

**TRA Docket 10-00189
Tennessee American Water Company
(TAWC)**

**Office of the Attorney General
State of Tennessee
Consumer Advocate and Protection Division (CAPD)**

Rate Making Overview

STEP 1 REVENUE REQUIREMENT FOR THE ATTRITION YEAR

STEP 2 OPERATING REVENUE FOR THE ATTRITION YEAR AT PRESENT RATES

STEP 3 CALCULATE REVENUE DEFICIENCY OR EXCESS

STEP 4 DETERMINE RATE DESIGN FOR RATE INCREASE OR DECREASE

$$RR = (RB \times ROR) + O\&M + DEP + TAX$$

Revenue Requirement = (Rate Base X Rate of Return) + Operation & Maintenance + Depreciation + Taxes

Source: *Accounting for Public Utilities*, Hahne & Aliff, Section 3.01, page 3-3.

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Summary of Issues

Category	Amount
REVENUES	\$1.0M
O&M LABOR	\$0.765M
CHEMICALS AND FUEL & POWER	\$0.2M
MANAGEMENT FEES	\$1.572M
PENSIONS	\$0.51M
REGULATORY EXPENSES	\$0.548M
OTHER O&M	\$0.5M
DEPRECIATION	\$0.176M
OTHER TAXES	\$0.112M
INCOME TAXES	\$1.0M
RATE OF RETURN	\$3.1M
OTHER	\$0.1M
RATE BASE	\$0.664M
TOTAL	\$10.247M

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Revenue Issues

GROWTH **\$1.0M**

TOTAL **\$1.0M**

Source: John Hughes work paper, R-Revenue Comparative Summary, Page 1.

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Revenues

A/ December 2010 Operating Revenue \$38.5M

Consumer Advocate Forecast 2011 \$38.3M

TAWC Forecast 2011 \$37.3M

Source: A/ Per TRA 3.06 Surveillance Report.

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$$RR = (RB \times ROR) + \text{O\&M} + DEP + TAX$$

Increase in Cost Structure Since TRA Docket 06-00290

	TAWC	CAPD
O&M ORDERED BY TRA DOCKET #06-00290	\$18M	\$18M
O&M FORECAST DOCKET #08-00039	\$21.6M	\$19.8M
O&M FORECAST DOCKET #10-00189	\$24.9M	\$20.8M
PERCENT INCREASE	38.33%	15.56%

Source: TRA Order dated 6/10/08, pages 24-33; Revised Exhibit CAPD, Schedule 5, Line 17;
TAWC Amended Exhibit No. 2, Schedule 3, Lines 1-17.

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$$RR = (RB \times ROR) + \text{O\&M} + DEP + TAX$$

Operation & Maintenance Expense Issues

O&M LABOR	\$.765M
MANAGEMENT FEES	\$1.572M
PENSIONS	\$.509M
REGULATORY EXPENSE	\$.548M
OTHER	\$.6M
TOTAL	\$3.994M

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$$RR = (RB \times ROR) + \text{O\&M} + DEP + TAX$$

O&M Labor Issues

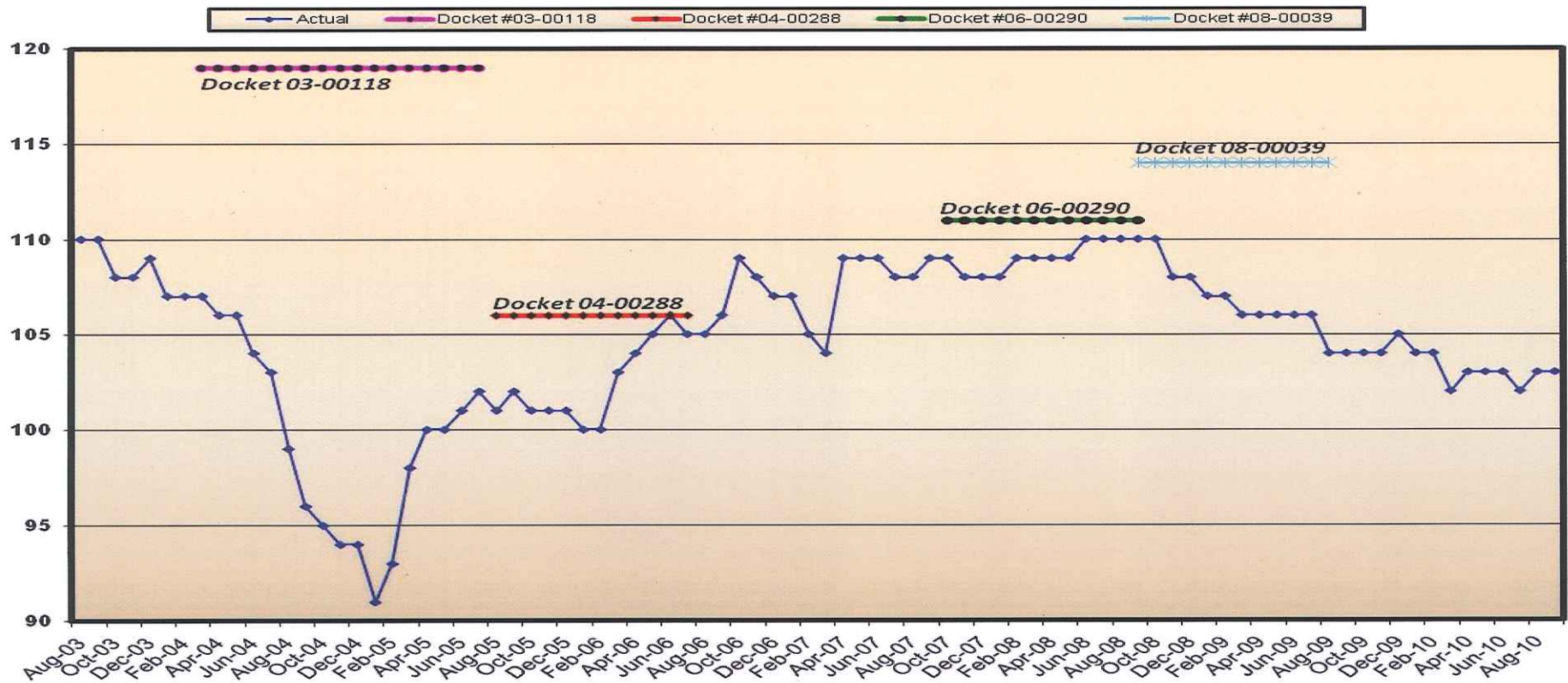
CAPITALIZED LABOR	\$.232M
AIP (Incentive Pay)	\$.103M
EMPLOYEE LEVELS	\$.430M
TOTAL	\$.765M

