tennessee Water Service, Inc. To Change and Increase Certain Rates and Charges at page 4 (January 30, 2009).

SETTLEMENT TERMS

7. Subject to TRA approval, in furtherance of this Settlement Agreement, the Parties have agreed to the settlement terms set forth below.

8. The Parties jointly request that the TRA consider this Settlement Agreement at its next available conference, a date prior to the hearing date or on the date of the scheduled hearing. To prevent additional rate case costs from being incurred by the Parties, the Parties request if the TRA determines testimony should be presented or a hearing on the merits needs to occur in this docket, that any such hearing should be set at least ten (10) business days after the consideration of the Settlement Agreement. Tennessee Water agrees to extend the existing tariff if necessary to meet the above.

9. While the Consumer Advocate prefers that rates not increase for customers, especially in this tough economic climate, the increase as defined by this Settlement Agreement represents the Consumer Advocate's proof to which Tennessee Water has conceded and further, entering into this Settlement Agreement reduces the rate case expenses for the impacted customers and provides essential consumer protection provisions. This is the Company's first rate case in approximately 19 years, and since that time, the Company's purchased water from the City of Gatlinburg has increased approximately 200% in order to facilitate the steadily increasing demand of its consumers. In addition to costs associated with purchased water, the Company has incurred expenses in relation to replacing and upgrading infrastructure in order to comply with the Safe Drinking Water Act.

10. Effective upon approval by the TRA, rates will be implemented to increase Tennessee Water's annual revenue by \$127,687 and to produce a rate of return not to exceed 6.89%. This amount will be "phased-in" over a twelve (12) month period with 50% of the rate

increase going into effect immediately upon approval by the TRA. The remaining 50% will be spread over the remaining period as follows:

- a. Beginning at month seven (7) through month twelve (12) after approval of the tariff, an additional 25% of the increase will go into effect.
- b. Beginning at month thirteen (13) through month eighteen (18) after approval of the tariff, the final 25% of the increase will go into effect.

Additionally, the Company will clearly and conspicuously notify its consumers of the approved rate increase and effective dates in a clear and conspicuous manner on each of its monthly billings and provide subsequent clear and conspicuous reminder notices before each of the additional "phase-in" increases occur.

11. Through negotiations, certain adjustments have been made to the figures submitted in the Company's Petition which reduced the revenue deficiency from \$150,902 to \$127,687. Those adjustments and subsequent calculations are shown in Exhibit 1 of the Settlement Agreement, as attached. As a result of this Settlement Agreement, if approved by the TRA, rates will increase by no more than 66.4%.

12. In the testimony of Consumer Advocate witness Terry Buckner, filed in this case, the Consumer Advocate found a revenue deficiency of approximately \$127,687. As a result of this Settlement Agreement, the Company is agreeing to the Consumer Advocate's position with regard to: (a) regulated revenues of \$192,299 versus the Company's regulated revenues of \$215,231; (b) total operating expenses including taxes of approximately \$251,377 versus the Company's total operating expenses including taxes of \$245,913; and (c) an operating margin not to exceed 6.89%. As a result of this Settlement Agreement, the average increase for customers will be no more than 66.4% rather than the initial request of a 70% rate increase. As a result, the average increase per customer will be from approximately \$28.32 to \$47.12 per

month, based on an average usage of 4,163 gallons. According to the testimony of Consumer Advocate witness Terry Buckner, the cumulative rate of inflation since 1990, the date Tennessee Water's rates were last set, has been 55.82%.⁴

13. The base charge shall be increased by no more than one-half (1/2) of the overall percentage increase of no more than 66.4%, or 33.8%, rather than the requested 72.82% increase in the base charge. The usage or volumetric charge will be increased to meet the remaining revenue requirement. This results in a base charge rate of \$18.70. This change in apportionment will allow the rates charged to consumers to more adequately reflect the volumetric usage of each consumer and encourage conservation efforts by consumers.

