

TENNESSEE-AMERICAN WATER COMPANY
CASE NO. _____
DIRECT TESTIMONY
Sheila A. Miller

1. Q. WILL YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD?

A. My name is Sheila A. Miller and my business address is 1600 Pennsylvania Avenue, Charleston, WV 25302.

2. Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by American Water Works Service Company as Manager of Rates and Regulation.

3. Q. WHAT ARE YOUR RESPONSIBILITIES IN THIS POSITION?

A. My responsibilities include the preparation and presentation of rate filings requested by four operating companies included in the Eastern Division of the American Water Works Service Company (Tennessee, Kentucky, West Virginia and Virginia). My duties also consist of preparing water and sewer rates for billing and verifying that customers are billed correctly, and working on budgets and monthly accounting issues as required.

4. Q. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE?

A. In 1983, I graduated Summa Cum Laude with a Bachelor of Arts degree from Glenville State College with a major in Accounting and Management, and a minor in Economics. In 1988, I received

1 **my Certified Public Accountant (CPA) license.**

2
3 **I have worked in the American System for 26 years and began my**
4 **career in December 1984 as a Junior Accountant. In that capacity**
5 **I worked in the Construction Accounting Department for the**
6 **Service Company.**

7
8 **I assisted with the system-wide acquisition integration of Citizens**
9 **Water by serving on the Acquisition Team. I also participated in**
10 **the set up of the system-wide conversion process for the Shared**
11 **Services Center by assisting Information Services with reporting**
12 **processes.**

13
14 **Throughout the years, I have moved through the ranks of the**
15 **financial side of the business from Accountant in 1985,**
16 **Construction Accounting Supervisor for the Southeast Region in**
17 **1988, Construction Accounting Superintendent for West Virginia**
18 **American Water Company in 1992, Assistant Director of**
19 **Accounting for West Virginia American in 1995, Director of**
20 **Accounting for West Virginia American in 1997, Director of**
21 **Accounting for the Southeast Region in 2000, and due to the**
22 **reorganization of the Shared Services Center, I was transferred to**
23 **Senior Financial Analyst for the Southeast Region in 2002. In**
24 **2008 I was promoted to Manager of Rates and Regulation. I have**
25 **significant knowledge and expertise in accounting and other**
26 **financial aspects of American Water, including Tennessee**
27 **American Water.**

1
2
3 **5. Q. WERE THE COMPANY'S ACCOUNTING EXHIBITS**
4 **PREPARED BY YOU OR UNDER YOUR SUPERVISION?**

5 **A. Yes.**
6

7 **6. Q. WHAT IS THE SOURCE OF THE INFORMATION USED IN**
8 **THE COMPANY'S ACCOUNTING EXHIBITS?**

9 **A. The information contained in the Accounting Exhibits was**
10 **prepared from the financial and operational records of the**
11 **company.**
12

13 **7. Q. PLEASE EXPLAIN THE INCREASE IN RATES THAT THE**
14 **COMPANY IS SEEKING IN THIS PROCEEDING.**

15 **A. The Company is seeking a rate increase that would produce**
16 **additional annual revenues of \$9.984 million or 26.77%. The**
17 **Company last filed for a rate increase in March 2008 and the new**
18 **rates from that case became effective on October 1, 2008.**
19

20 **8. Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
21 **CASE?**

22 **A. My testimony will 1) sponsor the Company's Accounting Exhibits**
23 **Nos. 1, 2, 3, and 4 which support the proposed revenue increase of**
24 **\$9,984,463 and 2) support the Company's attrition year level of**
25 **Labor, Fuel and Power, Chemicals, Waste Disposal, Group**
26 **Insurance, Insurance Other than Group, Rents, Uncollectible**
27 **Expense, Customer Accounting, General Office Expense,**

