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February 8, 2011

VIA HAND DELIVERY

filed electronically in docket office on 02/08/11

Chairman Mary W. Freeman
c/o Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Re: Docket No. 10-00189: *Petition Of Tennessee American Water Company To Change And Increase Certain Rates And Charges So As To Permit It To Earn A Fair And Adequate Rate Of Return On Its Property Used And Useful In Furnishing Water Service To Its Customers*

Dear Chairman Freeman:

Enclosed please find an original and five (5) sets of copies of Tennessee American Water Company's Rebuttal Testimony filed on behalf of the following witnesses: Bernard L. Uffelman, James H. Vander Weide, James I. Warren, Sheila A. Miller, Patrick L. Baryenbruch, Paul R. Herbert, Dr. Edward L. Spitznagel, John S. Watson and Michael A. Miller.

Two disks are included with this submission. The first disk, labeled "Docket Manager Disk" contains PDF images of the testimony of each witness. The second disk contains all of the documents submitted in their native formats.

Please file the original and four copies of this Rebuttal Testimony and stamp the additional copy as "filed." Then please return the stamped copy to me by way of our courier.

Should you have any questions concerning this matter, please do not hesitate to contact me at the email address or telephone number listed above.

Sincerely,

David Killion

Enclosures

TENNESSEE-AMERICAN WATER COMPANY
TRA CASE NO. 10-00189
REBUTTAL TESTIMONY OF SHEILA A. MILLER

1. Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?

A. Sheila A. Miller, 1600 Pennsylvania Avenue, Charleston, West Virginia.

2. Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?

A. Yes.

3. Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

I will address several items discussed by the consumer advocate witnesses Mr. Terry Buckner and John Hughes. The significant items I will cover in my testimony include:

1. Labor capitalization rate
2. Group Insurance
3. Waste disposal
4. Miscellaneous expenses including gasoline expense and temporary employee expense
5. Inspection Fees
6. Revenues
7. CWIP

3. Q. DO YOU AGREE WITH THE METHODOLOGY USED BY MR. BUCKNER IN HIS ADJUSTMENT FOR THE LABOR CAPITALIZATION RATE?

A. No. Mr. Buckner attempts to make a correlation between the labor capitalization rate and the Company's plant additions. However, that is an incorrect assumption on the part of Mr. Buckner. Plant additions only reflect the total completed of the project in the month each project is

placed in service. However, the capital labor charged to projects occurs as the CWIP is expended during construction of each project for which Company labor is charged. If there is a correlation, it is between capital labor to construction expenditures, and not to plant in service. However, that correlation needs to be analyzed carefully before a conclusion about the correlation can be ascertained.

One also needs to consider the individual budget items and projects and should determine which require Company labor versus external labor or no labor at all. In 2010 the Company incurred a total of $10.169 million in capital spending and the labor capitalization rate averaged 14.87% for the year. In 2008 the Company had capital spending of $9.0 million and the labor capitalization rate was 20.57%. Mr. Buckner indicated in his testimony that the plant additions in the attrition year are more representative of a higher labor capitalization rate, but as indicated above the capitalized labor level in a year does not always correlate to the capital spending. The correlation between capital labor and capital spending levels is also dependent on whether the capital additions are performed by internal labor or contract labor. However, the Company spent more on capital projects in 2010 than in 2008 and the labor capitalization percentage was much lower in 2010. Obviously, more of the capital spending was performed by contract labor in 2010 than in 2008. The total attrition year capital spending budget equates to $13.151 million. Of that total, $2.948 million will require internal Company labor and the balance of the capital spending will be done by external labor or will be purchases and require no labor at all.

The breakdown of the attrition year capital spending broken down between internal projects, contractor projects and purchases is attached as Rebuttal Exhibit SAM-1. Based on this analysis of the level of internal capital projects for the attrition year, the Company's labor capitalization rate of 15.83% is properly matched to the 2011 attrition year capital spending levels. The 15.83% is in line with the historical test-year and is

known and measurable for the attrition year, while the 20.57% estimate utilized by Mr. Buckner based on the 2008 actual is not representative of the level of capital labor that will be incurred in the attrition year given the individual components of the 2011 capital spending levels. Mr. Buckner's use of the 2008 capitalization is therefore not representative of the attrition year capital spending levels, does not meet the known and measurable test, and violates the matching principle because it does not properly match the capital payroll rate to the attrition year spending. Accordingly, the CAPD's capitalization rate should be rejected.

2. Q. ARE THERE OTHER COMPONENTS OF THE COMPANY'S RATE CASE FILING THAT ARE AFFECTED BY THE LABOR CAPITALIZATION RATE?

A. Yes, there are many other expense lines affected by the labor capitalization rate. As explained above the TRA should utilize the Company's labor capitalization rate, and uniformly apply that capitalization rate to their final determination of the group insurance, expense, pensions, OPEBs, Defined Contribution Plan, Retirees' Medical Expense, and payroll taxes.