14. For the purposes of settlement, the Parties have agreed to reasonable and appropriate rate case costs in the amount of \$26,000. This results in ratepayer savings of approximately \$15,000 according to Company witness Kristen Weeks' testimony, which stated that rate case expenses of \$40,898 were appropriate for this case, assuming an evidentiary hearing before the TRA and rate case expenses of \$31,206 should the hearing become unnecessary.⁵ Moreover, the Company agrees to amortize its rate case costs and legal expenses over 4 years. The Parties agree none of the rate case costs in this filing will be borne by the ratepayers in any subsequent Company rate petition. The Parties further agree that they will fully participate in a prudency review of such rate case costs should the Authority deem it necessary.

⁴ Direct Testimony of Terry Buckner at page 7:7-10 (June 24, 2009).

⁵ Rebuttal Testimony of Kirsten Weeks at page 2:7-11 (July 8, 2009).

15. The Parties further agree that the rate increase requests of Tennessee Water, filed as a result of this Settlement Agreement, will also include the following tariff changes and requirements for the protection of ratepayers:

- a. Elimination of Deposits. Future customers of Tennessee Water will no longer be required to submit a deposit.
- b. Refunds of Deposits Paid. Current customers will have their deposits refunded or credited to their accounts by no later than thirty (30) days after entry of the TRA's Order in this matter. If the deposit check is returned undeliverable and the Company is unable to locate the customer, any unclaimed deposits shall be paid to the State of Tennessee as Unclaimed Property. The Company shall be required to provide a report, in electronically searchable format, including the names and amounts of the deposit refunds or credits issued to each customer and whether it was turned over to State of Tennessee, Unclaimed Property, to the Consumer Advocate and the TRA showing how the deposits have been returned until the process is complete. The customer's personally identifiable information on these reports shall be treated as confidential by the TRA and the Consumer Advocate to protect them from identity theft and shall only be provided to law enforcement or as otherwise required pursuant to state or federal law.
- c. Budget Re-Payment Plans. The Company shall establish and implement a process to offer a budget re-payment plan to its customers to pay for any past due amounts and any associated charges. Specifically, the Company shall provide their customers with the opportunity (and promote the

budget re-payment plan program) to pay the past due bill, including returned check fees and other charges, disconnection and reconnection charges in a payment plan, with no interest, over no less than a three (3) month billing cycle. The Company shall be ordered to only require that the customer pay the first installment payment in order to have service restored. The Company would not be required to provide customers utilizing a payment plan a second payment plan for a full calendar year from the date the first initial payment plan is implemented. Provided however, if a customer or household member of the customer is able to demonstrate a unique financial distress situation or the customer is disabled or a member of the customer's household is disabled, the Company shall be required to again consider permitting the customer to have additional installment plan(s) during the same calendar year. If a customer on a payment plan fails to pay a monthly installment as per the terms of the plan and is more than fifteen (15) business days late on any payment, then the customer's service is subject to disconnection and all past due charges in addition to disconnect/reconnect fees would be due and payable prior to having service restored. The Company shall be required to provide all the same disconnection notices required for any disconnection prior to disconnecting the customer.

- d. Clear Notice of Returned Check Fees. The Company shall provide a clear and conspicuous notice of any returned check fee charge and other charges and fees, including the amount of the charge, on its monthly billings to customers.

- e. Ability to Waive Fees. The Company shall implement and establish a process to permit waiving all fees associated with late payment including, but not limited to, disconnection, reconnection, and late fees, in special circumstances such as financial distress or for disabled customers, family members of customers or customers with a unique situation.
- f. Prompt Reconnection. The Company shall provide prompt and timely reconnection service for all customers within no more than two (2) days of receiving the first installment payment from the past due customer.
- g. Alternate Address Notification. The Company shall establish and implement a process to permit and notify customers of the opportunity to provide an alternate address for notification of a potential disconnection. If a customer has provided such an alternate address, the Company shall be required to provide the required notice of disconnection to that address in addition to the customer's primary billing address.
- h. Elimination of Facilities Charge. The Company shall eliminate the \$468.75 facilities charge from Tennessee Water's tariff since it has not been used.
- i. Monthly Billing. The Company shall implement monthly billing, rather than bi-monthly billing. The Company shall provide at least sixty (60) days customer notice of any such change from bi-monthly billing to monthly billing to its customers in a clear and conspicuous manner on each of its prior billings to customers.