1 **Miscellaneous Expense, Other Maintenance Expense, General**
2 **Taxes, and Rate Base. I will also address the Company's**
3 **Operating Revenues per books for the test year and for the**
4 **attrition year under both present and proposed rates, except for**
5 **average daily usages for both the residential and commercial**
6 **customer classes.**

7
8 **9. Q. WHO WILL ADDRESS THE COMPANY'S PROPOSED**
9 **AVERAGE DAILY USAGE FOR THE RESIDENTIAL AND**
10 **COMMERCIAL CUSTOMER CLASSES?**

11 **A. The Company has retained the services of Dr. Edward L.**
12 **Spitznagel, Jr., Professor, Washington University in St. Louis,**
13 **Missouri, to provide weather normalization usage per customer**
14 **per day for both the residential and commercial customer classes**
15 **during the attrition year. Mr. Miller will address the reasons the**
16 **the use of weather normalized sales levels is critical for**
17 **establishing going-level revenue for determining a just and**
18 **reasonable revenue requirement in this proceeding.**

19
20 **10. Q. WHAT IS THE TEST PERIOD REFLECTED IN THIS CASE?**

21 **A. The Company has used a historical test period of twelve months**
22 **ending March 31, 2010. The Company has adjusted the test**
23 **period for two levels of adjustments. The first adjustment**
24 **normalizes the test year. The second level adjusts the normalized**
25 **year to arrive at the attrition year which is the twelve months**
26 **ended December 31, 2011.**

1 11. Q. MS. MILLER, ARE THERE ANY EXHIBITS YOU WISH TO
2 SPONSOR BEFORE YOU CONTINUE?

3 A. Yes, I would like to give a brief description of the accounting
4 schedules which detail and support the rate base, revenues,
5 expenses, capitalization and bill analysis for the test year and
6 attrition year.

7
8 Exhibit 1 is a financial summary of the filing which details how
9 the Company arrived at the amount of the requested revenue
10 increase. There is also a rate base summary for the test year and
11 attrition year with supporting schedules.

12
13 Exhibit 2 is an operating income summary for the test year and
14 attrition year with supporting schedules broken down by major
15 account group.

16
17 Exhibit 3 provides a cost of capital summary for the attrition year
18 and supporting schedules which provide detail on each component
19 of the capital structure.

20
21 Exhibit 4 provides a bill analysis for the attrition year at both
22 present and proposed rates.
23

24 12. Q. HOW DID THE COMPANY DETERMINE THE OPERATING
25 REVENUES SHOWN IN ITS ACCOUNTING EXHIBIT?

26 A. The Company's operating revenues are obtained from (i) metered
27 sales, (ii) private fire service, and (iii) miscellaneous, service
28 revenues, rents from property, and other water revenues. The
29 Company uses a bill analysis reflecting the actual billing
30 determinants for the historical test year, the twelve months ended
31 March 31, 2010. Exhibit No. 4, Schedules 1 and 2, set forth the
32 individual bill analysis by customer class. The historical test-year
33 billing determinants are then adjusted to: (i) normalize any new

1 customers, loss of customers, or changes in usage (for large users)
2 that occurred in the historical test-year, (ii) include customer
3 growth through the attrition year, and (iii) adjust residential and
4 commercial using the weather normalized usage per customer per
5 day developed by Dr. Spitznagel for the attrition year. The
6 schedules then multiply attrition year billing determinants by
7 present and proposed rates.

8
9 **13. Q. PLEASE EXPAND ON THE ADJUSTMENTS MADE TO THE**
10 **HISTORICAL TEST-YEAR BILLING DETERMINANTS AND**
11 **REVENUES.**

12 **A. The Company made a total of five adjustments, as follows:**

13 **(1) normalized test year adjustments which include annualizing**
14 **the rate increase for Walden's Ridge effective June 1, 2009, the**
15 **rate increase for Signal Mountain effective July 1, 2009, the rate**
16 **increase for Fort Oglethorpe effective November 1, 2009, and the**
17 **rate decrease for the commercial classification effective**
18 **September 1, 2009; (2) weather normalization adjustment for the**
19 **residential and commercial customer classes; (3) eliminating the**
20 **net change in accrued revenues; (4) adjusting for a duplicate**
21 **miscellaneous invoice sent March 2010 to one commercial**
22 **customer; and (5) including revenue for the estimated number of**
23 **new customers to be added during the attrition year.**

