BEFORE THE
TENNESSEE REGULATORY AUTHORITY

DIRECT TESTIMONY OF
PAUL R. HERBERT

ON BEHALF OF TENNESSEE-AMERICAN WATER COMPANY

CASE NO. - 10-00189

CONCERNING

COST OF SERVICE ALLOCATION

AND

CUSTOMER RATE DESIGN

SEPTEMBER 2010

BEFORE THE TENNESSEE REGULATORY AUTHORITY

RE: TENNESSEE-AMERICAN WATER COMPANY

CASE NO._____

DIRECT TESTIMONY OF PAUL R. HERBERT

Line No.

Q. Please state your name and address.

A. My name is Paul R. Herbert. My business address is 207 Senate Avenue, Camp Hill, Pennsylvania.

Q. By whom are you employed?

A. I am employed by Gannett Fleming, Inc.

Q. Please describe your position with Gannett Fleming, Inc. and briefly state your general duties and responsibilities.

A. I am President of the Valuation and Rate Division. My duties and responsibilities include the preparation of accounting and financial data for revenue requirement and cash working capital claims, the allocation of cost of service to customer classifications, and the design of customer rates in support of public utility rate filings.

Q. Have you presented testimony in rate proceedings before a regulatory agency?

A. Yes. I have testified before the Pennsylvania Public Utility Commission, the New Jersey Board of Public Utilities, the Public Utilities Commission of Ohio, the Public Service Commission of West Virginia, the Kentucky Public Service Commission, the Iowa State Utilities Board, the Virginia State Corporation Commission, the Tennessee Regulatory Authority, the California Public

Utilities Commission, New Mexico Public Regulation Commission, the Illinois Commerce Commission, the Arizona Corporation Commission, the Delaware Public Service Commission and the Missouri Public Service Commission concerning revenue requirements, cost of service allocation, rate design and cash working capital claims. A list of the cases in which I have testified is provided at the end of my direct testimony.

Q. What is your educational background?

A. I have a Bachelor of Science Degree in Finance from the Pennsylvania State University, University Park, Pennsylvania.

Q. Would you please describe your professional affiliations?

A.. I am a member of the American Water Works Association and served as a member of the Management Committee for the Pennsylvania Section. I am also a member of the Pennsylvania Municipal Authorities Association. In 1998, I became a member of the National Association of Water Companies as well as a member of its Rates and Revenue Committee.

Q. Briefly describe your work experience.

A. I joined the Valuation Division of Gannett Fleming Corddry and Carpenter, Inc., predecessor to Gannett Fleming, Inc., in September 1977, as a Junior Rate Analyst. Since then, I advanced through several positions and was assigned the position of Manager of Rate Studies on July 1, 1990. On June 1, 1994, I was promoted to Vice President of the Valuation and Rate Division and on July 1, 2007, I was promoted to my current position as President.

While attending Penn State, I was employed during the summers of 1972, 1973 and 1974 by the United Telephone System - Eastern Group in its

accounting department. Upon graduation from college in 1975, I was employed by Herbert Associates, Inc., Consulting Engineers (now Herbert Rowland and Grubic, Inc.), as a field office manager until September 1977.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to explain Tennessee-American Water Company's cost of service allocation study and proposed rate design set forth in Exhibit No. PRH-1.

COST OF SERVICE ALLOCATION

Q. Briefly describe the purpose of your cost allocation study.

A. The purpose of the study was to allocate the total cost of service, which is the total revenue requirement, to the several customer classifications. In the study, the total costs were allocated to the residential, commercial, industrial, public authorities, sales for resale, private fire protection and public fire protection classifications in accordance with generally accepted principles and procedures. The cost of service allocation results in indications of the relative cost responsibilities of each class of customers. The allocated cost of service is one of several criteria appropriate for consideration in designing customer rates to produce the required revenues. The results of my allocation of the pro forma cost of service as of December 31, 2011, and proposed customer rates to produce the pro forma revenue requirement as of that date are presented in the study.

Q. Please describe the method of cost allocation that was used in your study.

A. The base-extra capacity method, as described in 2000 and prior Water Rates Manuals published by the American Water Works Association

(AWWA), was used to allocate the pro forma costs. Base-extra capacity is a recognized method for allocating the cost of providing water service to customer classifications in proportion to the classifications' use of the commodity, facilities, and services. It is generally accepted as a sound method for allocating the cost of water service and was used by the Company in the Company's previous studies.

Q. Please describe the procedure followed in the cost allocation study.

A. Each identified classification of cost in the pro forma cost of service was allocated to the customer classifications through the use of appropriate factors. These allocations are presented in Schedule B on pages 8 through 14. The items of cost, which include operation and maintenance expenses, depreciation expense, taxes and income available for return, are identified in columns 1 and 2 of Schedule B. The cost of each item, shown in column 4, is allocated to the several customer classifications based on allocation factors referenced in column 3. The development of the allocation factors is presented in Schedule C. I will use some of the larger cost items to illustrate the principles and considerations used in the cost allocation methodology. Purchased water, purchased electric power, treatment chemicals and waste disposal are examples of costs that tend to vary with the amount of water consumed and are thus considered base costs. They are allocated to the several customer classifications in direct proportion to the average daily consumption of those classifications through the use of Factor 1. The development of Factor 1 is shown in Schedule C on page 15.

Other source of supply, water treatment and transmission costs are associated with meeting usage requirements in excess of the average, generally to meet maximum day requirements. Costs of this nature were allocated to customer classifications partially as base costs, proportional to average daily consumption, partially as maximum day extra capacity costs, in proportion to maximum day extra capacity, and, in the case of certain pumping stations and transmission mains, partially as fire protection costs, through the use of Factors 2 and 3. The development of the allocation factors, referenced as Factors 2 and 3, is shown in Schedule C, on pages 16 through 19.

Costs associated with storage facilities and the capital costs of distribution mains were allocated partly on the basis of average consumption and partly on the basis of maximum hour extra demand, including the demand for fire protection service, because these facilities are designed to meet maximum hour and fire demand requirements. The development of the factors, referenced as Factors 4 and 5, used for these allocations is shown in Schedule C, on pages 20 through 24.

Factor 4, used to allocate distribution mains, is based on the same volumes used in Factors 1 through 3 except that the consumption for the larger industrial customers and sales for resale classifications are excluded. This is to recognize that larger industrial and sales for resale customers are served primarily from larger mains. Factor 5, Allocation of Storage Facilities, uses the same basic methodology as Factor 4, although Factor 1 volumes

are used and the fire demand weighting is based on the storage capacity for fire service as compared to the total storage capacity.

Fire demand costs were allocated to public and private fire protection service in proportion to the relative potential demands on the system by public fire hydrants and private service lines as presented in Schedule C on page 19.

Costs associated with pumping facilities and the operation and maintenance of mains were allocated on combined bases of maximum day and maximum hour extra capacity because these facilities serve both functions. For pumping facilities, the relative weightings of Factor 2 (maximum day), Factor 3 (maximum day and fire) and Factor 4 (maximum hour) were based on horsepower of pumps serving maximum day, maximum day and fire and maximum hour functions. The development of this weighted factor, referenced as Factor 6, is presented on page 25.

For operation and maintenance of mains, the relative weightings of Factor 3 (maximum day and fire) and Factor 4 (maximum hour) were based on the footage of transmission and distribution mains. For cost allocation purposes, mains larger than 10-inch were classified as serving a transmission function, and mains 10-inch and smaller were classified as serving a distribution function. The development of this weighted factor, referenced as Factor 7, is presented on page 26.

Costs associated with meters were allocated to customer classifications in proportion to the capacity requirements of the sizes and quantities of meters serving each classification. The development of the

factor for meters, referenced as Factor 10, is presented on page 28. Factor 11, Allocation of Services, was developed in a similar manner as Factor 10, except that the relative unit cost per foot by service size was used in order to weight the number of services by classification. Costs associated with public fire hydrants were assigned directly to the public fire protection class (Factor 21).

Costs for customer accounting, billing and collecting were allocated on the basis of the number of bills for each classification, and costs for meter reading were allocated on the basis of meter readings. The development of these factors, referenced as Factor 12 and Factor 13, is presented on page 32.

Administrative and general costs were allocated on the basis of allocated direct costs, excluding those costs such as purchased water, power, chemicals and waste disposal which require little administrative and general expense. The development of factors for this allocation, referenced as Factor 14, is presented on page 33.

Annual depreciation accruals were allocated on the basis of the function of the facilities represented by the depreciation expense for each depreciable plant account. The original cost less depreciation of utility plant in service was similarly allocated for the purpose of developing factors, referenced as Factor 17, for allocating items such as income taxes and return. The development of Factor 17 is presented on pages 34 through 37.

Working Capital Allowance in original cost rate base was allocated based on the total operation and maintenance expense. The development

of factors for this allocation, referenced as Factor 22, is presented on page 40.

Factors 14 and 17, as well as Factors 8, 9, 15, 16, 18 and 22, are composite allocation factors. These factors are based on the result of allocating other costs and are computed internally in the cost allocation program. Refer to Schedule C for a description of the bases for each composite allocation factor.

Q. What was the source of the total cost of service data set forth in column 3 of Schedule B?

A. The pro forma costs of service were furnished by the Company, and are set forth in various Company exhibits.

Q. Refer to Schedule C, pages 17 and 21, and explain the source of the system maximum day and maximum hour ratios used in the development of factors referenced as Factors 2, 3 and 4.

A. The ratios were based on a review of historic Company data. The maximum day ratio of 1.45 times the average day approximates the ratio of maximum daily send-out experienced by the Company in the last five years. The maximum hour ratio of 1.9 times the average hour was estimated based on the relationship of system maximum hour ratios compared to system maximum day ratios for other similar systems.

Q. What factors were considered in estimating the maximum day extra capacity and maximum hour extra capacity demands used for the customer classifications in the development of Factors 2, 3 and 4?

A. The estimated demands were based on judgment which considered field studies of actual customer class demands conducted for other American Companies, field observations of the service areas of the Company, field studies of similar service areas, and generally-accepted customer class maximum day and maximum hour demand ratios.

Q. Have you summarized the results of your cost allocation study?

A. Yes. The results are summarized in columns 1, 2 and 3 of Schedule A on page 6. Column 2 sets forth the total allocated pro forma cost of service as of December 31, 2011, for each customer classification identified in column 1. Column 3 presents each customer classification's cost responsibility as a percent of the total cost.

Q. Have you compared these cost responsibilities with the proportionate revenue under existing rates for each customer classification?

A. Yes. A comparison of the allocated cost responsibilities and the percentage revenue under existing rates can be made by comparing columns 3 and 5 of Schedule A. A similar comparison of the percentage cost responsibilities (relative cost of service) and the percentage of pro forma revenues (relative revenues) under proposed rates can be made by comparing columns 3 and 7 of Schedule A .

CUSTOMER RATE DESIGN

Q. What are the appropriate factors to be considered in the design of the rate structure?

A. In preparing a rate structure, one should consider the allocated costs of service, the impact of radical changes from the present rate structure, the

understandability and ease of application of the rate structure, community and social influences, and the value of service. General guidelines should be developed with management to determine the extent to which each of these criteria is to be incorporated in the rate structure to be designed, inasmuch as the pricing of a commodity or service is a function of management.

Q. Did management discuss rate design guidelines with you?

A. Yes, they did. The guidelines were to increase service charges and volumetric rates so that each class receives approximately the same percentage increase. In addition, the Company proposes to merge the Lookout Mountain and Lakeview Tariffs into one Mountain Tariff and begin the process of merging Lone Oak and Suck Creek to the Mountain Tariff.

Q. Does the proposed rate design follow these guidelines?

A. Yes, it does. The revenues under proposed rates reflects increases by class ranging from 26.5% to 27.9%. Also, merging the mountain service areas into one tariff reflects the similar service characteristics of these areas. The tariffs for Lone Oak and Suck Creek will begin to merge to the Mountain Tariff by adopting the basic blocking structure and volumetric rates.

Q. Have you prepared comparisons of present and proposed rates for each classification and each rate zone?

A. Yes. Schedule D on pages 43 and 44 of the cost allocation study presents comparisons of the present and proposed rates.