16. In light of the settlement terms set forth herein as a whole, the Parties contend that the agreed-upon revenue requirement and rate of return are fair and reasonable and will provide Tennessee Water with a reasonable opportunity to earn a fair rate of return.

17. The Company agrees to work toward preventing large requests in the future by actively analyzing Company data.

18. All pre-filed testimony and exhibits are introduced into evidence without objection, and the Parties waive their right to cross-examine all witnesses with respect to all such prefiled testimony and exhibits. If, however, questions should be asked by any person, the Parties may present testimony and exhibits to respond to such questions and may cross-examine any witnesses with respect to such testimony and exhibits. Further, the Parties agree to support the Settlement Agreement at the hearing for approval.

19. The provisions of this Settlement Agreement are agreements reached in compromise and solely for the purpose of settlement of this matter. They do not necessarily reflect the positions asserted by any party, and no party to this Settlement Agreement waives the right to assert any position in any future proceeding, in this or any other jurisdiction. None of the signatories to this Settlement Agreement shall be deemed to have acquiesced in any ratemaking or procedural principle, including without limitation, any cost of service determination or cost allocation or revenue-related methodology. This Settlement Agreement shall not have any precedential effect in any future proceeding or be binding on any of the Settling Parties in this or any other jurisdiction except to the limited extent necessary to implement the provisions hereof.

20. The terms of the Settlement Agreement have resulted from extensive negotiations between the signatories and the terms hereof are interdependent. If the TRA does not accept the settlement in whole, the Parties are not bound by any position set forth in this Settlement

Agreement. Specifically, and without limiting the scope of this provision, the Consumer Advocate expressly reserves the right to withdraw from this Settlement Agreement in the event of any change to this Settlement Agreement by the TRA. In the event of any change or similar action by the TRA, within twenty (20) business days, any of the signatories to this Settlement Agreement would be entitled to give notice of exercising its right to terminate this Settlement Agreement; provided, however, that the signatories to this Settlement Agreement could, by unanimous consent, elect to modify this Settlement Agreement to address any modification required by, or issues raised by, the TRA. Should this Settlement Agreement terminate, it would be considered void and have no binding precedential effect, and the signatories to this Settlement Agreement would reserve their rights to fully participate in all relevant proceedings notwithstanding their initial agreement subject to TRA approval to the terms of this Settlement Agreement.

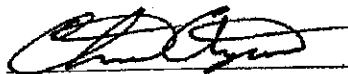
21. This Settlement Agreement does not limit in any way the Consumer Advocate or TRA's statutory rights and the provisions of this Settlement Agreement shall not in any way affect such rights.

22. This Settlement Agreement sets forth the entire agreement between the Parties, and there are no representations, agreements, arrangements, or understandings, ordered or written, between the Parties relating to the subject matter of the Settlement Agreement which are not fully expressed herein or attached hereto.

23. This Settlement Agreement shall be governed by and construed under the laws of the State of Tennessee, notwithstanding conflicts of law provisions.

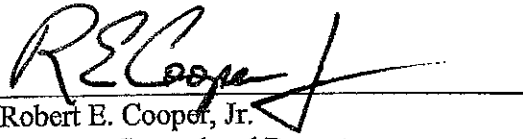
This the 17th day of August, 2009.

FOR TENNESSEE WATER SERVICE, INC.

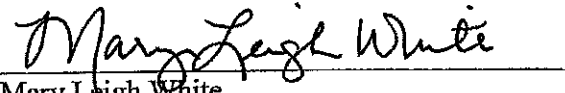
A handwritten signature in black ink, appearing to read "Chris Ayres", is written over a horizontal line.