3. Q. DID MR. BUCKNER INCLUDE A FULL COMPLEMENT OF EMPLOYEES IN THE CAPD'S LABOR EXPENSE?

A. No. Mr. Buckner reduced the Company's employee level to 104 in the CAPD's labor adjustment. Mr. Watson addressed the need for a full complement of employees in his original testimony and will address Mr. Buckner's reduction in his rebuttal testimony. The Company included a full complement of employees in its original filing of this case and eliminated temporary employee expense. If the TRA does not approve a full complement of employees as the Company has clearly demonstrated is appropriate for rate recovery in this case, the Company believes that the temporary employee expense should be included in the Company's

miscellaneous expense line. Mr. Buckner eliminated six positions as well as eliminating the temporary employee expense. Without a full complement of employees, the Company will have no option but to rely on temporary employees to continue to provide adequate service to the customers of Tennessee American Water Company.

4. Q. DID MR. BUCKNER RECOGNIZE THE NORMALIZING ADJUSTMENTS THAT THE COMPANY INCLUDED IN THE WASTE DISPOSAL CALCULATION FOR THE ATTRITION YEAR?

A. No. In response to CAPD Data Request 1, Part 3, Question 31, the Company updated the waste disposal expense through the twelve months ending September 30, 2010, the CAPD's alternative historical test year. Actual waste disposal charges for that twelve month period totaled $194,401. Mr. Buckner utilized the twelve months general ledger balance as of September 30, 2010 for the waste disposal expense, which included a credit of ($24,626) of which ($22,937) was a reversal of September 2009 accruals. As a result, Mr. Buckner understated his test year balance and then applied the CAPD's inflation and growth factor to arrive at the CAPD's attrition year expense.

In addition, Mr. Buckner did not recognize the known and measurable adjustment of the 3% increase to the sewer expense that became effective January 1, 2010. His test year did not utilize a full year of that increase. Furthermore, he did not recognize the known and measureable adjustment of the 2.75% increase to the sewer expense by the Chattanooga Sanitary Board that became effective October 1, 2010, a day after his test year ended, nor did he recognize the known and measureable adjustment of the 2.75% increase to the sewer expense by the Chattanooga Sanitary Board that is to become effective April 1, 2011. As a result Mr. Buckner's attrition year waste disposal expense is understated by $22,842. Mr. Buckner's substitution of an inflation factor instead of known and measurable changes is an inappropriate methodology because it fails to

properly normalize his alternative test-year, fails to recognize known and measurable rate changes already approved for the Chattanooga Sanitary Board, and fails to recognize known and measurable rate changes in the attrition year for the rate increase approved for the Chattanooga Sanitary Board by City Ordinance.

The city ordinances approving these increases were included in response to TRA Data Request 2, Question 119. The CAPD's method of applying an inflation factor to an alternative test-year not appropriately normalized for known and measurable changes does not recognize known and measurable adjustments for the attrition year and does not meet the known and measurable test. The CAPD's method should therefore not be substituted for the Company's recommendation which was based on a properly normalized historical test-year appropriately adjusted for known and measurable changes through the test-year. This is another example of the Company's objection to the CAPD's alternative test-year approach as discussed in Mr. Miller's rebuttal testimony.

4. Q. DID MR. BUCKNER INCLUDE THE LATEST GROUP INSURANCE RATES IN THE CAPD'S REVENUE REQUIREMENT?

A. Yes. Mr. Buckner utilized the updated group insurance premiums that the Company included in response to TRA Data Request 2, Question 121 and applied those premiums for the 104 positions in the CAPD's labor adjustment. However, Mr. Buckner's employee reimbursement credit included the amount that was in the Company's response to that same question for a full complement of employees of 110, not the 104 employees that was included in the CAPD's filing. As a result, the CAPD's group insurance expense was understated by $1,569 due to the over estimate of the employees' contribution.

The Company believes the group insurance adjustment included in the updated response to TRA Data Request 2, Question 121 for a full

complement of employees is accurate and should be authorized by the TRA.

5. Q. DID THE CAPD ADJUST THE GASOLINE EXPENSE FOR THE RISING COST OF FUEL IN DETERMINING THE ATTRITION YEAR REVENUE REQUIREMENT?

A. No. In the Company's original filing an additional adjustment of $23,856 was added to miscellaneous expense for rising fuel costs. This adjustment was based on the quantity of fuel purchases as of the twelve months ending December 2009 multiplied by the price per gallon as of July 20, 2010. The CAPD eliminated the Company's normalizing adjustment and instead applied an inflation and growth factor to the balance of the transportation fuel account for the twelve months ending September 30, 2010. Gasoline prices have been on the rise in recent months as illustrated on Rebuttal Exhibit SAM-2 which details the increases in gasoline prices since the filing of this rate case. As of February 1, 2011, the price of regular gasoline, the type predominantly used by Tennessee American Water Company fleet, has increased 35% over the average unit cost in 2009 and has increased 14% over the average unit cost in 2010. The price of diesel fuel has increased an astonishing 37% over the average unit cost in 2009 and 17% over the average unit cost in 2010. This trend is expected to continue throughout 2011.