24
25 **14. Q. HOW WERE THE OPERATING EXPENSE ADJUSTMENTS**
26 **IN THE ACCOUNTING EXHIBIT CALCULATED?**

27 **A. The adjustments reflect an ongoing level of operating expenses**

1 consistent with the test year matching principles. Known and
2 measurable price adjustments have been reflected to restate the
3 consistent historical test year expense levels to rate year levels, in
4 this case the attrition year of 2011 proposed by the Company.

5
6 **15. Q. WHAT METHODOLOGY DID THE COMPANY UTILIZE IN**
7 **CALCULATING GOING-LEVEL LABOR EXPENSE IN ITS**
8 **COST OF SERVICE?**

9 **A. The Company calculated labor expense by individual employee.**
10 **Each employee's wages during the twelve months ended March**
11 **31, 2010 were adjusted to account for the wage level to be paid**
12 **during the attrition year. This is the same approach the Company**
13 **has used in prior filings. Since 15.83% of the labor expense is**
14 **capitalized, this amount is eliminated from the O & M expenses.**

15
16 **16. Q. HOW WERE THE WAGE LEVELS FOR THE ATTRITION**
17 **YEAR DETERMINED?**

18 **A. Hours worked during the historical test year were obtained from**
19 **the Company's actual payroll records for union employees.**
20 **Adjustments were then made to overtime hours to restate those**
21 **hours to a level equivalent to the employee's hourly pay rate. For**
22 **example, the hours paid at time and a half wage rates were**
23 **multiplied by 1.5 to yield hours that could be applied to the**
24 **employee's regular hourly wage rate. Similar adjustments were**
25 **made for other premium overtime hours. Each employee's**
26 **equivalent hours were then applied to their average attrition year**
27 **wage rate to determine going-level wages.**

1
2 **17. Q. HOW WERE THE AVERAGE ATTRITION YEAR WAGE**
3 **RATES CALCULATED?**

4 **A. For union employees, the Company's existing bargaining**
5 **agreements were examined. The current union contract contains**
6 **negotiated wage rates through October 31, 2011. Since a 3%**
7 **increase has been consistent with the union contract for the last**
8 **five years, the Company continued that same increase effective**
9 **November 1, 2011. The wage rates for each pay class in effect for**
10 **the attrition year were pro-rated based upon the number of days**
11 **in the attrition year. The result is an average attrition year wage**
12 **rate for each union employee.**

13
14 **For non-union hourly and clerical employees, current wage rates**
15 **that became effective on January 1, 2010 were adjusted for wage**
16 **increases of 3% on January 1, 2011. Since the attrition year is the**
17 **twelve months ending December 31, 2011, the attrition year wage**
18 **rate was calculated based upon the January 1, 2011 wage**
19 **increases.**

20
21 **18. Q. HOW WERE THE ATTRITION YEAR WAGE LEVELS FOR**
22 **SALARIED EMPLOYEES DETERMINED?**

23 **A. Salaried employees are exempt from overtime pay. For that**
24 **reason, the current annual salary for each employee has been**
25 **adjusted for wage increases that will become effective January 1,**
26 **2011. Consistent with the non-union hourly and clerical**
27 **employees, the 2011 salaries were calculated based upon the**