Christopher J. Ayres ~~Ayres~~
Bar No. 28412
Poyner Spruill LLP
301 Fayetteville Street
Suite 1900
Raleigh, North Carolina 27601
(919) 783-1152

FOR THE CONSUMER ADVOCATE AND PROTECTION DIVISION

A handwritten signature in dark ink, appearing to read "RE Cooper", written over a horizontal line.

Robert E. Cooper, Jr.
Attorney General and Reporter
State of Tennessee

A handwritten signature in dark ink, appearing to read "Mary Leigh White", written over a horizontal line.

Mary Leigh White
BPR # 026659
Assistant Attorney General
Office of the Attorney General
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, Tennessee 37202-0207
(615) 741-4567

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing settlement agreement was served via U.S. Mail or electronic mail upon:

Christopher J. Ayers
Hunton & Williams LLP
421 Fayetteville Street
Suite 1400
Raleigh, North Carolina 27601

J. Keith Coates
Woolf, McClane
P.O. Box 900
Knoxville, Tennessee 37901-0900

This the 17th day of August, 2009



MARY LEIGH WHITE

Exhibit 1

Exhibit 1

Tennessee Water Service
Index To Schedules
Test Year Ended December 31, 2008

| | |
|--------------------------------------|----|
| Revenue Deficiency | 1 |
| Comparison of Rate Making Components | 2 |
| Comparative Rate Base | 3 |
| Income Statement at Current Rates | 4 |
| Income Statement at Proposed Rates | 5 |
| Operation & Maintenance Expenses | 6 |
| Taxes Other Than Income Taxes | 7 |
| Excise and Income Taxes | 8 |
| Revenue Conversion Vactor | 9 |
| Cost of Capital | 10 |
| Rate Comparrison | 11 |

Tennessee Water Service
Revenue Deficiency
For 12 Months Ending December 31, 2008

| <u>Line No.</u> | | <u>Consumer Advocate Settlement</u> | <u>Company F/</u> | <u>Difference</u> |
|---------------------|-----------------------------------|---|-------------------|-------------------|
| | (Maintenance Expenses) | | | |
| 1 | Rate Base | 539,741 A/ | 513,942 I/ | 25,799 |
| 2 | Operating Income at Present Rates | (42,066) B/ | (57,713) J/ | 15,647 |
| 3 | Earned Rate of Return | -7.79% C/ | -11.23% | 3.44% |
| 4 | Fair Rate of Return | 6.89% D/ | 6.89% K/ | 0.00% |
| 5 | Required Operating Income | 37,176 | 35,411 | 1,765 |
| 6 | Operating Income Deficiency | 79,241 | 93,124 L/ | (13,882) |
| 7 | Gross Revenue Conversion Factor | <u>1.61137101 E/</u> | <u>1.62067418</u> | <u>(0.00930)</u> |
| 8 | Revenue Deficiency (Surplus) | <u>127,687</u> | <u>150,902</u> | <u>(23,215)</u> |

| | |
|----|--|
| A/ | Schedule 3, Line 13 |
| B/ | Schedule 5, Line 8 |
| C/ | Schedule 2, Line 46 |
| D/ | Schedule 11, Line 5 |
| E/ | Schedule 10, Line 10 |
| F/ | Company Forecast |
| G/ | Ties to Schedule C, Line 1 |
| H/ | Ties to "Petition", P.2, line # 5, Sch. 12, line 17. |
| I/ | Co. Sch. C, p.1, line 14 |
| J/ | Co. Sch. B, p.1, line 34 |
| K/ | Co. Sch. C, p.1, line 15 |
| L/ | Co. Sch. B, p.1, line 34 |