Rebuttal Exhibit SAM-2 also updates the quantity of fuel purchases through the twelve months ending 2010. Although the overall purchases were less, the impact of the price increases are still substantial and will result in a fuel expense for 2011 that is much greater than that recognized by the CAPD's adjustment. The Company believes that this updated information supports an increase in the transportation fuel expense of an additional $29,658 over the CAPD's recommendation of $204,235 for a total of $233,893. This amount takes into consideration the lower fuel purchases for the twelve months ending December 30, 2010

priced at the most recent average fuel cost derived from the website www.automotive.com/gas-prices for the Chattanooga area as of February 1, 2011. This is another example of the CAPD using an alternative historical test-year that is improperly normalized and using an inflation factor to supplant known and measurable adjustments for the test-year. The TRA should adopt the gasoline costs as shown on Rebuttal Exhibit SAM-2 as they are based on the latest known and measurable information.

6. Q. DOES THE COMPANY AGREE WITH THE CAPD'S CALCULATION OF THE TRA INSPECTION FEE?

A. No. The Company does not dispute the fact that Mr. Buckner used more current revenues and uncollectible expense when calculating the TRA Inspection Fee. The Company, however, disagrees with the percentages applied to the tax base in arriving at the attrition year TRA Inspection Fee expense. Although Mr. Buckner's workpaper, T-OTAX2, indicates that .425% is applied to the first $1,000,000 and .325% is applied to the excess, the actual calculation utilizes the old rates of .3% and .2%. This error in Mr. Buckner's calculation understates the CAPD's TRA Inspection Fee expense by $44,229.

7. Q. DID THE CAPD ACCURATELY CALCULATE THE REVENUE TRENDING ANALYSIS UTILIZED IN THEIR REVENUE PROJECTIONS IN THIS DOCKET?

A. No. There are several calculation errors in the residential, commercial, and OPA customer classifications. These errors distort the trending analysis and give incorrect and inaccurate results.

8. Q. PLEASE EXPLAIN.

A. First, the CAPD was not consistent in determining the revenue billing determinants on which to base their revenues. In some cases, Mr. Hughes used historical billing determinants and calculated a 7-year trending

analysis. The billing determinants that resulted from the 7-year trending analysis were then priced out at present rates to arrive at the revenue projections. In other instances, Mr. Hughes would use the twelve months ending September 30, 2010 billing determinants and price them out at present rates to arrive at the revenue projections. It is understandable that Mr. Hughes would revert to using the billing determinants for the twelve months ending September 2010 for Lone Oak and Suck Creek since there is not sufficient data to use for a 7-year trending analysis, but he should be consistent with the other districts when information is available.

Mr. Hughes indicates, on page 7 of his testimony, that the residential billing determinants were calculated by trending the meters and usage from the twelve month period ending July 2004 through the twelve months ending September 2010. However, the 2004 billing determinants shown on the CAPD's working paper "Residential Trends" have a year ending date of 12/31/04 and the meter billing determinants match the determinants shown on the CAPD's working paper "Residential History" for the twelve months ending 12/31/04. The water volumetric usage, however, does not match either the twelve months ending 7/31/04 or the twelve months ending 12/31/04.

I compared the CAPD's 2004 residential billing determinants, meters and volumetric usage, with the individual 2004 monthly bill analysis reports of Tennessee American Water Company and the billing determinants match those monthly reports. I was unable to tie the residential volumetric usage as shown at 12/31/04 of 3,898,744 to any total on the "Residential History" working paper. Therefore, I recalculated the 7-year trend using the actual volumetric usage amounts for the twelve months ending 12/31/04 and arrived at a 7-year trend volumetric usage of 4,018,776. When the earlier years in his trending analysis is understated, the CAPD over states the trended amount for the attrition year. When the correct 2004 residential volumetric usage is inserted in the trend analysis used by Mr. Hughes it results in residential

revenues in the attrition year for the Chattanooga District of $13,976,102 or $185,870 less than originally calculated on CAPD's "Residential Comp" working paper.

9. Q. ARE THERE OTHER CUSTOMER CLASSIFICATIONS THAT HAVE SIMILAR ERRORS IN THE HISTORICAL DATA UTILIZED IN THE TRENDING ANALYSIS?

A. Yes. Mr. Hughes states in his testimony that he calculated his trend analysis for the commercial classification using the billing determinants for the twelve month period beginning August 2003 through the twelve month period ending September 2009. However, the "Commercial Trends" working paper starts with the twelve month period ending 2004.

The 2004 historical volumetric usage for the Chattanooga commercial classification from the "Commercial History" working paper does not match the 2004 volumetric usage shown on the "Commercial Trend" working paper. The "Commercial History" has a total volumetric usage at the end of 2004 of 4,068,315 while the "Commercial Trends" has a total of 4,082,893. Once again I reviewed the monthly bill analysis reports of Tennessee American Water Company and discovered that the billing determinants for the Chattanooga commercial classification were within 231 CCF of the total the CAPD had detailed on the "Commercial Trends" spreadsheet, although that was not the data included on his commercial history. In checking the volumetric usage with the monthly bill analysis for 2004 I found that the meter billing determinants were not accurate. The meter counts as detailed on the "Commercial History" working paper for Chattanooga did not match the monthly bill analysis data for the months of January through May 2004. After making the corrections to the CAPD's history data and trending schedule, I transferred the new 7-year trend to the "Commercial Comp" schedule. The result is a decrease in the Chattanooga commercial revenues at present rates of $20,038.