Q. Does this conclude your direct testimony?

A. Yes, it does.

LIST OF CASES IN WHICH PAUL R. HERBERT TESTIFIED

	Year	Jurisdiction	Docket No.	Client/Utility	Subject
1.	1983	Pa. PUC	R-832399	T. W. Phillips Gas and Oil Co.	Pro Forma Revenues
2.	1989	Pa. PUC	R-891208	Pennsylvania-American Water Company	Bill Analysis and Rate Application
3.	1991	PSC of W. Va.	91-106-W-MA	Clarksburg Water Board	Revenue Requirements (Rule 42)
4.	1992	Pa. PUC	R-922276	North Penn Gas Company	Cash Working Capital
5.	1992	NJ BPU	WR92050532J	The Atlantic City Sewerage Company	Cost Allocation and Rate Design
6.	1994	Pa. PUC	R-943053	The York Water Company	Cost Allocation and Rate Design
7.	1994	Pa. PUC	R-943124	City of Bethlehem	Revenue Requirements, Cost Allocation, Rate Design and Cash Working Capital
8.	1994	Pa. PUC	R-943177	Roaring Creek Water Company	Cash Working Capital
9.	1994	Pa. PUC	R-943245	North Penn Gas Company	Cash Working Capital
10.	1994	NJ BPU	WR94070325	The Atlantic City Sewerage Company	Cost Allocation and Rate Design
11.	1995	Pa. PUC	R-953300	Citizens Utilities Water Company of Pennsylvania	Cost Allocation and Rate Design
12.	1995	Pa. PUC	R-953378	Apollo Gas Company	Revenue Requirements and Rate Design
13.	1995	Pa. PUC	R-953379	Carnegie Natural Gas Company	Revenue Requirements and Rate Design
14.	1996	Pa. PUC	R-963619	The York Water Company	Cost Allocation and Rate Design
15.	1997	Pa. PUC	R-973972	Consumers Pennsylvania Water Company - Shenango Valley Division	Cash Working Capital
16.	1998	Ohio PUC	98-178-WS-AIR	Citizens Utilities Company of Ohio	Water and Wastewater Cost Allocation and Rate Design
17.	1998	Pa. PUC	R-984375	City of Bethlehem - Bureau of Water	Revenue Requirement, Cost Allocation and Rate Design
18.	1999	Pa. PUC	R-994605	The York Water Company	Cost Allocation and Rate Design
19.	1999	Pa. PUC	R-994868	Philadelphia Suburban Water Company	Cost Allocation and Rate Design
20.	1999	PSC of W.Va.	99-1570-W-MA	Clarksburg Water Board	Revenue Requirements (Rule 42), Cost Allocation and Rate Design
21.	2000	Ky. PSC	2000-120	Kentucky-American Water Company	Cost Allocation and Rate Design
22.	2000	Pa. PUC	R-00005277	PPL Gas Utilities	Cash Working Capital
23.	2000	NJ BPU	WR00080575	Atlantic City Sewerage Company	Cost Allocation and Rate Design
24.	2001	Ia. St Util Bd	RPU-01-4	Iowa-American Water Company	Cost Allocation and Rate Design
25.	2001	Va. St. Corp	PUE010312	Virginia-American Water Company	Cost Allocation and Rate Design
26.	2001	WV PSC	01-0326-W-42T	West-Virginia American Water Company	Cost Allocation And Rate Design
27.	2001	Pa. PUC	R-016114	City of Lancaster	Tapping Fee Study
28.	2001	Pa. PUC	R-016236	The York Water Company	Cost Allocation and Rate Design
29.	2001	Pa. PUC	R-016339	Pennsylvania-American Water Company	Cost Allocation and Rate Design
30.	2001	Pa. PUC	R-016750	Philadelphia Suburban Water Company	Cost Allocation and Rate Design
31.	2002	Va. St. Corp Cm	PUE-2002-00375	Virginia-American Water Company	Cost Allocation and Rate Design
32.	2003	Pa. PUC	R-027975	The York Water Company	Cost Allocation and Rate Design
33.	2003	Tn Reg. Auth	03-	Tennessee-American Water Company	Cost Allocation and Rate Design
34.	2003	Pa. PUC	R-038304	Pennsylvania-American Water Company	Cost Allocation and Rate Design
35.	2003	NJ BPU	WR03070511	New Jersey-American Water Company	Cost Allocation and Rate Design
36.	2003	Mo. PSC	WR-2003-0500	Missouri-American Water Company	Cost Allocation and Rate Design
37.	2004	Va. St. Corp Cm	PUE-200 -	Virginia-American Water Company	Cost Allocation and Rate Design
38.	2004	Pa. PUC	R-038805	Pennsylvania Suburban Water Company	Cost Allocation and Rate Design
39.	2004	Pa. PUC	R-049165	The York Water Company	Cost Allocation and Rate Design
40.	2004	NJ BPU	WRO4091064	The Atlantic City Sewerage Company	Cost Allocation and Rate Design
41.	2005	WV PSC	04-1024-S-MA	Morgantown Utility Board	Cost Allocation and Rate Design
42.	2005	WV PSC	04-1025-W-MA	Morgantown Utility Board	Cost Allocation and Rate Design
43.	2005	Pa. PUC	R-051030	Aqua Pennsylvania, Inc.	Cost Allocation and Rate Design
44.	2006	Pa. PUC	R-051178	T. W. Phillips Gas and Oil Co.	Cost Allocation and Rate Design
45.	2006	Pa. PUC	R-061322	The York Water Company	Cost Allocation and Rate Design
46.	2006	NJ BPU	WR-06030257	New Jersey American Water Company	Cost Allocation and Rate Design

LIST OF CASES IN WHICH PAUL R. HERBERT TESTIFIED

	Year	Jurisdiction	Docket No.	Client/Utility	Subject
47.	2006	Pa. PUC	R-061398	PPL Gas Utilities, Inc.	Cost Allocation and Rate Design
48.	2006	NM PRC	06-00208-UT	New Mexico American Water Company	Cost Allocation and Rate Design
49.	2006	Tn Reg Auth	06-00290	Tennessee American Water Company	Cost Allocation and Rate Design
50.	2007	Ca. PUC	U-339-W	Suburban Water Systems	Water Conservation Rate Design
51.	2007	Ca. PUC	U-168-W	San Jose Water Company	Water Conservation Rate Design
52.	2007	Pa. PUC	R-00072229	Pennsylvania American Water Company	Cost Allocation and Rate Design
53.	2007	Ky. PSC	2007-00143	Kentucky American Water Company	Cost Allocation and Rate Design
54.	2007	Mo. PSC	WR-2007-0216	Missouri American Water Company	Cost Allocation and Rate Design
55.	2007	Oh. PUC	07-1112-WS-AIR	Ohio American Water Company	Cost Allocation and Rate Design
56.	2007	Il. CC	07-0507	Illinois American Water Company	Customer Class Demand Study
57.	2007	Pa. PUC	R-00072711	Aqua Pennsylvania, Inc.	Cost Allocation and Rate Design
58.	2007	NJ BPU	WR07110866	The Atlantic City Sewerage Company	Cost Allocation and Rate Design
59.	2007	Pa. PUC	R-00072492	City of Bethlehem – Bureau of Water	Revenue Requirements, Cost Alloc
60.	2007	WV PSC	07-0541-W-MA	Clarksburg Water Board	Cost Allocation and Rate Design
61.	2007	WV PSC	07-0998-W-42T	West Virginia American Water Company	Cost Allocation and Rate Design
62.	2008	NJ BPU	WR08010020	New Jersey American Water Company	Cost Allocation and Rate Design
63.	2008	Va St Corp Com	PUE-2008-00009	Virginia American Water Company	Cost Allocation and Rate Design
64.	2008	Tn. Reg. Auth.	08-00039	Tennessee American Water Company	Cost Allocation and Rate Design
65.	2008	Mo PSC	WR-2008-0311	Missouri American Water Company	Cost Allocation and Rate Design
66.	2008	De PSC	08-96	Artesian Water Company, Inc.	Cost Allocation and Rate Design
67.	2008	Pa PUC	R-2008-2032689	Penna. American Water Co. – Coatesville Wastewater	Cost Allocation and Rate Design
68.	2008	AZ Corp. Com.	W-01303A-08-0227 SW-01303A-08-0227	Arizona American Water Co. - Water - Wastewater	Cost Allocation and Rate Design
69.	2008	Pa PUC	R-2008-2023067	The York Water Company	Cost Allocation and Rate Design
70.	2008	WV PSC	08-0900-W-42T	West Virginia American Water Company	Cost Allocation and Rate Design
71.	2008	Ky PSC	2008-00250	Frankfort Electric and Water Plant Board	Cost Allocation and Rate Design
72.	2008	Ky PSC	2008-00427	Kentucky American Water Company	Cost Allocation and Rate Design
73.	2009	Pa PUC	2008-2079660	UGI – Penn Natural Gas	Cost of Service Allocation
74.	2009	Pa PUC	2008-2079675	UGI – Central Penn Gas	Cost of Service Allocation
75.	2009	Pa PUC	2009-2097323	Pennsylvania American Water Co.	Cost Allocation and Rate Design
76.	2009	Ia St Util Bd	RPU-09-	Iowa-American Water Company	Cost Allocation and Rate Design
77.	2009	Il CC	09-0319	Illinois-American Water Company	Cost Allocation and Rate Design
78.	2009	Oh PUC	09-391-WS-AIR	Ohio-American Water Company	Cost Allocation and Rate Design
79.	2009	Pa PUC	R-2009-2132019	Aqua Pennsylvania, Inc.	Cost Allocation and Rate Design
80.	S009	Va St Corp Com	PUC-00059	Aqua Virginia, Inc.	Cost Allocation (only)
81.	2009	Mo PSC	WR-2010-0131	Missouri American Water Company	Cost Allocation and Rate Design
82.	2010	Va St Corp Com	2010-00001	Virginia American Water Company	Cost Allocation and Rate Design
83.	2010	Ky PSC	2010-00036	Kentucky American Water Company	Cost Allocation and Rate Design
84.	2010	NJ BPU	WR10040260	New Jersey American Water Company	Cost Allocation and Rate Design
85.	2010	Pa PUC	2010-	T.W. Phillips Gas and Oil Co.	Cost Allocation and Rate Design
86.	2010	Pa PUC	2010-2166212	Pennsylvania American Water Co. - Wastewater	Cost Allocation and Rate Design
87.	2010	Pa PUC	R-2010-2157140	The York Water Company	Cost Allocation and Rate Design
88.	2010	Ky PSC	2010-00094	Northern Kentucky Water District	Cost Allocation and Rate Design
89.	2010	WV PSC	10-0920-W-42T	West Virginia American Water Co.	Cost Allocation and Rate Design

TENNESSEE REGULATORY AUTHORITY

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF CUMBERLAND

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the Commonwealth and County aforesaid, personally came and appeared Paul R. Herbert, being by me first duly sworn deposed and said that:

He 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, his testimony would set forth in the annexed transcript consisting 17 of pages.

Paul R. Herbert

Sworn to and subscribed before me
this 8th day of September 2010.

Notary Public

My commission expires February 20, 2011

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Cheryl Ann Rutter, Notary Public
East Pennsboro Twp., Cumberland County
My Commission Expires Feb. 20, 2011
Member, Pennsylvania Association of Notaries

TENNESSEE AMERICAN WATER COMPANY

Chattanooga, Tennessee

COST OF SERVICE ALLOCATION STUDY

AS OF DECEMBER 31, 2011

AND

PROPOSED CUSTOMER RATES

GANNETT FLEMING, INC. - VALUATION AND RATE DIVISION

Harrisburg, Pennsylvania

Gannett Fleming
Your Trusted Advisor Since 1915

GANNETT FLEMING, INC.
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September 7, 2010

Tennessee American Water Company
P.O. Box 6638
Chattanooga, TN 37401

Attention John S. Watson
President

Gentlemen:

Pursuant to your request, we have conducted a cost of service allocation study based on pro forma revenue requirements estimated for the test year ended December 31, 2011, and have prepared proposed rate schedules designed to produce the pro forma revenue requirements.