Tennessee Water Service
Comparison of Rate Making Components
Company vs. Consumer Advocate

| Line # | A/ Company 2008 Actual | ADJUSTMENTS | ADJ.# | B/ Consumer Advocate Settlement |
|------------------|---|-------------|---------|--|
| 1 | Water Revenue | \$ 185,879 | \$ - | \$ 185,879 |
| 2 | Forfeited Discounts | 4,901 | - | 4,901 |
| 3 | Miscellaneous Revenues | 1,099 | - | 1,099 |
| 4 | Other Revenues | - | - | - |
| 5 | AFUDC | 420 | - | 420 |
| 6 | Total Revenues | \$ 192,299 | \$ - | \$ 192,299 |
| 7 | Labor (Salaries & Wages) | 52,575 | 1,038 | 51,539 |
| 8 | Meter Reading | 2,315 | - | 2,315 |
| 9 | Purchased Power | 10,807 | - | 10,807 |
| 10 | Purchases Water | 103,980 | - | 103,980 |
| 11 | Maintenance and Repair | 16,376 | - | 16,376 |
| 12 | Maintenance Testing | 682 | - | 682 |
| 13 | Chemicals | 410 | - | 410 |
| 14 | Transportation | 6 | - | 6 |
| 15 | Rent | 18 | - | 18 |
| 16 | Outside Services-Other | 4,714 | - | 4,714 |
| 17 | Operators Expense | 25,192 | - | 25,192 |
| 18 | Pension and Other Benefits | 10,102 | - | 10,102 |
| 19 | Uncollectibles | 3,751 | - | 3,751 |
| 20 | Insurance | 4,478 | - | 4,478 |
| 21 | Office Utilities & Office Maintenance | 6,334 | - | 6,334 |
| 22 | Other | 982 | (6,500) | 7,482 |
| 25 | Office Supplies & Other Office Expense | 3,191 | 1,000 | 2,191 |
| 26 | Total Operating and Maintenance Expense | 245,913 | - | 250,377 |
| 27 | Depr. & Amort Expense | 14,150 | - | 14,150 |
| 28 | Taxes Other Than Income Taxes | 1,619 | (6,383) | 8,002 |
| 29 | Income Taxes | (32,038) | 6,743 | (38,781) |
| 30 | Total Operating Expense | \$ 229,644 | - | \$ 233,748 |
| 31 | Net Operating Income ("NOI") | \$ (37,345) | - | \$ (41,449) |
| Rate Base | | | | |
| 32 | Plant in Service | \$1,670,028 | \$ - | 1,670,028 |
| 33 | Advances in Aid of Construction | - | - | - |
| 34 | Gen. Ledger Add./Capitalized Time | - | - | - |
| 35 | Cash Working Capital | 38,034 | - | 38,034 |
| 36 | Pro Forma Plant | - | - | - |
| 37 | Regional Office Allocation | - | - | - |
| 38 | Total | \$1,708,062 | \$ - | \$ 1,708,062 |
| Less Deductions: | | | | |
| 39 | Customer Deposits | 2,944 | - | 2,944 |
| 40 | Accumulated Depreciation | 284,826 | - | 284,826 |
| 41 | Pro Forma Retirements | - | - | - |
| 42 | Contributions & advances in aid of construction | 795,862 | - | 795,862 |
| 43 | Accumulated Deferred Income Tax | 84,689 | - | 84,689 |
| 44 | Total Deductions | 1,168,321 | - | 1,168,321 |
| 45 | Rate Base (line 38- Line 44) | 539,741 | - | 539,741 |
| 46 | Rate of Return Line (Line 31 / Line 45) | -0.92% | - | -7.68% |
| 47 | Fair Rate of Return - CAD | 6.81% | - | 6.81% |
| 48 | Deficient (Excess) Rate of Return | 13.73% | - | 14.49% |
| 49 | Deficient (Excess) NOI | \$ 74,101 | - | \$ 78,205 |
| 50 | Gross Revenue Conversion Factor | 1.62067418 | - | 1.61137101 |
| 51 | Revenue Deficient (Surplus) | \$ 120,094 | - | \$ 126,018 |

ADJ#1 Company used 35% FIT Tax rate vs. 34% CAD;
Company used 7% State Tax Rate vs. 6.5% for CAD