The twelve months ending 2009 meter and volumetric totals for the Lakeview District only included seven months in the calculation. The lower meter and volumetric count in 2009 made the 7-year trend much lower and as a result Mr. Hughes used the billing determinants for the twelve months ending September 2010 in calculating his revenue for the Lakeview District. Given that the Lakeview District has data for seven years, the CAPD should have been consistent and utilized the trending methodology just as they did with the other districts rather than select the data that calculates the higher revenue dollars. I input the twelve month meter and volumetric totals in the CAPD trending model and transferred the 7-year trending totals to the CAPD "Commercial Comp" spreadsheet. The 7-year trend using the actual twelve month totals result in a decrease to the meter and volumetric totals and an overall reduction of $13,505 in Lakeview commercial revenues at present rates.

10. Q. DID MR. HUGHES CALCULATE THE INDUSTRIAL REVENUES USING THE 7-YEAR TRENDING ANALYSIS?

A. Mr. Hughes states in his testimony that he used the trend analysis from January 2004 through the CAPD's historical test year of September 2010 and multiplied those trended billing determinants by the current industrial class water rates to arrive at his attrition year revenues of $3,520,697. However, if you look at the "Industrial Trend" spreadsheet it is apparent that the meter and volumetric billing determinants as of the twelve months ending September 2010 were used in his calculation of industrial revenues, and not the 7-year trending calculation. In fairness to the methodology that the CAPD applied to other customer classifications, I input the trending calculation on the "Industrial Trend" spreadsheet and transferred the resulting billing determinants to the "Industrial Comp" spreadsheet. Had the CAPD utilized the trending analysis as indicated in Mr. Hughes testimony, the attrition year industrial revenues at present rates would have equated to an additional $10,170.

11. Q. WAS MR. HUGHES CONSISTENT IN USING HIS TRENDING METHODOLOGY WITH THE OTHER PUBLIC AUTHORITY CUSTOMER CLASSIFICATION?

A. No. Mr. Hughes used the 7-year trending methodology for the Chattanooga and Lookout Mountain Districts but used the billing determinants as of the twelve months ending September 2010 for the Lakeview District. Once again, he was selective in which billing determinants he used in his calculation of revenues at present rates.

12. Q. WERE THERE OTHER DISCREPANCIES IN THE CALCULATION OF THE OTHER PUBLIC AUTHORITY REVENUES AT PRESENT RATES?

A. Yes. The usage data for the twelve months ending September 2010 was incorrect for each district including Chattanooga, Lookout Mountain, and Lakeview. The calculation on the "Other Public Authority History" spreadsheet included the last three months of 2009 starting with the rate block "next 6,100 cubic feet" and added to that the total of the nine months through September 2010 using the rate block of the "first 400 cubic feet". Each twelve month total thereafter was off one line in 2009 compared to the twelve month total in 2010. This greatly distorts the usage for that year in every rate block, making the trend analysis data inaccurate. Mr. Hughes also omitted the July 2008 meter and usage billing determinants from his history data for Lookout Mountain and Lakeview Districts.

Once again, I corrected the calculations and added the Lookout Mountain data to the history information, transferred the new totals for the twelve months ending September 2010 to the "Other Public Authority Trend" spreadsheet, and then input the new trended billing determinants into the "Other Public Authority Comp" spreadsheet for each district. The other public authority revenues at present rates were a decrease of

$20,596 for Chattanooga, an increase of $2,120 for Lookout Mountain, and a decrease of $184 for Lakeview.

13. Q. THE OTHER WATER UTILITIES CONSIST OF FOUR CONTRACT CUSTOMERS. ARE THERE DISCREPANCIES IN THE CALCULATION OF THIS CLASS OF CUSTOMERS?

A. No. The CAPD used the same methodology as the Company by using the historical test year revenues for the attrition year with the alternative September 2010 historical test year being the only difference. Although the CAPD stated that they predict a decline in revenues during the attrition year, no adjustment was made for such a decrease.

14. Q. WHAT IS THE OVERALL IMPACT OF THE ERRORS IN MR. HUGHES TRENDING ANALYSIS UTILIZED BY THE CAPD TO DETERMINE ATTRITION YEAR REVENUES FOR TENNESSEE AMERICAN WATER COMPANY?

A. The corrections to Mr. Hughes errors reduce the CAPD's revenues at present rates by $227,903. However, the Company cannot be certain that all errors were found due to the complexities of the files.

15 Q. DO YOU BELIEVE THAT THE TRA SHOULD RELY ON MR. HUGHES' TRENDING ANALYSIS AS A BASIS FOR ESTIMATING THE ATTRITION YEAR REVENUES IN THIS CASE?