1 **expected January 1, 2011 wage increases.**

2
3 **19. Q. WHAT IS THE BASIS UPON WHICH FUEL AND POWER**
4 **COST WAS CALCULATED FOR THIS RATE ADJUSTMENT?**

5 **A. Fuel and power is based upon expected water pumped to the**
6 **system (system delivery) during the attrition year, and the**
7 **expected power costs for the attrition year. The Company**
8 **combined the attrition year water sales, a three year average non-**
9 **revenue usage water (which is water used for system flushing,**
10 **street cleaning, sewer flushing, etc.) and a three year average**
11 **unaccounted for water to arrive at system delivery. The attrition**
12 **year system delivery is multiplied by the historical kilowatt hours**
13 **(KWH's) per thousand gallons of system delivery in arriving at**
14 **the expected attrition year KWH on which to price its power**
15 **costs. The KWH's per thousand gallons used for the attrition**
16 **year were based on the latest 12 months actual for the Citico**
17 **Station and a five year average for booster stations.**

18 **Power costs are determined based on estimated KWH usage and**
19 **kilowatt demand (KWD) required to produce the projected**
20 **system delivery and deliver the water to the customer for the**
21 **attrition year times the expected price per KWH. The attrition**
22 **year price per KWH was determined by applying the current**
23 **Chattanooga Power Board tariff rates plus the fuel adjustment**
24 **cost and a projected increase to this cost. This projected increase**
25 **is the direct result of discussions with the Electric Power Board of**
26 **Chattanooga. KWD usage is also priced at the rates charged by**
27 **the Chattanooga Electric Power Board. The total energy charges**

1 plus the demand charges equate to the fuel and power cost. The
2 total attrition year fuel and power expense is \$2,511,238 which
3 represents an increase of \$195,105 over the historical test-year
4 expense.

5
6 **20. Q. WHAT IS THE BASIS FOR THE CHEMICAL COSTS?**

7 **A. Chemical costs are based upon attrition year system delivery plus**
8 **treatment plant usage times the cost to treat that water. Attrition**
9 **year water sales, a three year average non-revenue usage (used**
10 **for street cleaning, sewer flushing, etc.) a three year average**
11 **unaccounted for water, and in-plant usage were combined to**
12 **arrive at total system delivery for determining chemical usage.**
13 **The Company determined historical chemical usage per pound**
14 **from the historical test-year data and multiplied those results for**
15 **each chemical by the 2011 contract chemical prices to arrive at a**
16 **total cost per chemical. The total cost of each chemical is divided**
17 **by the historical system delivery to arrive at an average cost per**
18 **pound of chemical per CCF. The average costs per pound are**
19 **then applied to the normalized system delivery and the attrition**
20 **year system delivery to arrive at the appropriate adjustments for**
21 **chemical expense. The total attrition year chemical expense is**
22 **\$1,069,369 which is a decrease of \$70,290 over the historical test-**
23 **year expense due to obtaining more favorable contract prices for**
24 **the attrition year.**

25
26 **21. Q. WHAT IS THE BASIS FOR THE COST OF WASTE**
27 **DISPOSAL?**

1 A. Waste disposal is based upon the historical test-year ending
2 March 31, 2010 actual expenditures paid to the City of
3 Chattanooga Sanitary Board to treat the water plant residuals
4 adjusted for a 3% increase which was effective January 1, 2010, a
5 2.75% increase to become effective October 1, 2010, and a final
6 2.75% increase effective April 1, 2011. The total attrition year
7 waste disposal expense is \$197,386.

8
9 22. Q. PLEASE EXPLAIN THE ADJUSTMENT FOR GROUP
10 INSURANCE.

11 A. The group insurance expense for the normalized attrition year
12 was calculated applying the group insurance rates in effect at
13 March 31, 2010 to the attrition year to the the employee
14 complement and salary and wage information contained in
15 attrition year. From the gross group insurance premium, the
16 employee's contribution for their healthcare coverage is
17 subtracted. The result is the Company's annualized group
18 insurance cost for the attrition year.

19
20 Since group insurance is an employee benefit, the cost for group
21 insurance is charged based upon direct labor charges. Since
22 15.83% of labor was not charged to expense (as previously
23 explained) this percentage of group insurance cost is excluded
24 from the Company's claim for group insurance expense.