The attached report presents the results of the study, as well as supporting schedules which set forth the detailed cost allocation calculations. Schedule A on page 6 presents a comparison of the cost of service by customer classification with the pro forma revenues produced by each classification under present and proposed rates.

Respectfully submitted,

GANNETT FLEMING, INC.
Valuation and Rate Division

Paul R Herbert

PAUL R. HERBERT
President

C D Heppenstall

CONSTANCE E. HEPPENSTALL
Rate Analyst

PRH/krm

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CONTENTS

PART I. INTRODUCTION

PART II. COST OF SERVICE BY CUSTOMER CLASSIFICATION

PART III. PROPOSED CUSTOMER RATES

1

PART I. INTRODUCTION

TENNESSEE AMERICAN WATER COMPANY

COST OF SERVICE ALLOCATION STUDY
AS OF DECEMBER 31, 2011
AND PROPOSED CUSTOMER RATES

PART I. INTRODUCTION

PLAN OF REPORT

The report sets forth the results of the cost of service allocation study as of December 31, 2011, prepared for Tennessee American Water Company. Part I, Introduction, contains statements with respect to the basis of the study, the procedures employed, and a summary of the results of the study. Part II, Cost of Service by Customer Classification, presents detailed schedules of the allocation of costs to customer classifications, as well as the bases for the allocations. Part III, Proposed Customer Rates, sets forth the proposed rate structure.

BASIS OF THE STUDY

The purpose of the study was to allocate costs to several customer classifications based on considerations of quantity of water consumed, variability of rate of flow, and costs associated with metering, billing and accounting. The allocation study was based on recognized procedures for allocating the several categories of costs to customer classifications in proportion to each classification's use of the facilities, commodities and services which entail the total cost of providing water service.

ALLOCATION PROCEDURES

The allocation study was based on the Base-Extra Capacity Method for allocating costs to customer classifications. The method is described in the 2000 and prior editions

of the Water Rates Manual, published by the American Water Works Association. The four basic categories of cost responsibility are base, extra capacity, customer and fire protection costs. The following discussions present a brief description of these costs and the manner in which they were allocated.

Base Costs are costs that tend to vary with the quantity of water used, plus costs associated with supplying, treating, pumping and distributing water to customers under average load conditions, without the elements necessary to meet peak demands. Base costs were allocated to customer classifications on the basis of average daily usage.

Extra Capacity Costs are costs associated with meeting usage requirements in excess of the average. They include operating and capital costs for additional plant and system capacity beyond that required for average use. The extra capacity costs in this study are subdivided into costs necessary to meet maximum day extra demand and costs to meet maximum hour extra demand. The extra capacity costs were allocated to customer classifications on the bases of each classification's maximum day and hour usage in excess of average usage. (Extra capacity costs related to fire protection are allocated directly to the fire protection classifications.)

Customer Costs are costs associated with serving customers regardless of their usage or demand characteristics. Customer costs include the operating and capital costs related to meters and services, meter reading costs, and billing and collecting costs. The customer costs were allocated on the bases of the relative cost of meters and services, the number of meter readings and the number of bills.

Fire Protection Costs are costs associated with providing the facilities to meet the potential peak demand of fire protection service. Fire protection costs are subdivided into

costs to meet Public Fire Protection and Private Fire Protection demands. Operating and capital costs for hydrants were assigned directly to Public Fire Protection. The extra capacity costs assigned to fire protection service were allocated to Public and Private Fire Protection on the basis of the total relative demands of the hydrants and fire service lines.

RESULTS OF STUDY

The data summarized in Schedule A, "Comparison of Pro Forma Cost of Service with Revenues Under Present and Proposed Rates for the Twelve Months Ended December 31, 2011," constitute the principal results of the allocation study.

The cost of service by customer classification, shown in column 2 of Schedule A, is developed in Schedule B, "Allocation of Cost of Service to Customer Classifications for the Twelve Months Ended December 31, 2011". The allocation of the total cost of service to the several customer classifications was performed by applying the allocation factors referenced in column 3 to the cost of service by account in column 4. The bases of the allocation factors are presented in Schedule C.

DESIGN OF PROPOSED RATES

The results of the cost of service allocation study were discussed with Company management in order that it be afforded the opportunity of performing its role in the design of proposed rates. The rate design guidelines developed during the discussion were to increase service charges and volumetric rates so that each classification receives approximately the same increase.

In addition, the rates for Lookout Mountain and Lakeview will be merged into the proposed Mountain service area tariff. The tariffs for Lone Oak and Suck Creek will begin

a phase-in to the Mountain Tariff by adopting the same blocking structure and volumetric rates in this case.

The proposed rate structure, as presented in Part III, Proposed Customer Rates, Schedule D, consists of service charges by meter size and volumetric rates by class and service area. The revenue resulting from the proposed rate structure are shown in columns 6 and 7 of Schedule A, and maintain the existing alignment with the cost of service shown in columns 2 and 3.

TENNESSEE-AMERICAN WATER COMPANY

COMPARISON OF PRO FORMA COST OF SERVICE WITH REVENUES UNDER PRESENT AND PROPOSED RATES
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011

Customer Classification	Pro Forma Cost of Service, as of December 31, 2011		Pro Forma Revenues Under Present Rates		Pro Forma Revenues Under Proposed Rates		Proposed Increase	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent Increase
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Residential	$23,097,581	50.6%	$15,243,199	42.7%	$19,464,079	42.6%	$4,220,880	27.7%
Commercial	12,684,935	27.8%	11,534,347	32.2%	14,748,735	32.3%	3,214,388	27.9%
Industrial	4,299,889	9.4%	3,401,964	9.5%	4,342,792	9.5%	940,828	27.7%
Other Public Authority	3,065,740	6.7%	2,556,253	7.1%	3,234,849	7.1%	678,596	26.5%
Other Water Utilities	1,827,375	4.0%	1,308,493	3.7%	1,670,526	3.7%	362,033	27.7%
Private Fire Protection	700,988	1.5%	1,735,066	4.8%	2,214,850	4.8%	479,784	27.7%
Total Sales of Water	45,676,508	100.0%	35,779,322	100.0%	45,675,831	100.0%	9,896,509	27.7%
Other Water Revenues	1,604,410		1,517,135		1,604,404		87,269	5.8%
Total	$47,280,918		$37,296,457		$47,280,235		$9,983,778	26.8%

Schedule A

PART II. COST OF SERVICE BY CUSTOMER CLASSIFICATION

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection	Public Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
OPERATION AND MAINTENANCE EXPENSES										
	Source of Supply									
	----Operation----									
601.1	Operating Labor	2	0	$0	$0	$0	$0	$0	$0	$0
601.1	Operating Expense	2	0	0	0	0	0	0	0	0
610.1	Purchased Water	1	50,962	16,517	15,120	9,846	3,970	5,173	122	214
	----Maintenance----									
601.2	Maintenance Labor	2	336	116	103	57	27	31	1	1
620.2	OR MN Structure and Impr. Materials	2	150,293	52,047	45,960	25,535	12,069	13,992	255	436
	Subtotal Source of Supply		201,592	68,680	61,183	35,438	16,066	19,196	378	651
	Power and Pumping Expenses									
	----Operation----									
601.1	Operating Labor	6	1,550,829	538,603	475,484	241,309	124,842	127,323	15,663	27,605
601.1	Pump Oper Superv. and Engin. Elec	6	0	0	0	0	0	0	0	0
615.1	Purchased Power	1	2,175,321	705,021	645,418	420,272	169,457	220,795	5,221	9,136
615.2	Purchased Power - Lookout Mtn.	19	222,933	182,872	31,813	0	8,249	0	0	0
615.3	Purchased Power - Lakeview	20	108,698	95,513	11,848	0	1,337	0	0	0
616.1	Fuel For Power Production	1	1,067	346	316	206	83	108	3	4
620.1	Misc Pumping Exp. Current	6	44	15	13	7	4	4	0	1
650.1	Source of Supply and Pump Transportation	6	0	0	0	0	0	0	0	0
675.1	Misc.Pumping Expense Electric	6	945	328	290	147	76	78	10	17
	Subtotal Power and Pumping		4,059,837	1,522,698	1,165,182	661,941	304,048	348,308	20,897	36,763
	Water Treatment Expenses									
	----Operation----									
601.3	Supervision & Engin. Labor	2	0	0	0	0	0	0	0	0
601.3	General Labor	2	0	0	0	0	0	0	0	0
618.3	General Chemicals	1	1,069,369	346,583	317,282	206,602	83,304	108,541	2,566	4,491
620.3	Misc. Expenses-Current	2	97,040	33,605	29,675	16,487	7,792	9,034	165	281
633.3	Contract Services - Legal	2	441	153	135	75	35	41	1	1
635.3	Other Operations Contract Svcs.	2	46,877	16,233	14,335	7,964	3,764	4,364	80	136
641.3	Rents	2	0	0	0	0	0	0	0	0
650.3	Operations Transportation	2	0	0	0	0	0	0	0	0
675.3	Waste Disposal - Current	1	197,386	63,973	58,564	38,135	15,376	20,035	474	829
675.3	General Expenses	2	95,441	33,051	29,186	16,215	7,664	8,886	162	277
675.3	Misc. Expenses - Current	2	69,339	24,012	21,204	11,781	5,568	6,455	118	201

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection	Public Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	----Maintenance----									
620.4	Structures & Improvements Materials	2	112,939	39,111	34,537	19,188	9,069	10,515	192	328
635.4	Other Maintenance Contract Services	2	24,880	8,616	7,608	4,227	1,998	2,316	42	72
675.4	Misc. Maintenance Expenses	2	0	0	0	0	0	0	0	0
6504.0	Maintenance Transportation	2	0	0	0	0	0	0	0	0
	Subtotal Water Treatment		1,713,713	565,337	512,526	320,674	134,570	170,187	3,800	6,616
	Transmission & Distribution Expenses									
	----Operation----									
601.5	T&D Operation Super & Eng	8	144,880	87,566	36,148	7,809	7,664	3,347	855	1,492
601.5	Storage Facilities Labor	5	141,564	47,240	41,747	21,857	10,957	11,481	3,015	5,266
601.5	Misc Meter Labor	10	370,430	262,265	85,977	5,742	16,114	333	0	0
601.5	Maps and Records Labor	7	0	0	0	0	0	0	0	0
615.5	Storage Facilities Expense	5	3,219	1,074	949	497	249	261	69	120
620.5	Misc T & D Expenses-Current	7	20,579	8,191	7,246	1,580	1,904	329	486	844
635.5	Other T & D Oper Contract Services	7	190,630	75,871	67,121	14,640	17,633	3,050	4,499	7,816
641.5	T&D Rents	8	300	181	75	16	16	7	2	3
650.5	Operations Transportation	8	0	0	0	0	0	0	0	0
675.5	T&D Lines Expense	7	78	31	27	6	7	1	2	3
675.5	Misc Meter Expenses	10	7,903	5,595	1,834	122	344	7	0	0
675.5	Misc T&D Expenses-Current	8	85,340	51,580	21,292	4,600	4,515	1,971	504	879
	----Maintenance----									
601.6	T&D Supervision & Engin. Labor	9	76,272	34,483	19,823	3,753	4,828	755	2,181	10,449
601.6	T&D Mains Labor	7	748,460	297,887	263,533	57,482	69,233	11,975	17,664	30,687
601.6	Services Labor	11	220,100	172,053	26,896	792	3,059	22	17,278	0
601.6	Meters Labor	10	115,594	81,841	26,829	1,792	5,028	104	0	0
601.7	Hydrants Labor	21	136,565	0	0	0	0	0	0	136,565
601.7	Other T&D Plant Labor	9	0	0	0	0	0	0	0	0
620.6	T&D Struct & Imp-Materials	7	334,564	133,156	117,800	25,694	30,947	5,353	7,896	13,717
635.6	Other T & D Maint Contract Services	9	0	0	0	0	0	0	0	0
650.6	Maintenance Transportation	9	15,222	6,882	3,956	749	964	151	435	2,085
675.6	Maps And Records Expenses	9	0	0	0	0	0	0	0	0
675.6	Meters Materials	10	22,329	15,809	5,183	346	971	20	0	0
675.6	Other T&D Plant Materials	10	404,414	286,325	93,865	6,268	17,592	364	0	0
	Subtotal Transmission & Distribution		3,038,446	1,568,030	820,301	153,745	192,025	39,531	54,886	209,926