A. No. I believe that Mr. Hughes' trending analysis contains many errors and should not be relied on as a basis for estimating the attrition year revenues. Due to the many errors in his analysis, the final outcome is not credible. Although he states in his testimony that he trended the billing determinants for each revenue class except other water utilities, he does not use trending in each instance as I have described in the testimony above. Attached as Rebuttal Exhibit SAM-3 is a comparison of the

CAPD's original revenue forecast versus the revised revenue forecast which corrects many of the errors in the trending analysis.

The CAPD is overly aggressive in their residential growth estimates using the trending analysis methodology. The CAPD is estimating an increase in the residential classification by 9,621 meters from September 30, 2010 through December 31, 2011. As detailed on the attached Rebuttal Exhibit SAM-4 the CAPD has projected growth from the end of 2010 to the December 31, 2011, the attrition year in this case, of 8,524 meters. The Company only saw an increase in residential meters from December 31, 2009 to December 31, 2010 of 1,408. From the end of 2008 to the end of 2009, there was only an increase of 3,092 meters. The Company believes that the residential meter projection of 788,366 is more accurate and reflective of the attrition year activity and should be authorized by the TRA. The difference in the Company's residential meter revenues versus the CAPD's projected residential meter revenues is a reduction of $55,411.

This testimony is intended to address only the obvious errors in the CAPD's calculation under the CAPD trending methodology, and should not be construed to endorse the CAPD methodology. This testimony does not address the upward bias that is generated on the volumetric usage from the CAPD trending methodology or the accuracy of the methodology in general which is covered in the rebuttal testimony of Mr. Miller and Dr. Spitznagel.

The Company believes that the weather normalized residential and commercial revenues are accurate and will be discussed further in the rebuttal testimony of Mr. Miller and Dr. Spitznagel. Due to the additional usage by Pilgrim's Pride the Company has seen an increase in the industrial usage for the calendar year 2010 and believes that the CAPD's attrition year industrial revenues is in line with that trend.

16. Q. DID THE COMPANY PROPERLY CALCULATE THE CWIP BALANCE FOR THE ATTRITION YEAR IN THIS CASE?

A. No. The Company inadvertently included the forecasted monthly retirement amounts as an offset to the additions transferred to utility plant from the CWIP balance. As a result, the CWIP rate base balance for the attrition year was overstated by $1,165,021.

17. Q. ARE YOU IN AGREEMENT WITH THE CAPD'S PROPOSED RATE BASE CWIP BALANCE AS PROPOSED FOR THE ATTRITION YEAR?

A. No. Mr. Buckner utilized the CWIP balance as of September 2010, added the capital spending from October 2010 through December 2011, and deducted the additions to utility plant as projected by the Company from October 2010 through December 2011. However, Mr. Buckner did not consider timing of the capital spending throughout the attrition year. As of December 2010, the Company had not spent the dollars for all projects in the 2010 budget at the levels it had projected in its filing. However, the total project costs and completion dates have not changed from those included in the attrition year. The CAPD has not revised the completion date or total completed cost for any capital projects included in the attrition year.

The Company originally projected to spend a total of $25,125,851 from April 2010 through the end of the attrition year December 2011. A total of $11,974,692 was projected to be spent by the end of December 2010 and $10,429,500 had actually been spent through the end of 2010. The Company will spend an additional $1,545,192 during 2011 in order to complete the projects by the in-service date included in the Company's attrition year, a fact that CAPD did not take issue with. Mr. Buckner did not consider this additional spending in his CWIP calculation but rather assumed that since the monies were not spent during 2010, they should be ignored. This points out the inconsistency in Mr. Buckner's approach. If

the projects are to be completed at the cost and timeframe in the attrition year as both the Company and CAPD have included in the utility plant balances, then the additional $1,545,192 of capital spending must be included in the determination of the CWIP balance in this case, a fact that Mr. Buckner has ignored. Rebuttal Exhibit SAM-5 details the Company's revised attrition year CWIP balance, adjusting for the retirement error in the original filing and projecting the remaining $1,545,192 capital spending throughout the attrition year ending December 2011. The Company believes this is an accurate assessment of the CWIP for the attrition year and should be authorized by the TRA.

18. Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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 rebuttal testimony would set forth in the annexed transcript consisting of 15 pages.

Sheila A. Miller

Sheila A. Miller

Sworn to and subscribed before me
this 8th day of February 2011.

Lisa R. Brooks
Notary Public

My commission expires September 7, 2019.