Tennessee Water Service
Comparative Rate Base
For 12 Months Ending December 31, 2008

| <u>Line No.</u> | | <u>Consumer Advocate</u> | <u>Company</u> | <u>A/</u> | <u>Difference</u> |
|---------------------|-----------------------------------|------------------------------|------------------|-----------|-------------------|
| 1 | Utility Plant in Service | 1,670,028 | 1,571,912 | B/ | 98,116 |
| 2 | Construction Work In Progress | - | - | | - |
| 3 | Cash Working Capital | 38,034 | 38,034 | B/ | - |
| 4 | Gen. Ledger Add./Capitalized Time | - | 2,253 | B/ | (2,253) |
| 5 | Pro Forma Plant (additions) | - | 46,010 | B/ | (46,010) |
| 6 | Regional Office Allocation | - | 3,364 | B/ | (3,364) |
| | Total Additions | <u>1,708,062</u> | <u>1,661,573</u> | | 46,489 |
| 7 | Accumulated Depreciation | 284,826 | 228,468 | B/ | 56,358 |
| 8 | Accumulated Deferred Income Tax | 84,689 | 70,454 | B/ | 14,235 |
| 9 | Advances In Aid of Construction | 795,862 | 825,155 | B/ | (29,293) |
| 10 | Pro Forma Retirements | - | 21,056 | B/ | (21,056) |
| 11 | Customer Deposits | <u>2,944</u> | <u>2,497</u> | B/ | 447 |
| 12 | Total Deductions | <u>1,168,321</u> | <u>1,147,630</u> | | 20,691 |
| 13 | Rate Base | <u>539,741</u> | <u>513,942</u> | | 25,799 |

A/ Company Exhibit
B/ Company Schedule C, Page 1 of 3.

Tennessee Water Service
Income Statement at Current Rates
For 12 Months Ending December 31, 2008

| Line No. | | Consumer Advocate | | Company | Difference |
|-------------|---------------------------------|----------------------|----|----------|------------|
| 1 | Water Service Revenues | \$ 185,879 | A/ | 211,824 | (25,945) |
| 2 | Miscellaneous Revenues | 1,099 | B/ | 3,408 | (2,309) |
| 3 | Forfeited Discounts | 4,901 | | - | 4,901 |
| 4 | AFUDC | 420 | | - | 420 |
| | Total Revenue | 192,299 | | 215,231 | (22,932) |
| 3 | Other Operating and Maintenance | 251,377 | C/ | 286,815 | (35,438) |
| 4 | Depreciation and Amort. Exp. | 14,150 | D/ | 17,170 | (3,020) |
| 5 | Taxes Other Than Income | 8,002 | E/ | 16,804 | (8,802) |
| 6 | Income taxes-Federal | (32,524) | F/ | (39,715) | 7,191 |
| 7 | Income Taxes- State | (6,640) | G/ | (8,130) | 1,490 |
| | Total Operating Expense | 234,365 | | 272,944 | (38,579) |
| 8 | Net Operating Income for Return | (42,066) | | (57,713) | 15,647 |

A/ Schedule 12, Line 4
 B/ Company Schedule B, p.1
 C/ Schedule 7, Line 21
 D/ Company Schedule B, Depr., Amort., Amort. IC Tax Cr.
 E/ Schedule 8, Line 11
 F/ Schedule 9, Line 16
 G/ Schedule 9, Line 9
 H/ Company Schedule B, Company Income Taxes- Federal

Tennessee Water Service
Income Statement at Proposed Rates
For 12 Months Ending December 31, 2008