25
26 23. Q. ARE THERE ANY OTHER PAYROLL-RELATED
27 EXPENSES?

1 A. Yes, there are. The Company's claim for payroll taxes is based on
2 attrition year salary and wage expense. As is the case with group
3 insurance, 15.83% of the calculated payroll taxes are eliminated,
4 representing the portion not charged to expense.

5
6 24. Q. MS. MILLER, YOU LISTED A NUMBER OF OTHER
7 EXPENSE CATEGORIES THAT YOU WILL BE
8 SUPPORTING, WOULD YOU PLEASE DISCUSS EACH ONE?

9 A. Yes. Each of the following expense categories were reviewed for
10 the test year and adjusted to reflect a normalized test year and
11 further adjusted to an appropriate level of expense for the
12 attrition year. Some of the expense categories were adjusted for
13 an inflation factor of 3.58%.

14
15 25. Q. HOW DID YOU ARRIVE AT THE 3.58% INFLATION
16 FACTOR?

17 A. I used the Value Line Forecast for the US Economy Consumer
18 Price Index estimated inflation rate. For the time period April 1,
19 2010 through December 31, 2010, I used 1.28% which represents
20 9/12's of the 2010 rate of 1.7%. Added to that is the 2011 rate of
21 2.3% for the attrition period January 1, 2011 through December
22 31, 2011, to arrive at the 3.58%.

23
24 26. Q. PLEASE CONTINUE.

25
26 A. REGULATORY EXPENSE

27 The company has estimated the cost of the preparation and
28 presentation of this current filing to be \$645,000. The Company is
29 proposing to amortize these costs over a three year period

1 resulting in an annual cost of \$215,000. Also, included in the
2 attrition year is the Cost of Service Study Expense in the amount
3 of \$42,500 which the company is proposing an amortization
4 period of three years resulting in an annual cost of \$14,167. Total
5 attrition year expense is \$229,167 plus the balance of \$150,751
6 resulting from the 2006 rate case, 2008 rate case, 2008 cost of
7 service study, and the 2008 depreciation study that is currently
8 being amortized.

9
10 **INSURANCE OTHER THAN GROUP**

11 The Company's proposed level for this expense for the attrition
12 year is \$485,904 and is based on the Company's 2010 actual
13 insurance premiums and adjusted for inflationary increases for
14 the attrition year. This expense category includes costs for
15 general liability, workers compensation, and property insurance.

16
17 **CUSTOMER ACCOUNTING EXPENSE**

18 Customer accounting expense for the historical test year was
19 \$857,278. The Company applied the inflation factor of 3.58% to
20 these expenses, excluding uncollectibles and postage to arrive at
21 an increase of \$17,627. The postage increase of \$3,348 is largely
22 due to an increase in postage costs effective in May 2009, a known
23 and measurable change, which was annualized for the historical
24 test year ending March 31, 2010.

25
26 This category includes costs associated with the customer billing
27 and collecting function. It includes costs for office supplies, report

1 forms, computer supplies, postage, collection agency fees, lock box
2 expenses, janitorial service, telephone expense, and other
3 miscellaneous customer accounting expense.

4 5 UNCOLLECTIBLE EXPENSE

6 The uncollectible percentage of 1.660% was derived by taking a
7 three year average of the net charge offs, less recoveries as a
8 percentage of total revenues for the years 2007 to 2009. That
9 percentage was applied to the proposed revenue increase of
10 \$9,984,463 to arrive at the attrition year adjustment to
11 uncollectible expense of \$165,769.

12 13 RENTS

14 Rent expense for the historical test year was \$9,799. The
15 Company annualized the cost of the ice machine rental to include
16 a full twelve months, annualized the canon copier rental for the
17 new lease, eliminated the Oce Imagistics copier lease cost, and
18 eliminated the rental at the Chattanooga as this was a one-time
19 non-recurring cost. This results in an attrition year expense of
20 \$8,706. This category includes the costs associated with the
21 renting of mobile radios, postage equipment, copiers, and land.