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection	Public Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Customer Accounting Expenses									
601.7	Meter Reading Labor	13	458,272	400,804	51,968	962	4,491	46	0	0
601.7	Contracts & Orders Labor	12	12	10	1	0	0	0	0	0
601.7	Billing & Acctng Salaries	12	0	0	0	0	0	0	0	0
604.7	Employee Benefits	12	0	0	0	0	0	0	0	0
620.7	Misc Customer Expenses-Current	12	1,145	995	129	2	11	0	7	0
632.7	Contract Services	12	0	0	0	0	0	0	0	0
635.7	Other Contract Services	12	21,012	18,266	2,368	44	204	2	126	2
642.7	Rents	12	2,104	1,829	237	4	20	0	13	0
650.7	Transportation	12	0	0	0	0	0	0	0	0
670.7	Uncollectible Accounts	23	363,891	319,860	25,618	0	0	0	18,413	0
675.7	Meter Reading Expenses	13	1,920	1,680	218	4	19	0	0	0
675.7	Collecting Expenses	12	100,110	87,026	11,282	210	971	10	601	10
675.7	Billing & Acctng Computer	12	279,919	243,334	31,547	588	2,715	28	1,680	28
675.7	Customer Acctg-Billing/Telephone	12	2,280	1,982	257	5	22	0	14	0
675.8	Customer Acctg-Billing/Postage	12	347,272	301,883	39,138	729	3,369	35	2,084	35
675.8	Misc Customer Acctng Expenses	12	124,550	108,271	14,037	262	1,208	12	747	12
675.8	Misc Customer Services	12	82	71	9	0	1	0	0	0
	Subtotal Customer Accounting		1,702,569	1,486,011	176,809	2,810	13,031	133	23,685	87
	Administrative and General Expenses									
601.8	Adm & General Salaries	14	1,716,984	946,917	412,591	124,481	94,262	55,459	23,694	59,579
604.8	Employee Pensions & Benefits	15	3,821,913	1,931,595	969,619	313,397	228,933	141,793	53,889	182,687
604.9	401K Contributions Expense	15	105,157	53,147	26,678	8,623	6,299	3,901	1,483	5,027
632.8	Auditing Services	14	67,604	37,284	16,245	4,901	3,711	2,184	933	2,346
633.8	Legal Services	14	63,627	35,091	15,290	4,613	3,493	2,055	878	2,208
6348.0	Management Fees - Water Quality	1	120,374	39,013	35,715	23,256	9,377	12,218	289	506
6348.0	Management Fees - Cust. Billing/Service	12	1,126,156	978,967	126,918	2,365	10,924	113	6,757	113
6348.0	Management Fees - Administration	14	3,762,969	2,075,277	904,241	272,815	206,587	121,544	51,929	130,575
6348.0	Management Fees - Empl. Service	15	216,535	109,437	54,935	17,756	12,970	8,033	3,053	10,350
6358.0	Contract Services - Other	14	-40,428	-22,296	-9,715	-2,931	-2,219	-1,306	-558	-1,403
635.8	Other Water Trtmt. Contract Services	2	0	0	0	0	0	0	0	0
641.8	Rental - Real Property	14	3,513	1,938	844	255	193	113	48	122
642.8	Rental - Equipment	14	2,788	1,538	670	202	153	90	38	97
650.8	Transportation	14	369,866	203,981	88,879	26,815	20,306	11,947	5,104	12,834
657.8	General Liability	14	220,896	121,824	53,081	16,015	12,127	7,135	3,048	7,665
658.8	Workmens Comp Premium Exp	15	212,402	107,348	53,886	17,417	12,723	7,880	2,995	10,153
659.8	Insurance Other	14	52,606	29,012	12,641	3,814	2,888	1,699	726	1,825
660.8	Advertising Exp	14	10,943	6,035	2,630	793	601	353	151	380
666.8	Regulatory Commission Expenses	18	379,918	182,741	100,336	34,003	24,239	15,197	5,813	17,590

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection	Public Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
675.8	Expenses Of Employees	15	38,230	19,322	9,699	3,135	2,290	1,418	539	1,827
675.8	Misc Office Expenses	14	42,334	23,347	10,173	3,069	2,324	1,367	584	1,469
675.8	Misc. General Expense - Current	14	439,300	242,274	105,564	31,849	24,118	14,189	6,062	15,244
675.8	Miscellaneous General Exp	14	394,936	217,807	94,903	28,633	21,682	12,756	5,450	13,704
657.8	AFUDC Adjustment	14	(204,000)	(112,506)	(49,021)	(14,790)	(11,200)	(6,589)	(2,815)	(7,079)
	Subtotal Administrative and General		12,924,624	7,229,093	3,036,802	920,486	686,781	413,549	170,090	467,819
	Total Operation & Maintenance Expenses		23,640,779	12,439,849	5,772,803	2,095,094	1,346,521	990,904	273,736	721,862

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection	Public Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
DEPRECIATION EXPENSE										
	Intangible									
339.70	Comprehensive Planning Study	14	14,450	7,969	3,472	1,048	793	467	199	501
	Source of Supply									
	Structures	2	938	325	287	159	75	87	2	3
304.10	Land & Land Rights	2	0	0	0	0	0	0	0	0
306.00	Lakes, Rivers, & Other Intakes	2	4,060	1,406	1,242	690	326	378	7	12
	Other Pumping Equipment SS	2	4,152	1,438	1,270	705	333	387	7	12
339.20	Other P/E SS	2	399	138	122	68	32	37	1	1
309.00	Supply Mains	2	11,292	3,910	3,453	1,919	907	1,051	19	33
	Pumping Equipment									
304.20	Pumping Structures	6	83,881	29,132	25,718	13,052	6,752	6,887	847	1,493
	Lookout Mountain Tariff	19	547	449	78	0	20	0	0	0
	Lakeview Tariff	20	49	43	5	0	1	0	0	0
310.10	Power Generation Equipment -other	6	28,041	9,739	8,597	4,363	2,257	2,302	283	499
311.20	Electric Pumping Equipment	6	134,907	46,853	41,362	20,992	10,860	11,076	1,363	2,401
	Lookout Mountain Tariff	19	7,563	6,204	1,079	0	280	0	0	0
	Lakeview Tariff	20	2,302	2,023	251	0	28	0	0	0
311.30	Diesel Pumping Equipment	6	2,982	1,036	914	464	240	245	30	53
311.50	Other Pumping Equipment	6	4,602	1,598	1,411	716	370	378	46	82
	Water Treatment									
303.00	Land & Land Rights	2	0	0	0	0	0	0	0	0
304.30	Water Treatment Structures	2	304,470	105,438	93,107	51,729	24,449	28,346	518	883
304.30	Water Treatment Structures-Painting	2	0	0	0	0	0	0	0	0
320.10	Water Treatment Equipment	2	137,473	47,607	42,039	23,357	11,039	12,799	234	399
320.20	Granular Activated Carbon	2	134,031	46,415	40,987	22,772	10,763	12,478	228	389
	Transmission & Distribution									
303.00	Land & Land Rights	7	0	0	0	0	0	0	0	0
304.40	T & D Structures	7	11,162	4,442	3,930	857	1,032	179	263	458
330.00	T & D Reservoirs & Standpipes	5	133,309	44,485	39,313	20,583	10,318	10,811	2,839	4,959
	Lookout Mountain Tariff	19	4,185	3,433	597	0	155	0	0	0
	Lakeview Tariff	20	0	0	0	0	0	0	0	0
330.00	T & D Reservoirs & Standpipes-Painting	5	367,326	122,577	108,324	56,715	28,431	29,790	7,824	13,665
	Lookout Mountain Tariff	19	0	0	0	0	0	0	0	0
	Lakeview Tariff	20	17,950	15,773	1,957	0	221	0	0	0

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection	Public Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
330.10	Elevated Tanks & Standpipes	5	52,067	17,375	15,355	8,039	4,030	4,223	1,109	1,937
	Ground Level Facilities	5	70	23	21	11	5	6	1	3
330.40	Clearwells	2	11,233	3,890	3,435	1,908	902	1,046	19	33
331.00	T & D Mains not Classified	4	25,498	10,472	9,269	1,476	2,435	0	673	1,173
331.10	T & D Mains - Mains (4" or less)	4	66,867	27,462	24,306	3,872	6,386	0	1,765	3,076
331.20	T & D Mains - Mains (6" - 8")	4	18	7	7	1	2	0	0	1
331.21	T & D Mains - Mains (6" - 10") TN	4	841,499	345,604	305,885	48,723	80,363	0	22,216	38,709
331.30	T & D Mains - Mains (10" - 16")	3	122,703	41,511	36,639	20,356	9,620	11,166	1,239	2,172
331.35	T & D Mains - Mains (12" or More)	3	341,478	115,522	101,965	56,651	26,772	31,074	3,449	6,044
333.00	Services	11	251,499	196,597	30,733	905	3,496	25	19,743	0
334.10	Meters	10	380,877	269,661	88,402	5,904	16,568	343	0	0
334.11	Meters-Metal Case/Old Style	10	236,778	167,640	54,956	3,670	10,300	213	0	0
334.12	Meters - Plastic Case	10	0	0	0	0	0	0	0	0
334.13	Meters - Metal Case/New Style	10	1,295	917	301	20	56	1	0	0
334.20	Meter Installations	10	320,989	227,260	74,502	4,975	13,963	289	0	0
335.00	Hydrants	21	196,386	0	0	0	0	0	0	196,386
	General Plant									
303.00	Land & Land Rights AG	14	0	0	0	0	0	0	0	0
304.60	Office Structures	14	4,461	2,460	1,072	323	245	144	62	155
304.70	Stores , Shop, & Garage Structures	14	2,282	1,259	548	165	125	74	31	79
304.80	Structures and Imp. Misc.	14	0	0	0	0	0	0	0	0
304.80	Miscellanous Structures	14	3,209	1,770	771	233	176	104	44	111
340.10	Office Furniture	14	8,220	4,533	1,975	596	451	266	113	285
340.20	Computer & Peripheral Equipment	14	7,003	3,862	1,683	508	384	226	97	243
340.21	Computer and Mainframe Equipment	14	0	0	0	0	0	0	0	0
340.22	Computer & Periph Personal	14	7,735	4,266	1,859	561	425	250	107	268
340.23	Computer & Periph Other	14	6,454	3,560	1,551	468	354	208	89	224
340.30	Computer Software	14	0	0	0	0	0	0	0	0
340.31	Computer Software Mainframe	14	0	0	0	0	0	0	0	0
340.32	Computer Software Personal	14	0	0	0	0	0	0	0	0
340.33	Computer Software Other	14	0	0	0	0	0	0	0	0
340.40	Data Handling Equipment	14	755	418	181	55	41	24	10	26
340.50	Other Office Equipment	14	767	423	184	56	42	25	11	27
341.10	Light Trucks	14	192,741	106,297	46,316	13,974	10,581	6,226	2,660	6,688
341.20	Heavy Trucks	14	217,421	119,908	52,246	15,763	11,936	7,023	3,000	7,545
341.30	Automobiles	14	29,726	16,395	7,143	2,155	1,632	960	410	1,031
341.40	Transportation-Other	14	32,782	18,079	7,878	2,377	1,800	1,059	452	1,138
342.00	Stores Equipment	14	0	0	0	0	0	0	0	0
343.00	Tools, Shop, & Garage Equipment	14	88,911	49,035	21,365	6,446	4,881	2,872	1,227	3,085
344.00	Laboratory Equipment	2	4,237	1,468	1,296	720	340	394	7	12
345.00	Power Operated Equipment	14	0	0	0	0	0	0	0	0