| Line No. | | Consumer Advocate | | Consumer Advocate | |
|-------------|---------------------------------|-------------------|---------------------|-------------------|--|
| | | Current Rates | Rate Adjustments | Proposed Rates | |
| 1 | Water Service Revenues | 185,879 A/ | 127,687 H/ | 313,566 | |
| 2 | Miscellaneous Revenues | 1,099 B/ | - | 1,099 | |
| 3 | Forfeited Discounts | 4,901 B/ | 790 | 5,691 | |
| 4 | AFUDC | 420 | | | |
| 4 | Total Revenue | 192,299 | 128,478 | 320,357 | |
| 5 | Other Operating and Maintenance | 251,377 C/ | | 251,377 | |
| 6 | Depreciation | 14,150 B/ | - | 14,150 | |
| 9 | Taxes Other Than Income | 8,002 D/ | | 8,002 | |
| 10 | Income taxes-Federal | (32,524) E/ | 40,843 | 8,319 | |
| 11 | Income Taxes- State | (6,640) F/ | 8,351 | 1,711 | |
| | Total Operating Expense | 234,365 | 49,194 | 283,559 | |
| 12 | Net Operating Income for Return | (42,066) | 79,284 | 37,176 | |
| A/ | Company Schedule B, p.1 | | | | |
| B/ | Company Schedule B, p.1 | | | | |
| C/ | Schedule 7, Line 21 | | | | |
| D/ | Schedule 8, Line 11 | | | | |
| E/ | Schedule 9, Line 16 | | | | |
| F/ | Schedule 9, Line 9 | | | | |
| G/ | Schedule 9, Line 15 | | | | |
| H/ | Schedule 1, Line 8 | | | | |

Tennessee Water Service
Operating Maintenance Expenses
For 12 Months Ending December 31, 2008

| <u>Line No.</u> | | <u>Consumer Advocate</u> | <u>Company</u> | <u>Difference</u> |
|------------------------|------------------------------|--------------------------|----------------|-------------------|
| (Maintenance Expenses) | | | | |
| 1 | Salaries and Wages | 51,539 | 20,905 | 30,634 |
| 2 | Purchased Power | 10,807 | 23,582 | (12,775) |
| 3 | Purchased Water | 103,980 | 170,879 | (66,899) |
| 4 | Maintenance and Repair | 16,376 | 25,053 | (8,677) |
| 5 | Maintenance Testing | 682 | 1,012 | (330) |
| 6 | Meter Reading | 2,315 | 1,931 | 384 |
| 7 | Chemicals | 410 | 2,236 | (1,826) |
| 8 | Transportation | 6 | 2,245 | (2,239) |
| 9 | Op. Exp. Chgd. To Plant | - | (4,158) | 4,158 |
| 10 | Outside Services - Other | 4,714 | 3,034 | 1,680 |
| 11 | Total Maintenance | 190,829 | 246,719 | (55,890) |
| (General Expenses) | | | | |
| 12 | Salaries and Wages | - | 6,784 | (6,784) |
| 13 | Off Sup. & Other Off. Exp. | 3,191 | 5,231 | (2,040) |
| 14 | Regulatory Com. Exp. | 6,500 | 17,979 | (11,479) |
| 15 | Pension & Other Benefits | 10,102 | 4,861 | 5,241 |
| 16 | Rent | 18 | - | 18 |
| 17 | Insurance | 4,478 | 1,986 | 2,492 |
| 18 | Office Utilities/Maintenance | 5,334 | 2,026 | 3,308 |
| 19 | Other/Miscellaneous | 29,925 | 1,229 | 28,696 |
| 20 | Total General | 59,548 | 40,096 | 19,452 |
| 21 | Total O&M Expense | 250,377 | 286,815 | (36,438) |

Tennessee Water Service
Taxes other Than Income Taxes
For 12 Months Ending December 31, 2008

| <u>Line No.</u> | | <u>CAPD Settlement</u> | <u>Company</u> | <u>A/ Difference</u> |
|---------------------|---|----------------------------|----------------|----------------------|
| 1 | Property Tax (Real Estate) | 4,011 C/ | 4,020 | (9) |
| 2 | State Gross Receipts Tax | 164 A/ | - | 164 |
| 3 | Payroll Tax | 717 B/ | 10,093 | (9,376) |
| 4 | Franchise Tax | 2,308 C/ | 1,830 | 478 |
| 5 | Other General Taxes | 164 | - | 164 |
| 6 | TRA Utility Fee | 638 C/ | - | 638 |
| 7 | Unknown | - | 36 | (36) |
| 8 | | | | - |
| 9 | | | | - |
| 10 | | | | - |
| 11 | Total Taxes Other Than Income Taxes | 8,002 | 15,979 | (7,977) |
| | Company Schedule B (See company workpaper (b) or (e) for detail) | | 16,804 D/ | |

