

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

December 4, 2009

IN RE:

PETITION FOR APPROVAL OF EXTENSION OF
WATER PURCHASE AGREEMENT BETWEEN
TENNESSEE AMERICAN WATER COMPANY
AND THE TOWN OF SIGNAL MOUNTAIN

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DOCKET NO.
09-00175

ORDER GRANTING APPROVAL OF SPECIAL CONTRACT

This matter came before Chairman Sara Kyle, Director Kenneth C. Hill, and Director Mary W. Freeman of the Tennessee Regulatory Authority (“TRA” or the “Authority”), the voting panel assigned to this Docket, at a regularly scheduled Authority Conference held on November 9, 2009, for consideration of the *Extension of Water Purchase Agreement* (“Special Contract”) filed on October 20, 2009 by Tennessee American Water Company (“TAWC” or “Company”).

BACKGROUND

TAWC and the Town of Signal Mountain, Tennessee (“Signal Mountain”) first entered into a sale for resale contract on July 1, 1997.¹ The original contract featured a three year term. The Authority has approved three extensions of the contract, each featuring a three year term.² The Company asserts that the terms of the Special Contract currently before the Authority are

¹ See *In re: Application for Approval of Special Contract Between Tennessee American Water Company and the Town of Signal Mountain*, Docket No. 97-01305.

² See *In re: Extension of Water Purchase Agreement Between Tennessee American Water Company and the Town of Signal Mountain*, Docket No. 00-00745. See *In re: Petition for Approval of the Extension of Water Purchase Agreement Between Tennessee American Water Company and the Town of Signal Mountain, Tennessee*, Docket No. 04-00088. See *In re: Petition of Tennessee American Water Company for an Extension of Water Purchase Agreement Between Tennessee American and Town of Signal Mountain, Tennessee*, Docket No. 06-00154.

largely the same as those approved in the prior contract. The two exceptions are that the contract period is for eighteen months instead of three years and the rates for Signal Mountain will increase from \$.0796 per hundred cubic feet (CCF) or approximately \$1.061 per 1000 gallons to \$.08977 per CCF, or \$1.1969 per 1000 gallons.

FINDINGS AND CONCLUSIONS

When a Company's general approved tariff does not sufficiently cover the terms of service and/or rates necessary to serve a specific customer, a special contract is an option for the parties involved. Such contracts are allowed under TRA Rule 1220-4-1-.07 which provides:

Special contracts between public utilities and certain customers prescribing and providing rates, services and practices not covered by or permitted in the general tariffs, schedules, or rules filed by such utilities are subject to supervision, regulation, and control by the Authority. A copy of such special agreements shall be filed, subject to review and approval.

The Authority has previously found a special contract to be appropriate between the Company and Signal Mountain. Specifically, the Authority stated:

The use of a special contract, in dealing with large-usage customers, such as [Signal Mountain] serves the public interest because it provides greater flexibility to the Company than is available under its tariff. The unique terms and conditions of the Agreement and the *Special Contract* benefit the Company and its ratepayers by providing the Company a long-term source of revenue and by helping control the Company's production costs during peak usage periods. . . . In addition, the Agreement provides [Signal Mountain] and its residents with a dependable supply of water at fair and affordable prices.³

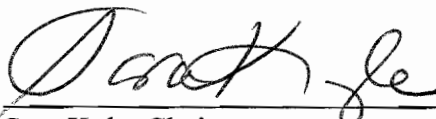
The proposed Contract seeks to change the rates charged by TAWC to Signal Mountain and the duration of the Contract. The new rate represents a price increase of approximately thirteen percent. In TRA Docket No. 08-00039, the Authority ordered an across-the board

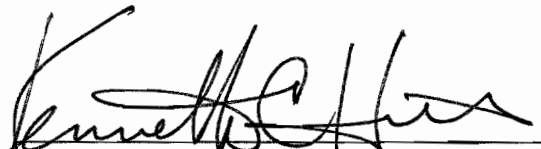
³ See *In re: Petition of Tennessee American Water Company for an Extension of Water Purchase Agreement Between Tennessee American and Town of Signal Mountain, Tennessee*, Docket No. 06-00154, *Order Approving Extension of Water Purchase Agreement*, p. 3 (August 25, 2006).

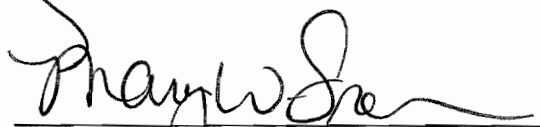
increase for all TAWC customers.⁴ Because Signal Mountain was still under contract for lower rates, the Authority ruled that a 12.77% increase for Signal Mountain would go into effect at the earliest date allowed by contract.⁵ The prior contract expired on June 30, 2009, so the panel found that the rates contained in the Special Contract should be effective July 1, 2009. The panel further found that the Special Contract was necessary to continue serving the public interest by providing quality water service to Signal Mountain, and the proposed rate increase was consistent with the Authority's order in Docket No. 08-00039. Thereafter, the panel voted unanimously to approve the Special Contract.

IT IS THEREFORE ORDERED THAT:

The *Extension of Water Purchase Agreement* by and between Tennessee American Water Company and the Town of Signal Mountain, Tennessee, is approved.


Sara Kyle, Chairman


Kenneth C. Hill, Director


Mary W. Freeman, Director

⁴ See *In re: Petition of Tennessee American Water Company to Change and Increase Certain Rates and Charges so as to Permit It to Earn a Fair and Adequate Rate of Return on Its Property Used and Useful in Furnishing Water Service to Its Customers*, Docket No. 08-00039, Order, p. 52 (January 13, 2009).

⁵ *Id.*