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection	Public Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
346.10	Communication Equipment Non telephone'	14	21,776	12,009	5,233	1,579	1,196	703	301	756
346.20	Communication Equipment-Telephone	14	3,170	1,748	762	230	174	102	44	110
347.00	Miscellaneous Equipment	14	70,302	38,772	16,894	5,097	3,860	2,271	970	2,439
348.00	Other Tangible Plant	14	251	139	60	18	14	8	3	9
	Total Depreciation Expense		4,961,531	2,312,775	1,334,308	428,024	323,237	189,023	74,562	299,608
AMORTIZATIONS										
680.51	Amortization of CIAC	4	(189,877)	(77,982)	(69,020)	(10,994)	(18,133)	-	(5,013)	(8,734)
680.52	Amortization of Utility Capital Lease	14	106,033	58,478	25,480	7,687	5,821	3,425	1,463	3,679
	Total Depreciation & Amortization		4,877,687	2,293,271	1,290,768	424,717	310,925	192,448	71,012	294,553
TAXES OTHER THAN INCOME TAXES										
685.20	Property Taxes	16	2,936,068	1,296,275	840,303	241,932	209,635	92,486	63,125	192,312
685.32	FUTA Oper AG	15	5,185	2,621	1,315	425	311	192	73	248
685.33	FICA Oper AG	15	421,089	212,820	106,830	34,529	25,223	15,622	5,937	20,128
685.35	SUTA Oper AG	15	12,500	6,318	3,171	1,025	749	464	176	598
685.43	Franchise Taxes	18	377,690	181,669	99,748	33,803	24,097	15,108	5,779	17,487
685.00	PSC Fee	18	117,779	56,653	31,105	10,541	7,514	4,711	1,802	5,453
	Franchise Tax - Lookout Mtn	19	0	0	0	0	0	0	0	0
685.00	Filing Fee	18	0	0	0	0	0	0	0	0
685.44	Gross Receipts Tax	18	529,961	254,911	139,963	47,432	33,812	21,198	8,108	24,537
	Total Taxes Other Than Income Taxes		4,400,272	2,011,267	1,222,435	369,687	301,341	149,781	85,000	260,763
INCOME TAXES										
409.15	Federal and State Income Taxes	17	3,847,543	1,717,158	1,081,929	334,736	268,174	138,127	76,566	230,853
	Total Income Taxes		3,847,543	1,717,158	1,081,929	334,736	268,174	138,127	76,566	230,853
UTILITY OPERATING INCOME		17	10,514,637	4,692,684	2,956,716	914,773	732,870	377,475	209,241	630,878
	Total Cost of Service		47,280,918	23,154,229	12,324,651	4,139,007	2,959,831	1,848,735	715,555	2,138,909
	Less:									
	Other Fees	18	(531,331)	(255,570)	(140,325)	(47,554)	(33,899)	(21,253)	(8,129)	(24,601)
	Billing Services and Misc. Revenues	12	(1,073,079)	(932,828)	(120,936)	(2,253)	(10,409)	(107)	(6,438)	(107)
	Total Cost of Service Related to Sales		45,676,508	21,965,831	12,063,390	4,089,200	2,915,523	1,827,375	700,988	2,114,201
	Allocation of Public Fire			1,131,750	621,545	210,689	150,217	0	0	(2,114,201)
	Total		45,676,508	$23,097,581	$12,684,935	$4,299,889	$3,065,740	$1,827,375	$700,988	$0

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS

FACTOR 1. ALLOCATION OF COSTS WHICH VARY WITH THE AMOUNT OF WATER CONSUMED

Factors are based on the pro forma test year average daily consumption for each customer classification.

Customer Classification	Average Daily Consumption, 100 Cu. Ft.	Allocation Factor
(1)	(2)	(3)
Residential	11,775	0.3241
Commercial	10,776	0.2967
Industrial	7,018	0.1932
Other Public Authority	2,830	0.0779
Other Water Utilities	3,686	0.1015
Private Fire Protection	88	0.0024
Public Fire Protection	154	0.0042
Total	36,327	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 2. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE AND EXTRA CAPACITY FUNCTIONS.

Factors are based on the weighting of the factors for average daily consumption (Factor 1) and the factors derived from maximum day extra capacity demand for each customer classification, as follows:

	Average Daily Consumption		Maximum Day Extra Capacity		
Customer Classification	Allocation Factor 1	Weighted Factor	Allocation Factor	Weighted Factor	Allocation Factor
(1)	(2)	(3)=(2)x 0.6897	(4)	(5)=(4)x 0.3103	(6)=(3)+(5)
	0.3241	0.2235	0.3959	0.1228	0.3463
Residential	0.2967	0.2046	0.3261	0.1012	0.3058
Commercial	0.1932	0.1333	0.118	0.0366	0.1699
Industrial	0.0779	0.0537	0.0856	0.0266	0.0803
Other Public Authority	0.1015	0.07	0.0744	0.0231	0.0931
Other Water Utilities	0.0024	0.0017			0.0017
Private Fire Protection	0.0042	0.0029			0.0029
Public Fire Protection					
Total	1.0000	0.6897	1.0000	0.3103	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 2. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE AND EXTRA CAPACITY FUNCTIONS, cont.

Customer Classification (1)	Average Daily Consumption, 100 Cu. Ft. (2)	Maximum Day Extra Capacity Factor* (3)	Maximum Day Extra Capacity Rate of Flow, 100 Cu. Ft. Per Day (4)=(2)x(3)	Allocation Factor (5)
	11,775	1.0	11,775	0.3959
Residential	10,776	0.9	9,698	0.3261
Commercial	7,018	0.5	3,509	0.1180
Industrial	2,830	0.9	2,547	0.0856
Other Public Authority	3,686	0.6	2,212	0.0744
Other Water Utilities				
Subtotal	36,085		29,741	1.0000

The weighting of the factors is based on the maximum day ratio of 1.45, based on a review of maximum day ratios experienced during the period 1995 through 2007.

	Maximum Day Ratio	Weight
Average Day	1.00	0.6897
Maximum Day Extra Capacity	0.45	0.3103
Total	1.45	1.0000

* Ratio of maximum day to average day minus 1.0.

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 3. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE, MAXIMUM DAY AND FIRE SERVICE FUNCTIONS.

Factors are based on the weighting of the factors for average daily consumption (Factor 1), the factors derived from maximum day extra capacity demand and the fire protection demand by each customer classification, as follows:

Customer Classification	Average Daily Consumption		Maximum Day Extra Capacity		Fire Protection		
	Allocation Factor 1	Weighted Factor	Allocation Factor	Weighted Factor	Allocation Factor	Weighted Factor	Allocation Factor
(1)	(2)	(3)=(2)x 0.6735	(4)	(5)=(4)x 0.3031	(6)	(7)=(6)x 0.0234	(8)=(3)+(5)+(7)
Residential	0.3241	0.2183	0.3959	0.1200			0.3383
Commercial	0.2967	0.1998	0.3261	0.0988			0.2986
Industrial	0.1932	0.1301	0.1180	0.0358			0.1659
Other Public Authority	0.0779	0.0525	0.0856	0.0259			0.0784
Other Water Utilities	0.1015	0.0684	0.0744	0.0226			0.0910
Private Fire Protection	0.0024	0.0016			0.3638	0.0085	0.0101
Public Fire Protection	0.0042	0.0028			0.6362	0.0149	0.0177
Subtotal	1.0000	0.6735	1.0000	0.3031	1.0000	0.0234	1.0000

The weighting of the factors is based on the maximum day ratio of 1.45 and the system demand for fire protection, as shown below. The fire protection factors in column 6 are developed on the following page.

	Maximum Day Ratio	System Delivery, GPD	Weight
Average Day	1.00	36,301,408	0.6735
Maximum Day Extra Capacity	0.45	16,335,634	0.3031
Subtotal	1.45	52,637,042	0.9766
Fire Protection		1,260,000	0.0234
Total		53,897,042	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

BASIS FOR ALLOCATION OF DEMAND-RELATED COSTS OF
FIRE SERVICE TO PRIVATE AND PUBLIC FIRE PROTECTION

Description	Restrictive Diameter(s) Squared	Number of Units	Relative Demand	Allocation Factor
(1)	(2)	(3)	(4)=(2)X(3)	(5)
Private Fire Protection				
1 -Inch Fire Line	1	0	0	
1.5 -Inch Fire Line	2.25	1	2	
2 -Inch Fire Line	4	16	64	
2.5 -Inch Fire Line	6.25	1	6	
3 -Inch Fire Line	9	2	18	
4 -Inch Fire Line	16	107	1,712	
6 -Inch Fire Line	36	878	31,608	
8 -Inch Fire Line	64	307	19,648	
10 -Inch Fire Line	100	17	1,700	
12 -Inch Fire Line	144	21	3,024	
Total Private Fire Protection		1,350	57,783	0.3638
Public Fire Protection				
4-1/2 inch, 3 way	20.25	4,989	101,027	
Total Public Fire Protection		4,989	101,027	0.6362
Total Fire Protection Service		6,339	158,810	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 4. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE, MAXIMUM HOUR AND FIRE SERVICE FUNCTIONS.

Factors are based on the weighting of the factors for the adjusted average hour consumption, the factors derived from maximum hour extra capacity demand and the fire protection demand by each customer classification, as follows:

Customer Classification	Average Hour Consumption		Maximum Hour Extra Capacity		Fire Protection		
	Allocation Factor	Weighted Factor	Allocation Factor	Weighted Factor	Allocation Factor	Weighted Factor	Allocation Factor
(1)	(2)	(3)=(2)x 0.4905	(4)	(5)=(4)x 0.4414	(6)	(7)=(6)x 0.0681	(8)=(3)+(5)+(7
Residential	0.4245	0.2082	0.4587	0.2025			0.4107
Commercial	0.3886	0.1906	0.3918	0.1729			0.3635
Industrial	0.0760	0.0373	0.0466	0.0206			0.0579
Other Public Authority	0.1021	0.0501	0.1029	0.0454			0.0955
Other Water Utilities	0.0000	0.0000	0.0000	0.0000			0.0000
Private Fire Protection	0.0032	0.0016			0.3638	0.0248	0.0264
Public Fire Protection	0.0056	0.0027			0.6362	0.0433	0.0460
Subtotal	1.0000	0.4905	1.0000	0.4414	1.0000	0.0681	1.0000

The weighting of the factors and the maximum hour extra capacity factors in column 4 are shown on the following page.

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 4. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE, MAXIMUM HOUR AND FIRE SERVICE FUNCTIONS.

Customer Classification	Average Hour Consumption, 100 Cu. Ft.	Maximum Hour Extra Capacity Factor*	Maximum Hour Extra Capacity Rate of Flow, 100 Cu. Ft. Per Hour	Allocation Factor
(1)	(2)	(3)	(4)=(2)x(3)	(5)
Residential	491	3.0	1,472	0.4587
Commercial	449	2.8	1,257	0.3918
Industrial	88	1.7	149	0.0466
Other Public Authority	118	2.8	330	0.1029
Other Water Utilities	0	1.7	0	0.0000
Total	1,145		3,209	1.0000

The weighting of the factors is based on the maximum hour ratio of 1.90 and the system demand for fire protection, as follows:

	Maximum Hour Ratio	System Delivery, GPM	Weight
Average Hour	1.0	25,209	0.4905
Maximum Hour Extra Capacity	0.9	22,688	0.4414
Subtotal	1.9	47,897	0.9319
Fire Protection		3,500	0.0681
Total		51,397	1.0000

* Ratio of maximum hour to average day minus 1.0.

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 5. ALLOCATION OF COSTS ASSOCIATED WITH STORAGE FACILITIES.

Factors are based on the weighting of the factors for average hour consumption (Factor 1), the factors derived from maximum hour extra capacity demand and the fire protection demand by each customer classification, as follows:

Customer Classification	Average Hour Consumption		Maximum Hour Extra Capacity		Fire Protection		Allocation Factor
	Allocation Factor 1	Weighted Factor	Allocation Factor	Weighted Factor	Allocation Factor	Weighted Factor	
(1)	(2)	(3)=(2)x 0.4973	(4)	(5)=(4)x 0.4475	(6)	(7)=(6)x 0.0552	(8)=(3)+(5)+(7)
Residential	0.3241	0.1612	0.3856	0.1725			0.3337
Commercial	0.2967	0.1475	0.3293	0.1474			0.2949
Industrial	0.1932	0.0961	0.1302	0.0583			0.1544
Other Public Authority	0.0779	0.0387	0.0865	0.0387			0.0774
Other Water Utilities	0.1015	0.0505	0.0684	0.0306			0.0811
Private Fire Protection	0.0024	0.0012			0.3638	0.0201	0.0213
Public Fire Protection	0.0042	0.0021			0.6362	0.0351	0.0372
Subtotal	1.0000	0.4973	1.0000	0.4475	1.0000	0.0552	1.0000

The weighting of the factors and the maximum hour extra capacity factors in column 4 are shown on the following page.