OFFICIAL SEAL
STATE OF WEST VIRGINIA
NOTARY PUBLIC
Lisa R. Brooks
18 Mill Creek Crossing
Hurricane, WV 25526
My Commission Expires September 7, 2019

Tennessee American Water Company
Analysis of Capital spending and labor requirements

REBUTTAL EXHIBIT SAM-1

Budget Number	Labor requirement	Budget item description	year_total	Internal labor	External labor	No labor required
RP-26-A	External labor	Mains - New	93,910.39		93,910.39	
RP-26-B	External labor	Mains - Replaced/Restored	789,999.99		789,999.99	
RP-26-C	External labor	Mains - Unscheduled	54,232.96		54,232.96	
RP-26-D	External labor	Mains - Relocated	500,000.03		500,000.03	
RP-26-E	External labor	Hydrants, Valves, and Manholes - New	93,910.00		93,910.00	
RP-26-F	Internal labor	Hydrants, Valves, and Manholes - Replaced	94,000.00	94,000.00		
RP-26-G	Chattanooga Portion 90% internal/ SCUD/LOUD Portion 10% external	Services and Laterals - New	750,000.00	675,000.00	75,000.00	
RP-26-H	Chattanooga Portion 90% internal/ SCUD/LOUD Portion 10% external	Services and Laterals - Replaced	112,800.00	101,520.00	11,280.00	
RP-26-I	Chattanooga Portion 90% internal/ SCUD/LOUD Portion 10% external	Meters - New	658,000.00	592,200.00	65,800.00	
RP-26-J	Chattanooga Portion 90% internal/ SCUD/LOUD Portion 10% external	Meters - Replaced	825,000.00	742,500.00	82,500.00	
RP-26-K	External labor	ITS Equipment and Systems	182,450.03		182,450.03	
RP-26-L	Internal labor 50%/External Labor 50%	SCADA Equipment and Systems	70,000.00	35,000.00	35,000.00	
RP-26-M	External labor	Security Equipment and Systems	80,000.14		80,000.14	
RP-26-N	No labor required by TAWC	Offices and Operations Centers	44,137.00			44,137.00
RP-26-O	No labor required by TAWC	Vehicles	388,220.00			388,220.00
RP-26-P	No labor required by TAWC	Tools and Equipment	94,000.00			94,000.00
RP-26-Q	Internal labor/External Labor	Process Plant Facilities and Equipment	344,966.00			
	GAC filter media replacement/regeneration $171,216 50%/50%			85,608.00	85,608.00	
	Replace catwalk to screen house $23,800 external labor				23,800.00	
	Replace Liner caustic storage tank $33,900 external labor				33,900.00	
	Replace liner corrosion inhibitor storage tank $19,800 external labor				19,800.00	
	Emergency replacements $50,000 internal labor			50,000.00		
	Purchase bacteriological sampling stations $4,250 no labor required					4,250.00
	Purchase amp probe chlorine monitor $5,000 no labor required					5,000.00
	Replace streaming current detectors $12,000 internal labor			12,000.00		
	Purchase laboratory bacteria incubator $ 10,000 no labor required					10,000.00
	Replace discharge valve #19 high service $15,000 internal labor			15,000.00		
RP-26-R	External labor	Capitalized Tank Rehabilitation/Painting	299,999.99		299,999.99	
RP-26-S	Internal labor	Engineering Studies	46,955.48	46,955.48		
DV-26	External labor	PROJECTS FUNDED BY OTHERS	2,000,000.00		2,000,000.00	
26020503	Both Internal & External 20%/80%	Citico WTP Improve Phase 1A & 1B	2,490,248.00	498,049.60	1,992,198.40	
IP-2602-16	External labor	Office Building	1,000,000.23		1,000,000.23	
IP-2602-19	External labor	NRW Pressure Reduction	94,454.29		94,454.29	
IP-2602-25	External labor	Post Acquisition Investment	50,000.00		50,000.00	
IP-2602-7	External labor	Convert ER Reservoir to Pump Storag	249,999.97		249,999.97	
CS-2602-3	No labor required by TAWC	Business Transformation	1,743,875.00			1,743,875.00
			13,151,159.50	2,947,833.08	7,913,844.42	2,289,482.00

Tennessee American Water Company
Comparison of fleet fuel costs

Rebuttal Exhibit SAM-2

Comparison of fuel costs based on the 2009 fuel purchases:

Product	Total Quantity	Total Cost	2009 Avg Unit Cost	Fuel Price @ 7/20/10		Fuel Price @ 10/25/10		Fuel Price @1/14/11		Fuel Price @2/1/11		% price per gallon increase over avg 2009
Diesel	24,646.10	$59,048.05	$2.40	$2.76	68,023.24	$2.87	$70,734.31	$3.15	$77,751.40	$3.29	$81,134.96	37%
Ethanol	377.70	$787.12	$2.08		787.12		$787.12		$787.12		$787.12	
Other_Fuel	16.00	$35.90	$2.24		35.90		$35.90		$35.90		$35.90	
Unleaded_Plus	287.00	$628.24	$2.19	$2.57	737.59	$2.75	$789.25	$3.10	$888.78	$3.08	$885.11	41%
Unleaded_Reg	51,867.10	$113,591.80	$2.19	$2.47	128,111.74	$2.59	$134,335.79	$2.94	$152,307.74	$2.97	$153,785.95	35%
Unleaded_Super	984.10	$2,415.82	$2.45	$2.71	2,666.91	$2.85	$2,804.69	$3.21	$3,159.95	$3.28	$3,227.85	34%
Totals	78,178.20	$176,506.93	$2.26		200,362.49		209,487.05		$234,930.88		$239,856.89	
				Co original adj:	23,855.56		32,980.12		58,423.95		$63,349.96	
					14%		19%		33%		36%	