22 23 GENERAL OFFICE EXPENSE

24 General office expense for the historical test year was \$210,461.
25 The Company made adjustments to annualize the sewer billing
26 which only included eleven months in the historical test year,
27 eliminated duplicate payments of membership dues, and adjusted

1 miscellaneous postage expense for the increase that became
2 effective in May 2009. The inflation factor of 3.58% was applied
3 to the remaining expenses (excluding postage) to arrive at an
4 attrition year expense of \$217,933. This expense category includes
5 costs associated with the general expenses for the offices. These
6 include report forms, office supplies, computer supplies, overnight
7 mail expenses, janitorial services, telephone expense, electrical
8 expense, employee expenses, credit line fees, bank service charges,
9 and other miscellaneous general office expenses.

10
11 **MISCELLANEOUS EXPENSE**

12 Miscellaneous expense for the historical test year totaled
13 \$1,945,947. The Company is proposing several adjustments to
14 this category. The first adjustment reflects the inflation factor
15 adjustment of 3.58%. This results in an increase of \$60,617.

16
17 The Company did not apply the inflation factor to the 401K
18 expense, Defined Contribution expense, or the Retiree Medical
19 Reimbursement Plan but rather calculated a separate adjustment
20 for each of these categories. The net result of these adjustments
21 is \$22,381.

22
23 The Company eliminated non-recoverable costs including
24 lobbying expense of \$340, penalties expense of (\$50); the lobbying
25 portion of the NAWC dues of \$3,768; and transferred the
26 institutional and promotional advertising expense below the line
27 in the amount of \$15,666. Also eliminated were the non-recurring

costs of PWC contract services of \$29,960, the write-off of O&M variances \$12,272, and temporary employee expense \$26,876.

Additional known and measurable adjustments include the annualization of the Tennessee One-Call System expense to include an increase in the cost of the service beginning January 2010 in the amount of \$3,705, and the 2009 transportation fuel costs adjusted to current gasoline prices for an increase of \$23,856.

The Company is proposing the amortization of the management audit expense over five years. This amortization results in an annual expense of \$38,000. The inflation factor was not applied to this annual expense.

The proposed miscellaneous expense for the attrition year is \$2,005,675 which includes net adjustments totaling 59,728.

MAINTENANCE EXPENSE

Maintenance expense for the historical test year was \$1,042,628. One adjustment was made to increase paving expense an additional \$44,838. The paving cost has increased substantially due to the type of materials required to be used by the City of Chattanooga. The inflation factor was applied to the remaining balance to arrive at an adjustment of \$22,851 resulting in an attrition year balance of \$1,110,317.

1 **This expense category includes costs associated with maintaining**
2 **the property of the Company. This would include repair parts,**
3 **tools, maintenance supplies, contracted services, paving,**
4 **maintenance agreements, and other miscellaneous maintenance**
5 **expenses.**

6
7 **AFUDC**

8 **The Company's proposed amount for AFUDC is \$204,000 and is**
9 **based upon the capital spending levels and projects included in**
10 **the attrition year. This adjustment was made to reflect the**
11 **AFUDC as an above the line item for ratemaking purposes.**

12
13 **27. Q. PLEASE EXPLAIN THE ADJUSTMENT FOR GENERAL**
14 **TAXES.**

15 **A. Certainly. I will address them individually.**

16
17 **PROPERTY TAXES**

18 **Property taxes for the test year were \$2,380,025. The City of**
19 **Chattanooga announced a 19% property tax increase to be**
20 **effective in the attrition year. This resulted in a normalized**
21 **adjustment of \$242,895. An effective property tax rate based on**
22 **the latest property tax returns, including the 19% increase for the**
23 **City of Chattanooga, was applied to the thirteen month average**
24 **attrition year rate base to arrive at the attrition year adjustment**
25 **of \$313,148.**