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 5. ALLOCATION OF COSTS ASSOCIATED WITH STORAGE FACILITIES.

Customer Classification	Average Hour Consumption, 100 Cu. Ft.	Maximum Hour Extra Capacity		Allocation Factor
		Factor*	Rate of Flow, 100 Cu. Ft. Per Hour	
(1)	(2)	(3)	(4)=(2)x(3)	(5)
Residential	491	3.0	1,472	0.3856
Commercial	449	2.8	1,257	0.3293
Industrial	292	1.7	497	0.1302
Other Public Authority	118	2.8	330	0.0865
Other Water Utilities	154	1.7	261	0.0684
Total	1,504		3,817	1.0000

* Ratio of maximum hour to average day minus 1.0.

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 5. ALLOCATION OF COSTS ASSOCIATED WITH STORAGE FACILITIES.

The weighting of the factors is based on the ratio of the capacity required for a 6-hour demand of fire flow, as related to total storage capacity.

Fire Protection Weight = $\frac{3500 \text{ GPM} \times 60 \text{ min.} \times 6 \text{ Hours}}{22{,}811{,}000 \text{ Gallons Storage}} = 0.0552$

General Service Weight = 1 - 0.0552 = 0.9448

The weighting of the average hourly consumption and maximum hour extra demand for general service is based on the maximum hour ratio, as follows.

	Maximum Hour Ratio	Percent	Weight
Average Hour	1.0	52.63	0.4973
Extra Capacity Maximum Hour	0.9	47.37	0.4475
Total	1.9	100.00	0.9448

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 6. ALLOCATION OF COSTS ASSOCIATED WITH POWER AND PUMPING FACILITIES.

Factors are based on the weighting of the factors for maximum daily demand (Factor 2), maximum day extra capacit and fire demand (Factor 3) and maximum hour extra capacity and fire demand (Factor 4) for each customer classification.

	Maximum Day Extra Capacity		Maximum Day Extra Capacity and Fire		Maximum Hour Extra Capacity and Fire		
Customer Classification	Allocation Factor 2	Weighted Factor	Allocation Factor 3	Weighted Factor	Allocation Factor 4	Weighted Factor	Allocation Factor
(1)	(2)	(3)=(2)x 0.1932	(4)	(5)=(4)x 0.7046	(6)	(7)=(6)x 0.1022	(8)=(3)+(5)+(7)
Residential	0.3463	0.0669	0.3383	0.2384	0.4107	0.0420	0.3473
Commercial	0.3058	0.0591	0.2986	0.2104	0.3635	0.0371	0.3066
Industrial	0.1699	0.0328	0.1659	0.1169	0.0579	0.0059	0.1556
Other Public Authority	0.0803	0.0155	0.0784	0.0552	0.0955	0.0098	0.0805
Other Water Utilities	0.0931	0.0180	0.0910	0.0641	-	-	0.0821
Private Fire Protection	0.0017	0.0003	0.0101	0.0071	0.0264	0.0027	0.0101
Public Fire Protection	0.0029	0.0006	0.0177	0.0125	0.0460	0.0047	0.0178
Subtotal	1.0000	0.1932	1.0000	0.7046	1.0000	0.1022	1.0000

The weighting of the factors is based on an analysis of pumping equipment by function, as follows:

	Horse Power of Pumps	Weight
Maximum Day Extra Capacity	2,700	0.1932
Maximum Day Extra Capacity and Fire	9,850	0.7046
Maximum Hour Extra Capacity and Fire	1,429	0.1022
Total	13,979	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 7. ALLOCATION OF COSTS ASSOCIATED WITH TRANSMISSION AND DISTRIBUTION MAINS.

Factors are based on the weighting of the factors for maximum day extra capacity and fire demand (Factor 3) and maximum hour extra capacity and fire demand (Factor 4) for each customer classification, as follows:

Customer Classification	Maximum Day Extra Capacity and Fire Allocation Factor 3	Maximum Day Extra Capacity and Fire Weighted Factor	Maximum Hour Extra Capacity and Fire Allocation Factor 4	Maximum Hour Extra Capacity and Fire Weighted Factor	Allocation Factor
(1)	(2)	(3)=(2)x 0.1754	(4)	(5)=(4)x 0.8246	(6)=(3)+(5)
Residential	0.3383	0.0592	0.4107	0.3388	0.3980
Commercial	0.2986	0.0524	0.3635	0.2997	0.3521
Industrial	0.1659	0.0291	0.0579	0.0477	0.0768
Other Public Authority	0.0784	0.0138	0.0955	0.0787	0.0925
Other Water Utilities	0.0910	0.0160	-	-	0.0160
Private Fire Protection	0.0101	0.0018	0.0264	0.0218	0.0236
Public Fire Protection	0.0177	0.0031	0.0460	0.0379	0.0410
Total	1.0000	0.1754	1.0000	0.8246	1.0000

The weighting of the factors is based on the footage of transmission and distribution mains as set forth below:

	Footage of Mains	Weight
Transmission Mains	1,188,862	0.1754
Distribution Mains	5,587,662	0.8246
Total	6,776,524	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 8. ALLOCATION OF TRANSMISSION AND DISTRIBUTION OPERATIONS AND SUPERVISION EXPENSES.

Factors are based on the allocation of transmission and distribution operation labor, as follows:

Customer Classification	Transmission & Distribution Operating Labor	Allocation Factor
(1)	(2)	(3)
Residential	$309,505	0.6044
Commercial	127,724	0.2495
Industrial	27,599	0.0539
Other Public Authority	27,071	0.0529
Other Water Utilities	11,814	0.0231
Private Fire Protection	3,015	0.0059
Public Fire Protection	5,266	0.0103
Total	$511,994	1.0000

FACTOR 9. ALLOCATION OF TRANSMISSION AND DISTRIBUTION MAINTENANCE SUPERVISION EXPENSES.

Factors are based on the allocation of transmission and distribution maintenance labor, as follows:

Customer Classification	Transmission & Distribution Maintenance Labor	Allocation Factor
(1)	(2)	(3)
Residential	$551,781	0.4521
Commercial	317,258	0.2599
Industrial	60,066	0.0492
Other Public Authority	77,320	0.0633
Other Water Utilities	12,101	0.0099
Private Fire Protection	34,942	0.0286
Public Fire Protection	167,252	0.1370
Total	$1,220,720	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 10. ALLOCATION OF COSTS ASSOCIATED WITH METERS.

Factors are based on the relative cost of meters by size as developed on the following page and summarized below:

Customer Classification	Meter Equivalents	Allocation Factor
(1)	(2)	(3)
Residential	66,351	0.7080
Commercial	21,746	0.2321
Industrial	1,449	0.0155
Other Public Authority	4,074	0.0435
Other Water Utilities	83	0.0009
Subtotal	93,703	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.
BASIS FOR ALLOCATING METER COSTS TO CUSTOMER CLASSIFICATIONS

		Residential		Commercial		Industrial		Other Public Authority		Other Water Utilities		Total	
Meter Size	5/8" Equivalent	Number of Meters	Weighting	Number of Meters	Weighting	Number of Meters	Weighting	Number of Meters	Weighting	Number of Meters	Weighting	Number of Meters	Weighting
(1)	(2)	(3)	(4)=(2)x(3)	(5)	(6)=(2)x(5)	(7)	(8)=(2)x(7)	(9)	(10)=(2)x(9)	(11)	(12)=(2)x(11)	(12)	(13)=(2)x(12)
5/8-inch	1	65,250	65,250	5,349	5,349	22	22	185	185	-	-	70,806	70,806
3/4-inch	1.5	133	200	137	206	2	3	13	20	-	-	285	428
1-inch	2.5	284	710	1,516	3,790	23	58	140	350	-	-	1,963	4,908
1-1/2-inch	5	19	95	360	1,800	7	35	71	355	-	-	457	2,285
2-inch	8	12	96	1,082	8,656	82	656	298	2,384	1	8	1,475	11,800
3-inch	15	-	-	39	585	-	-	7	105	-	-	46	690
4-inch	25	-	-	24	600	17	425	21	525	3	75	65	1,625
6-inch	50	-	-	12	600	5	250	3	150	-	-	20	1,000
8-inch	80	-		2	160	-		-		-		2	160
Total		65,698	66,351	8,521	21,746	158	1,449	738	4,074	4	83	75,119	93,702

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 11. ALLOCATION OF COSTS ASSOCIATED WITH SERVICES.

Factors are based on the relative cost of services by size as developed on the following page and summarized below:

Customer Classification	Service Equivalents	Allocation Factor
(1)	(2)	(3)
Residential	65,778	0.7817
Commercial	10,284	0.1222
Industrial	297	0.0036
Other Public Authority	1,169	0.0139
Other Water Utilities	11	0.0001
Private Fire Protection	6,606	0.0785
Subtotal	84,145	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.
BASIS FOR ALLOCATING SERVICES COSTS TO CUSTOMER CLASSIFICATIONS

Meter Size	3/4" Equivalent	Residential		Commercial		Industrial		Other Public Authority		Other Water Utilities		Private Fire Service		Total	
		Number of Services	Weighting	Number of Services	Weighting	Number of Services	Weighting	Number of Services	Weighting	Number of Services	Weighting	Number of Services	Weighting	Number of Services	Weighting
(1)	(2)	(3)	(4)=(2)x(3)	(5)	(6)=(2)x(5)	(7)	(8)=(2)x(7)	(9)	(10)=(2)x(9)	(11)	(12)=(2)x(11)	(13)	(14)=(2)x(13)	(15)	(16)=(2)x(15)
3/4-inch	1.0	65,383	65,383	5,486	5,486	24	24	198	198	0	0	0	0	71,091	71,091
1-inch	1.2	284	341	1,516	1,819	23	28	140	168	0	0	0	0	1,963	2,356
1-1/2-inch	1.6	19	30	360	576	7	11	71	114	0	0	1	2	458	733
2-inch	2.0	12	24	1,082	2,164	82	164	298	596	1	2	17	34	1,492	2,984
3-inch	2.7	0	0	39	105	0	0	7	19	0	0	2	5	48	130
4-inch	2.9	0	0	24	70	17	49	21	61	3	9	107	310	172	499
6-inch	4.2	0	0	12	50	5	21	3	13	0	0	878	3,688	898	3,772
8-inch	7.0	0	0	2 0	14	0	0	0 0	0	0	0	307	2,149	309	2,163
10-inch	9.5	0	0	0	0	0	0	0	0	0	0	17	162	17	162
12-inch	12.2	0	0	0	0	0	0	0	0	0	0	21	256	21	256
Total		65,698	65,778	8,521	10,284	158	297	738	1,169	4	11	1,350	6,606	76,469	84,146

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 12. ALLOCATION OF CUSTOMER ACCOUNTING COSTS.

Factors are based on the number of bills by classification, as follows:

Customer Classification	Number of Bills	Allocation Factor
(1)	(2)	(3)
Residential	788,366	0.8693
Commercial	102,256	0.1127
Industrial	1,886	0.0021
Other Public Authority	8,842	0.0097
Other Water Utilities	48	0.0001
Private Fire Protection	5,400	0.0060
Public Fire Protection	132	0.0001
Total	906,930	1.0000

FACTOR 13. ALLOCATION OF METER READING COSTS.

Factors are based on the number of meter readings by classification, as follows:

Customer Classification	Number of Meter Readings	Allocation Factor
(1)	(2)	(3)
Residential	788,366	0.8746
Commercial	102,256	0.1134
Industrial	1,886	0.0021
Other Public Authority	8,842	0.0098
Other Water Utilities	48	0.0001
Total	901,398	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 14. ALLOCATION OF ADMINISTRATIVE AND GENERAL EXPENSE.