Comparison of fuel costs based on CAPD's attrition year balance and 2009 quantities

	204,235	price increase	% increase
cost based on 7/20 prices	200,362	-3,872.51	-2%
cost based on 10/25 prices	209,487	5,252.05	3%
cost based on 1/14/11 prices	234,931	30,695.88	15%
cost based on 2/11/11 prices	239,857	35,621.89	17%

Comparison of fuel costs based on the 2010 fuel purchases:

Product	Total Quantity	Total Cost	2010 Avg Unit Cost	Fuel Price @ 7/20/10		Fuel Price @ 10/25/10		Fuel Price @1/14/11		Fuel Price @2/1/11		% price per gallon increase over avg 2010
Diesel	25,205.47	$71,016.71	$2.82	$2.76	$69,567.10	$2.87	$72,339.70	$3.15	$79,516.06	$3.29	$82,976.41	17%
Ethanol	16.70	$45.54	$2.73		$45.54		$45.54		45.54		$45.54	
Mid-Grade	380.82	$1,050.84	$2.76	$2.57	$978.71	$2.75	$1,047.26	$3.10	$1,179.31	$3.08	$1,174.45	12%
Regular	49,411.00	$128,462.06	$2.60	$2.47	$122,045.17	$2.59	$127,974.49	$2.94	$145,095.40	$2.97	$146,503.62	14%
Premium	964.35	$2,765.90	$2.87	$2.71	$2,613.39	$2.85	$2,748.40	$3.21	$3,096.53	$3.28	$3,163.07	14%
Gasohol	11.60	$29.48	$2.54		$29.48		$29.48		29.48		$29.48	
Totals:	75,989.94	$203,370.53			$195,279.38		$204,184.86		$228,962.32		$233,892.56	
% increase				chg in fuel cost	($8,091.15)		$814.33		$25,591.79		$30,522.03	
					-4%		0%		13%		15%	

Comparison of fuel costs based on CAPD's attrition year balance and 2010 quantities

CAPD's attrition yr bal	204,235	price increase	% increase
cost based on 7/20 prices	195,279	-8,955.62	-4%
cost based on 10/25 prices	204,185	-50.14	0%
cost based on 1/14/11 prices	228,962	24,727.32	12%
cost based on 2/11/11 prices	233,893	29,657.56	15%

Tennessee American Water Company **Rebuttal Exhibit SAM-3**
Revenue trending analysis

	CAPD Original Estimate	Correct Estimate	Original est (over)/under variance
Residential			
Chattanooga:			
Billing Determinants	731,770	731,770	-
Usage	4,098,175	4,018,093	(80,082)
Revenues	$14,161,972	$13,976,102	($185,870)
Lookout Mtn			
Billing Determinants	23,490	23,490	0
Usage	248,950	248,950	0
Revenues	$1,065,011	$1,065,011	$0
Lakeview			
Billing Determinants	33,821	33,821	0
Usage	182,822	182,822	0
Revenues	$720,212	$720,212	$0
Lone Oak			
Billing Determinants	1,427	1,427	0
Usage	8,181	8,181	0
Revenues	$67,113	$67,113	$0
Suck Creek			
Billing Determinants	2,542	2,542	0
Usage	15,687	15,687	0
Revenues	$96,771	$96,771	$0
Commercial			
Chattanooga:			
Billing Determinants*	98,198	97,344	854
Usage	3,926,723	3,926,805	83
Revenues	$11,400,646	$11,380,608	($20,038)
Lookout Mtn			
Billing Determinants	1,010	1,010	0
Usage	53,654	53,654	0
Revenues	$184,052	$184,052	$0
CAPD used 7 yr trending			
Lakeview		using 7 yr trend	
Billing Determinants	1,939	1,828	111
Usage	23,986	19,861	(4,125)
Revenues	$94,727	$81,222	($13,505)
Lone Oak			
Billing Determinants	29	29	0
Usage	19	19	-
Revenues	$944	$944	$0
Suck Creek			
Billing Determinants	48	48.33	(0)
Usage	98	98	0
Revenues	$1,339	$1,339	$0
Industrial			
Chattanooga:	12 mo 9/10	7 yr trendng	
Billing Determinants	1,874	1,809	64
Usage	2,662,922	2,704,947	42,025
Revenues	$3,520,697	$3,530,867	$10,170
OPA			
Chattanooga:			
Billing Determinants	8,531	8,531	0
Usage	990,633	$993,648	3,015
Revenues	$2,490,602	2,470,006	($20,596)
Lookout Mtn			
Billing Determinants	398	408	(9)
Usage	10,320	10,507	187
Revenues	$47,607	$49,727	$2,120
Lakeview			
Billing Determinants	108	112	(4)
Usage	2,883	2,521	(362)
Revenues	$11,679	$11,495	($184)