26
27 **GROSS RECEIPTS TAXES**

1 **Gross receipts tax was based on projected jurisdictional revenues**
2 **for Tennessee American Water including Other Operating**
3 **revenues. The revenues, adjusted for the Franchise Tax, Excise**
4 **Tax, and a \$5,000 exemption, were multiplied by the current 3%**
5 **tax rate to arrive at the attrition year level. The forecasted**
6 **amount was prepared using 50% of the Gross Receipts Tax**
7 **Return based on 2009 revenues. This return is due July 2010 and**
8 **is for the taxable period ending June 2011. The remaining 50% is**
9 **based on 2010 budgeted revenues. This properly matches the**
10 **Gross Receipts Tax with the attrition period in this case.**

11 12 **PSC FEES**

13 **The PSC Inspection Fee is paid in April of each year and based on**
14 **prior year revenues. The Company properly matched the**
15 **payments to the attrition year in the filing, with 25% (January**
16 **2011 through March 2011) based on 2009 revenues and 75%**
17 **(April 2011 through December 2011) based on 2010 revenues.**
18 **The revenues were reduced by uncollectibles and a \$5,000**
19 **exemption to arrive at taxable revenues. The result was**
20 **multiplied by the Tennessee statutory rates that were taken from**
21 **the 2010 return.**

22 23 **FRANCHISE TAX**

24 **Franchise tax, as imposed by the state of Tennessee, applies to the**
25 **company's apportioned net worth or value of property owned and**
26 **used in Tennessee, whichever is greater, as shown at the close of**
27 **the corporation's fiscal year. The Franchise Tax is paid in**

1 arrears in October each year and is based on the previous years
2 original cost of assets. For this filing, the Company utilized the
3 projected balances as of December 31, 2010 as a basis for 83% of
4 the tax applicable to January through October 2011 of the
5 attrition year and projected balances as of December 31, 2011 as a
6 basis for the remaining 17% tax applicable to November and
7 December 2011. Those values were then multiplied by the
8 statutory rate of \$.25 per \$100.

9
10
11 **RATE BASE:**

12 **28. Q. HAS THE COMPANY CHANGED THE METHODOLOGY IN**
13 **CALCULATING REQUESTED RATE BASE FROM THE**
14 **APPROACH ADVOCATED IN ITS LAST CASE?**

15 **A. No. The Company utilized a thirteen month average rate base**
16 **calculation as approved in Case No. 06-00290. Shown on Exhibit**
17 **No.1, Schedule 2, Column No. 1 of the Company's Accounting**
18 **Exhibit, is the rate base for the historical test year totaling**
19 **\$111,860,504. In Column No. 2, the Company has summarized its**
20 **requested ratemaking adjustments to rate base totaling**
21 **\$13,612,469. In column 3, the Company has shown its requested**
22 **rate base of \$125,472,973.**

23
24 **29. Q. PLEASE DETAIL THE COMPONENTS THAT COMPRISE**
25 **RATE BASE SHOWN ON EXHIBIT 1, SCHEDULE 2.**

26 **A. UTILITY PLANT IN SERVICE (UPIS)**

27 **UPIS includes the original cost of all land, land rights, easements,**
28 **structures and improvements, together with equipment in service**

1 at March 31, 2010. The Utility Plant balance was calculated
2 through December 31, 2011, by adding net additions and
3 retirements through the end of the attrition period. The 13 month
4 average of the Utility Plant balances from December 1, 2010
5 through December 31, 2011 was calculated to arrive at the utility
6 plant balance for the attrition period. These additions and
7 retirements are summarized on Exhibit 1, Schedule 2, page 3 of 3
8 and are addressed in greater detail in Mr. Watson's direct
9 testimony.