Factors are based on the allocation of operation and maintenance expenses excluding power and chemicals, as follows:

Customer Classification	Operation and Maintenance Expenses	Allocation Factor
(1)	(2)	(3)
Residential	$3,799,931	0.5515
Commercial	1,655,640	0.2403
Industrial	499,547	0.0725
Other Public Authority	377,964	0.0549
Other Water Utilities	222,703	0.0323
Private Fire Protection	95,260	0.0138
Public Fire Protection	239,369	0.0347
Total	$6,890,414	1.0000

FACTOR 15. ALLOCATION OF LABOR RELATED TAXES AND BENEFITS.

Factors are based on the allocation of operation and maintenance labor expense, as follows:

Customer Classification	Labor Expense	Allocation Factor
(1)	(2)	(3)
Residential	$2,869,669	0.5054
Commercial	1,440,997	0.2537
Industrial	465,979	0.0820
Other Public Authority	340,478	0.0599
Other Water Utilities	210,845	0.0371
Private Fire Protection	80,350	0.0141
Public Fire Protection	271,643	0.0478
Total	$5,679,961	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 16. ALLOCATION OF INTANGIBLE PLANT AND OTHER RATE BASE ELEMENTS.

Factors are based on the allocation of utility plant in service less depreciation, follows:

Customer Classification	Utility Plant in Serivce Less Depreciation Reserve	Allocation Factor
(1)	(2)	(3)
Residential	$67,814,978	0.4415
Commercial	43,959,230	0.2862
Industrial	12,657,502	0.0824
Other Public Authority	10,960,353	0.0714
Other Water Utilities	4,831,430	0.0315
Private Fire Protection	3,296,023	0.0215
Public Fire Protection	10,062,609	0.0655
Total	$153,582,125	1.0000

FACTOR 17. ALLOCATION OF INCOME TAXES AND INCOME AVAILABLE FOR RETURN.

Factors are based on the allocation of original cost rate base, as shown on the following pages and summarized below.

Customer Classification	Original Cost Rate Base	Allocation Factor
(1)	(2)	(3)
Residential	$56,008,275	0.4463
Commercial	35,286,092	0.2812
Industrial	10,913,496	0.0870
Other Public Authority	8,745,662	0.0697
Other Water Utilities	4,498,215	0.0359
Private Fire Protection	2,497,275	0.0199
Public Fire Protection	7,523,960	0.0600
Total	$125,472,975	1.0000

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection	Public Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
UTILITY PLANT IN SERVICE LESS DEPRECIATION										
	Intangible									
339600	Comprehensive Planning Study	16	224,324	99,039	64,201	18,484	16,017	7,066	4,823	14,693
	Source of Supply									
303.00	Land & Land Rights	2	73,444	25,434	22,459	12,478	5,898	6,838	125	213
304.21	Struct & Improv SS	2	44,173	15,297	13,508	7,505	3,547	4,112	75	128
305.00	Collecting and Impound Res	2	0							
306.20	Lakes, Rivers, & Other Intakes	2	224,060	77,592	68,518	38,068	17,992	20,860	381	650
307.00	Wells and Springs	2	0	-	-	-	-	-	-	-
308.00	Infiltration Galleries and Tunnels	2	0	-	-	-	-	-	-	-
309.00	Supply Mains	2	486,957	168,633	148,911	82,734	39,103	45,336	828	1,412
311.52	Pump Equipment Source of Supply	2	156,770	54,290	47,940	26,635	12,589	14,595	267	455
339.00	Other Source of Supply Plant & Equip.	2	1,297	449	397	220	104	121	2	4
	Pumping Equipment									
304.22	Pumping Structures	6	2,842,200	987,096	871,418	442,246	228,797	233,345	28,706	50,591
	Lookout Mountain Tariff	19	2,796	2,294	399	-	103	-	-	-
	Lakeview Tariff	20	1,052	924	115	-	13	-	-	-
310.20	Power Generation Equipment	6	115,398	40,078	35,381	17,956	9,290	9,474	1,166	2,054
311.22	Electric Pumping Equipment	6	2,843,592	987,580	871,845	442,463	228,909	233,459	28,720	50,616
	Lookout Mountain Tariff	19	223,888	183,655	31,949	-	8,284	-	-	-
	Lakeview Tariff	20	45,540	40,016	4,964	-	560	-	-	-
311.23	Diesel Pumping Equipment	6	58,179	20,205	17,838	9,053	4,683	4,776	588	1,036
311.27	Other Pumping Equipment	6	153,154	53,190	46,957	23,831	12,329	12,574	1,547	2,726
	Water Treatment									
303.00	Land & Land Rights	2	18,009	6,237	5,507	3,060	1,446	1,677	31	52
304.31	Water Treatment Structures	2	5,717,665	1,980,027	1,748,462	971,431	459,129	532,315	9,720	16,581
304.32	Water Treatment Structures-Painting	2	0	-	-	-	-	-	-	-
320.31	Water Treatment Equipment	2	2,418,762	837,617	739,657	410,948	194,227	225,187	4,112	7,014
320.33	Granular Activated Carbon	2	226,474	78,428	69,256	38,478	18,186	21,085	385	657
	Transmission & Distribution									
303.00	Land & Land Rights	7	706,028	280,999	248,592	54,223	65,308	11,296	16,662	28,947
304.40	T & D Structures	7	98,642	39,260	34,732	7,576	9,124	1,578	2,328	4,044
330.40	Clearwell	2	446,484	154,617	136,535	75,858	35,853	41,568	759	1,295
330.41	T & D Reservoirs & Standpipes	5	4,415,917	1,473,592	1,302,254	681,818	341,792	358,131	94,059	164,272
	Lookout Mountain Tariff	19	91,736	75,251	13,091	-	3,394	-	-	-
	Lakeview Tariff	20	0	-	-	-	-	-	-	-

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection	Public Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
330.42	T & D Reservoirs & Standpipes-Painting	5	1,831,938	611,318	540,239	282,851	141,792	148,570	39,020	68,148
	Lookout Mountain Tariff	19	0	-	-	-	-	-	-	-
	Lakeview Tariff	20	100,163	88,013	10,918	-	1,232	-	-	-
330.43	Elevated Tanks & Standpipes	5	1,225,070	408,806	361,273	189,151	94,820	99,353	26,094	45,573
330.20	Ground Level Facilities	7	2,349	935	827	180	217	38	55	96
331.40	T & D Mains not Classified	4	1,694,919	696,103	616,103	98,136	161,865	-	44,746	77,966
331.41	T & D Mains - Mains (4" or less)	4	4,282,861	1,758,971	1,556,820	247,978	409,013	-	113,068	197,012
331.44	T & D Mains - Mains (6" - 8")	4	968	397	352	56	92	-	26	45
331.42	T & D Mains - Mains (6" - 10")	4	52,614,661	21,608,841	19,125,429	3,046,389	5,024,700	-	1,389,027	2,420,274
331.45	T & D Mains - Mains (10" - 16")	3	7,402,583	2,504,294	2,210,411	1,228,089	580,363	673,635	74,766	131,026
331.43	T & D Mains - Mains (12" or More)	3	21,714,165	7,345,902	6,483,850	3,602,380	1,702,391	1,975,989	219,313	384,341
333.40	Services	11	14,541,527	11,367,112	1,776,975	52,349	202,127	1,454	1,141,510	-
334.41	Meters	10	3,618,124	2,561,631	839,766	56,081	157,388	3,256	-	-
334.42	Meters-Metal Case/Old Style	10	2,722,878	1,927,798	631,980	42,205	118,445	2,451	-	-
334.44	Meters, Remote Rread	10	14,204	10,056	3,297	220	618	13	-	-
334.45	Meter Installations	10	9,907,779	7,014,708	2,299,596	153,571	430,988	8,917	-	-
335.40	Hydrants	21	6,259,758	-	-	-	-	-	-	6,259,758
	General									
303.00	Land & Land Rights AG	14	63,484	35,011	15,255	4,603	3,485	2,051	876	2,203
304.51	Office Structures	14	250,892	138,367	60,289	18,190	13,774	8,104	3,462	8,706
304.52	Stores , Shop, & Garage Structures	14	21,510	11,863	5,169	1,559	1,181	695	297	746
304.53	Miscellaneous Structures	14	42,092	23,214	10,115	3,052	2,311	1,360	581	1,461
340.51	Office Furniture	14	197,599	108,976	47,483	14,326	10,848	6,382	2,727	6,857
340.53	Computer & Peripheral Equipment	14	113,034	62,338	27,162	8,195	6,206	3,651	1,560	3,922
340.53	Computer and Mainframe Equipment	14	(40,630)	(22,408)	(9,763)	(2,946)	(2,231)	(1,312)	(561)	(1,410)
340.56	Computer & Periph Personal	14	85,679	47,252	20,589	6,212	4,704	2,767	1,182	2,973
340.57	Computer & Periph Other	14	174,435	96,201	41,917	12,647	9,576	5,634	2,407	6,053
340.55	Computer Software	14	(2,962)	(1,634)	(712)	(215)	(163)	(96)	(41)	(103)
340.55	Computer Software Mainframe	14	(217,051)	(119,704)	(52,157)	(15,736)	(11,916)	(7,011)	(2,995)	(7,532)
340.58	Computer Software Personal	14	(12,492)	(6,889)	(3,002)	(906)	(686)	(403)	(172)	(433)
340.59	Computer Software Other	14	(930)	(513)	(223)	(67)	(51)	(30)	(13)	(32)
340.54	Other Office Equipment	14	16,728	9,226	4,020	1,213	918	540	231	580
340.54	Data Handling Equipment	14	2,373	1,309	570	172	130	77	33	82
341.52	Light Trucks	14	654,634	361,030	157,308	47,461	35,939	21,145	9,034	22,716
341.53	Heavy Trucks	14	724,132	399,359	174,009	52,500	39,755	23,389	9,993	25,127
341.54	Automobiles	14	106,514	58,743	25,595	7,722	5,848	3,440	1,470	3,696
341.55	Transportation-Other	14	356,992	196,881	85,785	25,882	19,599	11,531	4,926	12,388
342.50	Stores Equipment	14	221	122	53	16	12	7	3	8
343.50	Tools, Shop, & Garage Equipment	14	734,568	405,114	176,517	53,256	40,328	23,727	10,137	25,489

TENNESSEE-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSIFICATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011