Revenues overstated by CAPD due to obvious trending errors **($227,903)**

Tennessee American Water Company **REBUTTAL EXHIBIT SAM-4**

Comparison of residential meter billing determinants

Chattanooga:			**CAPD's**	**TAWC**			**Growth from 2010**	
	Actual	**Actual**	**Trended**	**Projection**	**Actual**	**variance**	**2011 TAWC**	**2011 CAPD**
Meter Size	**12/31/2009**	**9/30/2010**	**12/31/2011**	**12/31/2011**	**12/31/2010**	**09 vs 10**	**growth**	**growth**
5/8"	719,643	720,108	728,218	724,498	721,244	1,601	3,254	6,974
3/4"	1,105	1,083	1,183	1,089	1,083	(21)	6	100
1"	1,959	1,933	2,055	1,949	1,933	(27)	16	122
1 1/2"	213	219	224	207	224	12	(17)	(0)
2"	117	108	89	114	108	(9)	6	(19)
3"	-	1	1	1	2	2	(1)	(1)
Total Meters	723,037	723,452	731,770	727,858	724,594	1,557	3,264	7,176

Lookout Mountain:			**CAPD's**	**TAWC**			**Growth from 2010**	
	Actual	**Actual**	**Trended**	**Projection**	**Actual**	**variance**	**2011 TAWC**	**2011 CAPD**
Meter Size	**12/31/2009**	**9/30/2010**	**12/31/2011**	**TAWC**	**12/31/2010**	**09 vs 10**	**growth**	**growth**
5/8"	20,658	20,756	21,362	20,853	20,761	103	92	601
3/4"	492	513	558	501	515	24	(14)	43
1"	1,399	1,403	1,516	1,403	1,412	12	(9)	105
1 1/2"	24	24	24	24	24	-	-	0
2"	34	25	29	31	24	(10)	7	5
3"	-	-						
Total Meters	22,607	22,721	23,490	22,812	22,736	129	76	754

Lakeview:			**CAPD's**	**TAWC**			**Growth from 2010**	
	Actual	**Actual**	**Trended**	**Projection**	**Actual**	**variance**	**2011 TAWC**	**2011 CAPD**
Meter Size	**12/31/2009**	**9/30/2010**	**12/31/2011**	**TAWC**	**12/31/2010**	**09 vs 10**	**growth**	**growth**
5/8"	33,560	33,249	33,781	33,672	33,195	(365)	477	586
3/4"	-	-	-	-		-	-	-
1"	41	37	39	38	36	(5)	2	3
1 1/2"								
Total Meters	33,602	33,286	33,821	33,710	33,231	(370)	479	590

Lone Oak:			**CAPD**	**TAWC**			**Growth from 2010**	
	Actual	**Actual**	**used 9/10**	**Projection**	**Actual**	**variance**	**2011 TAWC**	**2011 CAPD**
Meter Size	**12/31/2009**	**9/30/2010**	**12/31/2011**	**TAWC**	**12/31/2010**	**09 vs 10**	**growth**	**growth**
5/8"	1,432	1,427	1,427	1,441	1,427	(5)	14	0
3/4"		-	-					
Total Meters	1,432	1,427	1,427	1,441	1,427	(5)	14	0

Suck Creek:			**CAPD**	**TAWC**			**Growth from 2010**	
	Actual	**Actual**	**used 9/10**	**Projection**	**Actual**	**variance**	**2011 TAWC**	**2011 CAPD**
Meter Size	**12/31/2009**	**9/30/2010**	**12/31/2011**	**TAWC**	**12/31/2010**	**09 vs 10**	**growth**	**growth**
5/8"	2,523	2,530	2,530	2,533	2,525	2	8	5
3/4"	-	-	-			-	-	-
1"	12	12	12	12	12	(0)	-	-
1 1/2"		-	-					
Total Meters	2,535	2,542	2,542	2,545	2,537	2	8	5

Total residential meters	**783,213**	**783,429**	**793,050**	**788,366**	**784,526**	**1,312**	**3,840**	**8,524**

Tennessee American Water Company **Rebuttal Exhibit SAM-5**

CWIP

12/31/2011	Net Additions	Capital Spending	CWIP Bal 1,156,225	
1/31/11	341,843	789,977	1,604,359	
2/28/11	270,124	687,603	2,021,838	
3/31/11	475,528	797,101	2,343,411	
4/30/11	811,905	690,732	2,222,238	
5/31/11	375,215	920,211	2,767,234	
6/30/11	952,668	906,375	2,720,941	
7/31/11	827,587	1,288,864	3,182,218	
8/31/11	600,034	1,226,137	3,808,321	
9/30/11	681,874	1,641,358	4,767,804	
10/31/11	1,152,017	1,851,310	5,467,097	
11/30/11	1,286,604	1,911,718	6,092,211	
12/31/11	1,204,595	1,984,963	6,872,579	Bal @ 12/11
				45,026,476
		revised 13 mo avg		3,463,575