10 11 CONSTRUCTION WORK IN PROGRESS

12 This amount shown in Exhibit 1, Schedule 2 is the March 31, 2010
13 actual balance adjusted for construction expenditures and
14 transfers to utility plant that occur through the attrition year.
15 The 13-month average CWIP is determined by totaling the
16 monthly balances for December 2010 to December 2011 and
17 dividing by 13 months.

18 19 WORKING CAPITAL

20 Working capital shown on Exhibit 2, Schedule 2, is further
21 detailed on Exhibit 2, Schedule 3, and I will explain each of those
22 components.

23 Prepaid Taxes and Materials and Supplies represent an average
24 of the thirteen month ending balances for the test year ending
25 March 31, 2010.

26 Deferred Regulatory Expense consists of a thirteen month average
27 of the unamortized balances at December 31, 2011, the attrition

1 year end. The amounts included in rate base include \$589,165 for
2 rate case expense, \$38,723 for the cost of service study expense,
3 and \$3,010 for depreciation study expense.

4 Unamortized Debt Expense was calculated by starting with the
5 March 31, 2010, unamortized debt expense, adding new debt
6 expense for proposed issues, and subtracting the cumulative
7 amortizations to arrive at the balance at the end of the attrition
8 year. The thirteen month average of these amounts result in a
9 \$460,845 balance.

10 Other Deferred Debits consist of two items which include the
11 thirteen month average of the unamortized transition costs of the
12 Customer Call Center totaling \$204,399 and the unamortized
13 transition costs of the Shared Services Center in the amount of
14 \$76,584.

15 Lead-Lag Study – The Company is utilizing a Lead/Lag Study
16 that was performed based on historical data for the twelve months
17 ending March 31, 2010. Mike Miller will address the lead lag
18 study in his testimony.

19 Incidental Collections consist of sewer collections and sales and
20 use tax collections performed on behalf of other sewer and taxing
21 authorities.

22 23 ACCUMULATED DEPRECIATION

24 The accumulated depreciation balance as shown on Exhibit 1,
25 Schedule 2 begins with the historical test year balance as of
26 March 31, 2010. Accumulated depreciation was calculated
27 through the end of the attrition period utilizing current

1 depreciation rates. A thirteen month average was then calculated
2 using the month end accumulated depreciation balances from
3 December 1, 2010 to December 31, 2011 to arrive at the
4 accumulated depreciation at the end of the attrition period.
5

6 **DEFERRED INCOME TAXES**

7 The balance of this category includes the accumulated deferred
8 income tax calculated on the excess tax over book depreciation of
9 post 80 property and the normalization of the capitalized repairs
10 deduction. Mr. Miller will address these deferred tax items in his
11 testimony.
12

13 **ACCUMULATED AMTZ. OF UTILITY PLANT CAPITAL**
14 **LEASE, CUSTOMER ADVANCES, CONTRIBUTIONS IN AID**
15 **OF CONSTRUCTION, UNAMORTIZED INVESTMENT TAX**
16 **CREDIT, and UTILITY PLANT ACQUISITION ADJUSTMENT**

17 The balances for these categories represent an average of the
18 thirteen month end balances for the attrition year ending
19 December 31, 2011.
20

21 30. Q. DOES THIS CONCLUDE YOUR TESTIMONY?

22 A. Yes.

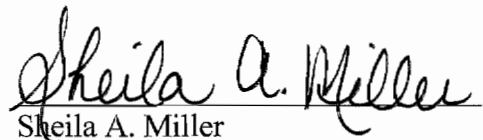
TENNESSEE REGULATORY AUTHORITY

STATE OF WEST VIRGINIA

COUNTY OF KANAWHA

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Sheila A. Miller, being by me first duly sworn deposed and said that:

She is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, her testimony would set forth in the annexed transcript consisting of 22 pages.


Sheila A. Miller

Sworn to and subscribed before me
this 15th day of September 2010.


Notary Public

My commission expires September 7, 2019.