Account Number	Account Description	Factor Ref.	Cost of Service	Residential	Commercial	Industrial	Other Public Authority	Other Water Utilities	Private Fire Protection	Public Fire Protection
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
344.50	Laboratory Equipment	2	42,872	14,846	13,110	7,284	3,443	3,991	73	124
345.50	Power Operated Equipment	14	(7,426)	(4,095)	(1,784)	(538)	(408)	(240)	(102)	(258)
346.51	Communication Equipment Non-Telephone	14	41,106	22,670	9,878	2,980	2,257	1,328	567	1,426
	Communication Equip. Remote Control	14	145,061	80,001	34,858	10,517	7,964	4,685	2,002	5,034
346.53	Communication Equipment-Telephone	14	18,275	10,079	4,391	1,325	1,003	590	252	634
347.51	Miscellaneous Equipment	14	723,912	399,237	173,956	52,484	39,743	23,382	9,990	25,120
348.00	Other Tangible Plant	14	1,335	736	321	97	73	43	18	46
	Total Utility Plant in Service (Net)		153,806,446	67,914,017	44,023,431	12,675,986	10,976,370	4,838,496	3,300,846	10,077,302
	Other Rate Base Elements									
	Accumulated Deferred ITC	16	(26,899)	(11,876)	(7,698)	(2,216)	(1,921)	(847)	(578)	(1,762)
	Accumulated Amortization of Capital Lease	2	(1,387,269)	(480,411)	(424,227)	(235,697)	(111,398)	(129,155)	(2,358)	(4,023)
	CIAC - Mains	4	(13,466,960)	(5,530,880)	(4,895,240)	(779,737)	(1,286,095)	-	(355,528)	(619,480)
	CIAC - Services	11	(1,894,409)	(1,480,860)	(231,497)	(6,820)	(26,332)	(189)	(148,711)	-
	CIAC - Meters	10	(170,135)	(120,456)	(39,488)	(2,637)	(7,401)	(153)	-	-
	CIAC - Hydrants	21	(983,212)	-	-	-	-	-	-	(983,212)
	Deferred Taxes	16	(17,153,815)	(7,573,409)	(4,909,422)	(1,413,474)	(1,224,782)	(540,345)	(368,807)	(1,123,575)
	Utility Plant Acquisition Adjustment	16	(53,954)	(23,821)	(15,442)	(4,446)	(3,852)	(1,700)	(1,160)	(3,534)
331.4	CWIP - Mains not classified	4	212,609	87,318	77,283	12,310	20,304	-	5,613	9,780
	CWIP - Mains 6"-10"	4	-	-	-	-	-	-	-	-
	CWIP - Comp. Planning Study -other P/E	16	89,238	39,399	25,540	7,353	6,372	2,811	1,919	5,845
304.3	CWIP - Water treatment Structures	2	1,815,009	628,538	555,030	308,370	145,745	168,977	3,086	5,264
340.2	CWIP - Mainframe Computers	14	64,400	35,517	15,475	4,669	3,536	2,080	889	2,235
330.4	CWIP - Mainframe Software	14	1,553,160	856,568	373,224	112,604	85,268	50,167	21,434	53,895
320.3	CWIP -Admin. & General Structures	14	440,492	242,932	105,850	31,936	24,183	14,228	6,079	15,285
	CWIP - Services	11	10,605	8,290	1,296	38	147	1	832	-
	CWIP - Meters & Meter Installations	10	9,269	6,563	2,151	144	403	8	-	-
	CWIP - Hydrants	21	3,809	-	-	-	-	-	-	3,809
	CWIP - Office Furniture	14	2,830	1,561	680	205	155	91	39	98
	RWIP	16	0	-	-	-	-	-	-	-
	Deferred Maintenance	14	-	-	-	-	-	-	-	-
	Utility Plant Capital lease	14	1,590,500	877,161	382,197	115,311	87,318	51,373	21,949	55,190
	Limited Term Utility Plant - Net	16	-	-	-	-	-	-	-	-
	Working Capital Allowance	22	1,011,258	532,124	246,949	89,597	57,642	42,372	11,731	30,843
	Subtotal Other Rate Base Elements		(28,333,474)	(11,905,742)	(8,737,339)	(1,762,490)	(2,230,708)	(340,281)	(803,571)	(2,553,342)
	Total Original Cost Rate Base		125,472,972	56,008,275	35,286,092	10,913,496	8,745,662	4,498,215	2,497,275	7,523,960

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS, cont.

FACTOR 18. ALLOCATION OF OTHER REVENUES.

Factors are based on the allocation of total cost of service.

Customer Classification	Total Cost of Service	Allocation Factor
(1)	(2)	(3)
Residential	$21,545,427	0.481
Commercial	11,832,563	0.2641
Industrial	4,010,975	0.0895
Other Public Authority	2,859,760	0.0638
Other Water Utilities	1,792,414	0.04
Private Fire Protection	687,615	0.0153
Public Fire Protection	2,073,735	0.0463
Total	$44,802,489	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS

FACTOR 19. ALLOCATION OF COSTS WHICH VARY WITH THE AMOUNT OF WATER CONSUMED IN THE LOOKOUT MOUNTAIN SERVICE AREA.

Factors are based on the pro forma test year average daily consumption for each customer classification.

Customer Classification	Average Daily Consumption, 100 Cu. Ft.	Allocation Factor
(1)	(2)	(3)
Residential	598	0.8203
Commercial	104	0.1427
Other Public Authority	27	0.0370
Total	729	1.0000

FACTOR 20. ALLOCATION OF COSTS WHICH VARY WITH THE AMOUNT OF WATER CONSUMED IN THE LAKEVIEW SERVICE AREA.

Factors are based on the pro forma test year average daily consumption for each customer classification.

Customer Classification	Average Daily Consumption, 100 Cu. Ft.	Allocation Factor
(1)	(2)	(3)
Residential	500	0.8787
Commercial	62	0.1090
Other Public Authority	7	0.0123
Total	569	1.0000

FACTOR 21. ALLOCATION OF COSTS ASSOCIATED WITH FIRE HYDRANTS.

These costs are assigned directly to the public fire protection classification.

Customer Classification	Allocation Factor
(1)	(3)
Public Fire Protection	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTOR 22. ALLOCATION OF WORKING CAPITAL

Factors are based on the allocation of operation and maintenance expenses, excluding regulatory expense.

Customer Classification	Total Cost of Service	Allocation Factor
(1)	(2)	(3)
Residential	12,439,849	0.5262
Commercial	5,772,803	0.2442
Industrial	2,095,094	0.0886
Other Public Authority	1,346,521	0.0570
Other Water Utilities	990,904	0.0419
Private Fire Protection	273,736	0.0116
Public Fire Protection	721,862	0.0305
Total	23,640,769.00	1.0000

TENNESSEE-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO CUSTOMER CLASSIFICATIONS

FACTOR 23. ALLOCATION OF UNCOLLECTIBLE ACCOUNTS

Factors are based on the net write-offs by customer class.

Customer Classification	Net Write-Offs	Allocation Factor
(1)	(2)	(3)
Residential	$490,860	0.8790
Commercial	39,320	0.0704
Industrial	0	0.0000
Other Public Authority	24	0.0000
Other Water Utilities	0	0.0000
Private Fire Protection	28,237	0.0506
Total	$558,441	1.0000

PART III. PROPOSED CUSTOMER RATES

TENNESSEE-AMERICAN WATER COMPANY
COMPARISON OF PRESENT AND PROPOSED RATES

	Rates Effective October 1, 2008			Proposed Rates					Percent Increase		
	Chattanooga	Lookout Mountain	Lakeview	Chattanooga	Lookout Mountain	Lakeview	Lone Oak	Suck Creek	Chattanooga	Lookout Mountain	Lakeview
Res, Ind, OPA, SFR:											
5/8 - inch meter	10.88	12.21	12.21	13.84	13.84	13.84	28.04	19.13	27.2%	13.3%	13.3%
3/4 - inch meter	18.28	18.28	18.28	23.25	23.25	23.25	23.25	23.25	27.2%	27.2%	27.2%
1 - inch meter	30.41	30.41	30.41	38.68	38.68	38.68	38.68	38.68	27.2%	27.2%	27.2%
1 1/2 - inch meter	60.85	60.85	60.85	77.40	77.40	77.40	77.40	77.40	27.2%	27.2%	27.2%
2 - inch meter	97.35	97.35	97.35	123.83	123.83	123.83	123.83	123.83	27.2%	27.2%	27.2%
3 - inch meter	182.53	182.53	182.53	232.18	232.18	232.18	232.18	232.18	27.2%	27.2%	27.2%
4 - inch meter	304.23	304.23	304.23	386.98	386.98	386.98	386.98	386.98	27.2%	27.2%	27.2%
6 - inch meter	608.47	608.47	608.47	773.97	773.97	773.97	773.97	773.97	27.2%	27.2%	27.2%
8 - inch meter	973.53	973.53	973.53	1,238.33	1,238.33	1,238.33	1,238.33	1,238.33	27.2%	27.2%	27.2%
Commercial:											
5/8 - inch meter	10.81	12.14	12.14	13.84	13.84	13.84	28.04	19.13	28.0%	14.0%	14.0%
3/4 - inch meter	18.16	18.16	18.16	23.25	23.25	23.25	23.25	23.25	28.0%	28.0%	28.0%
1 - inch meter	30.22	30.22	30.22	38.68	38.68	38.68	38.68	38.68	28.0%	28.0%	28.0%
1 1/2 - inch meter	60.47	60.47	60.47	77.40	77.40	77.40	77.40	77.40	28.0%	28.0%	28.0%
2 - inch meter	96.74	96.74	96.74	123.83	123.83	123.83	123.83	123.83	28.0%	28.0%	28.0%
3 - inch meter	181.4	181.4	181.4	232.18	232.18	232.18	232.18	232.18	28.0%	28.0%	28.0%
4 - inch meter	302.34	302.34	302.34	386.98	386.98	386.98	386.98	386.98	28.0%	28.0%	28.0%
6 - inch meter	604.69	604.69	604.69	773.97	773.97	773.97	773.97	773.97	28.0%	28.0%	28.0%
8 - inch meter	967.50	967.50	967.50	1,238.33	1,238.33	1,238.33	1,238.33	1,238.33	28.0%	28.0%	28.0%
Volumetric-res, ind, OPA, SFR											
First 400 CF	0.202	0.753	0.372	0.283	1.180	1.180			40.1%	56.7%	217.1%
Next 6,100 CF	3.207	4.131	3.534	4.120	5.017	5.017			28.5%	21.4%	42.0%
Next 43,500 CF	2.015	2.939	2.342	2.530	3.427	3.427			25.6%	16.6%	46.3%
Next 450,000 CF	1.506	2.055	1.674	1.892	2.789	2.789			25.6%	35.7%	66.6%
Next 1,000,000 CF	1.151	1.701	1.320	1.445	2.342	2.342			25.5%	37.7%	77.4%
All Over 1,500,000 CF	0.684	1.233	0.852	0.943	1.840	1.840			37.9%	49.2%	115.9%
Ft. Oglethorpe.,Catoosa	0.9353			1.194					27.7%		
Signal Mountain	0.8977			1.146					27.7%		
Walden's Ridge	1.0572			1.350					27.7%		
Volumetric-commercial											
First 400 CF	0.201	0.748	0.369	0.283	1.180	1.180			40.8%	57.7%	219.7%
Next 6,100 CF	3.187	4.105	3.512	4.120	5.017	5.017			29.3%	22.2%	42.8%
Next 43,500 CF	2.003	2.921	2.328	2.530	3.427	3.427			26.3%	17.3%	47.2%
Next 450,000 CF	1.497	2.042	1.664	1.892	2.789	2.789			26.4%	36.6%	67.6%
Next 1,000,000 CF	1.144	1.691	1.312	1.445	2.342	2.342			26.3%	38.5%	78.5%
All Over 1,500,000 CF	0.679	1.225	0.846	0.943	1.840	1.840			38.9%	50.2%	117.4%

		Present						Proposed		
		Residential			Commercial			Residentia	Commercial	
Suck Creek										
First 1500 gal	2	23.85	meter charge w/ minimum		23.70	meter charge w/ minimum				
Next 8000 gal	10.67	4.59	/Thousand	3.444 /CCF	4.56	/Thousand	3.423 /CCF	First 400 CF	1.180	1.180 /CCF
All over 9500 gal	>12.67	3.44	/Thousand	2.583 /CCF	3.42	/Thousand	2.567 /CCF	Next 6,100 CF	5.017	5.017 /CCF
								Next 43,500 CF	3.427	3.427 /CCF
Lone Oak										
First 2000 gal	2.67	32.76	meter charge w/ minimum		32.56	meter charge w/ minimum				
All over 2000 gal	>2.67	5.48	/Thousand	4.120 /CCF	5.46	/Thousand	4.094 /CCF	First 400 CF	1.180	1.180 /CCF
								Next 6,100 CF	5.017	5.017 /CCF
								Next 43,500 CF	3.427	3.427 /CCF

TENNESSEE-AMERICAN WATER COMPANY
COMPARISON OF PRESENT AND PROPOSED RATES

	Rates Effective October 1, 2008			Proposed Rates					Percent Increase		
	Chattanooga	Lookout Mountain	Lakeview	Chattanooga	Lookout Mountain	Lakeview	Lone Oak	Suck Creek	Chattanooga	Lookout Mountain	Lakeview
Private Fire Service											
1 - Inch Service	28.34			36.18					27.65226%		
1 1/2 - Inch Service	63.92			81.60					27.65226%		
2 - Inch Service	113.68			145.12					27.65226%		
2 1/2 - Inch Service	173.35			221.29					27.65226%		
3 - Inch Service	255.53			326.19					27.65226%		
4 - Inch Service	511.71			653.21					27.65226%		
6 - Inch Service	1,022.61			1,305.38					27.65226%		
8 - Inch Service	2,046.95			2,612.98					27.65226%		
10 - Inch Service	3,070.65			3,919.75					27.65226%		
12 - Inch Service	4,094.54			5,226.77					27.65226%		
	975.54			1,245.30					27.65226%		
Public Fire Service											
Ridgeside	0.00			0.00							
Public Fire	0.00			0.00							