A/ Company actual gross receipts tax, w/p (e)
 B/ CA worksheet 7b, Company w/p (b), column W final line
 C/ company w/p (e)
 D/ Company Schedule B, p. 1

Tennessee Water Service
Excise and Income Taxes
For 12 Months Ending December 31, 2008

| <u>Line No.</u> | <u>Test Year Pro Forma</u> |
|---|------------------------------------|
| 1 Total Revenue | 191,879 |
| 2 Other Operating and Maintenance | 251,377 |
| 3 Depreciation & Amortization | 14,150 |
| 4 Taxes Other Than Income | 8,002 |
| 5 NOI Before Excise And Income Taxes | (81,650) |
| Less: Interest Expense | 20,505 |
| 6 Pre-Tax Book Income | (102,155) |
| 7 Excise taxable Income | |
| 8 Excise Tax Rate | 6.50% |
| 9 Excise Tax | (6,640) |
| 10 Pre-Tax Book Income | (102,155) |
| 11 Excise Tax | (6,640) |
| 12 FIT Taxable Income | (95,515) |
| 13 FIT Rate | 34.00% |
| 14 FIT Before Amortization of Def. Tax | (32,475) |
| 15 Amortization of Deferred Tax Liability | (49) |
| 16 Federal Income Tax Expense | (32,524) |
| 17 Total Income Taxes | (39,164) |

Tennessee Water Service
Revenue Conversion Factor
For 12 Months Ending December 31, 2008

| Line No. | Consumer Advocate | |
|--|-------------------|------------|
| | Amount | Tax Rate |
| 1 Operating Revenues | | 1.000000 |
| 2 Add Forfeited Discounts | 0.02637 | 0.026367 |
| 3 Balance | | 1.026367 |
| 4 Uncollectible Ratio | 0.020180 A/ | 0.020712 |
| 5 Balance | | 1.005655 |
| 6 State Excise Tax | 0.065000 | 0.065368 |
| 7 Balance | | 0.940287 |
| 8 Federal Income Tax | 0.340000 B/ | 0.319698 |
| 9 Balance | | 0.620590 |
| 10 Revenue Conversion Factor (1/Line9) | | 1.61137101 |

A/ Uncollectible Accts. (3751/185879)
B/ from Schedule 9, Line 13

Exhibit 1

Tennessee Water Service
Cost of Capital
For 12 Months Ending December 31, 2008

Schedule 10

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

A/ Company Schedule 9

**Tennessee Water Service
TRA Docket #09-00017 Rate Comparison**

| | <u>Current Rates</u> | <u>Petition Rates</u> | <u>Percent Increase</u> |
|------------------------|----------------------|-----------------------|-------------------------|
| 2008 Gallons Billed | 27,828,744 | | |
| 2008 Customers | 557 | \$ 24.23 | 72.82% |
| * Average Annual Usage | 29,443 | | |
| Months | 12 | \$ 27.56 | 69.89% |
| Average Monthly Usage | 2,454 | \$ 51.79 | 71.25% |
| | Total Charge | | |

| | <u>Current Rates</u> | <u>Settlement Rates</u> | <u>Percent Increase</u> |
|------------------------|----------------------|-------------------------|-------------------------|
| 2008 Gallons Billed | 27,828,744 | | |
| 2008 Customers | 557 | \$ 18.70 | 33.38% |
| * Average Annual Usage | 29,443 | | |
| Months | 12 | \$ 32.64 | 101.21% |
| Average Monthly Usage | 2,454 | \$ 51.34 | 69.76% |
| | Total Charge | | |

* Usage Rates are based on the 2008 usage of 16,400,000.