Source: CAPD Workpaper E-Pay-6, Page 9.

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$$RR = (RB \times ROR) + \text{O\&M} + DEP + TAX$$

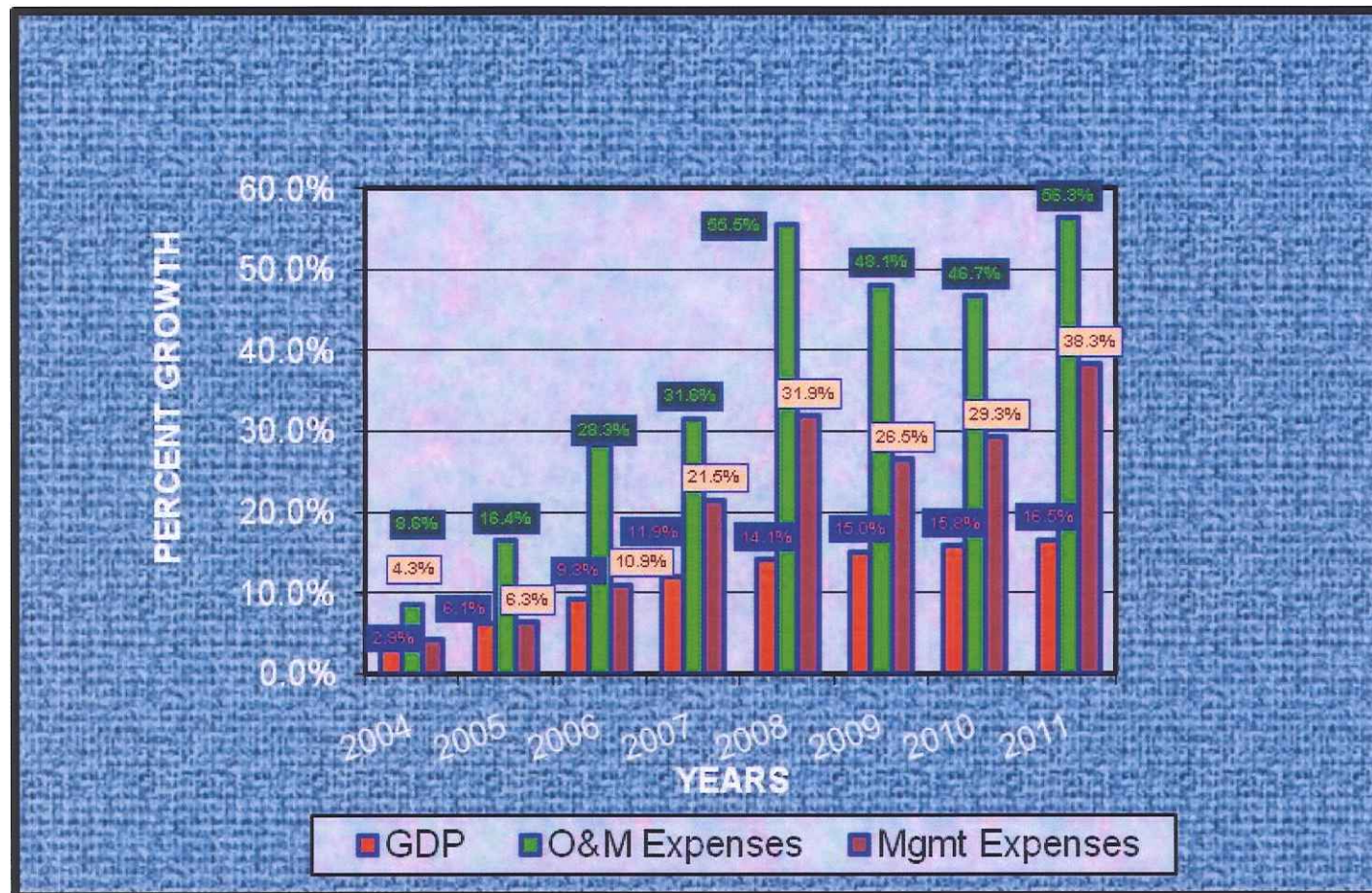
Actual Employee Levels vs. TAWC Projections



Source: CAPD Workpaper, E-Pay-5, Page 12.

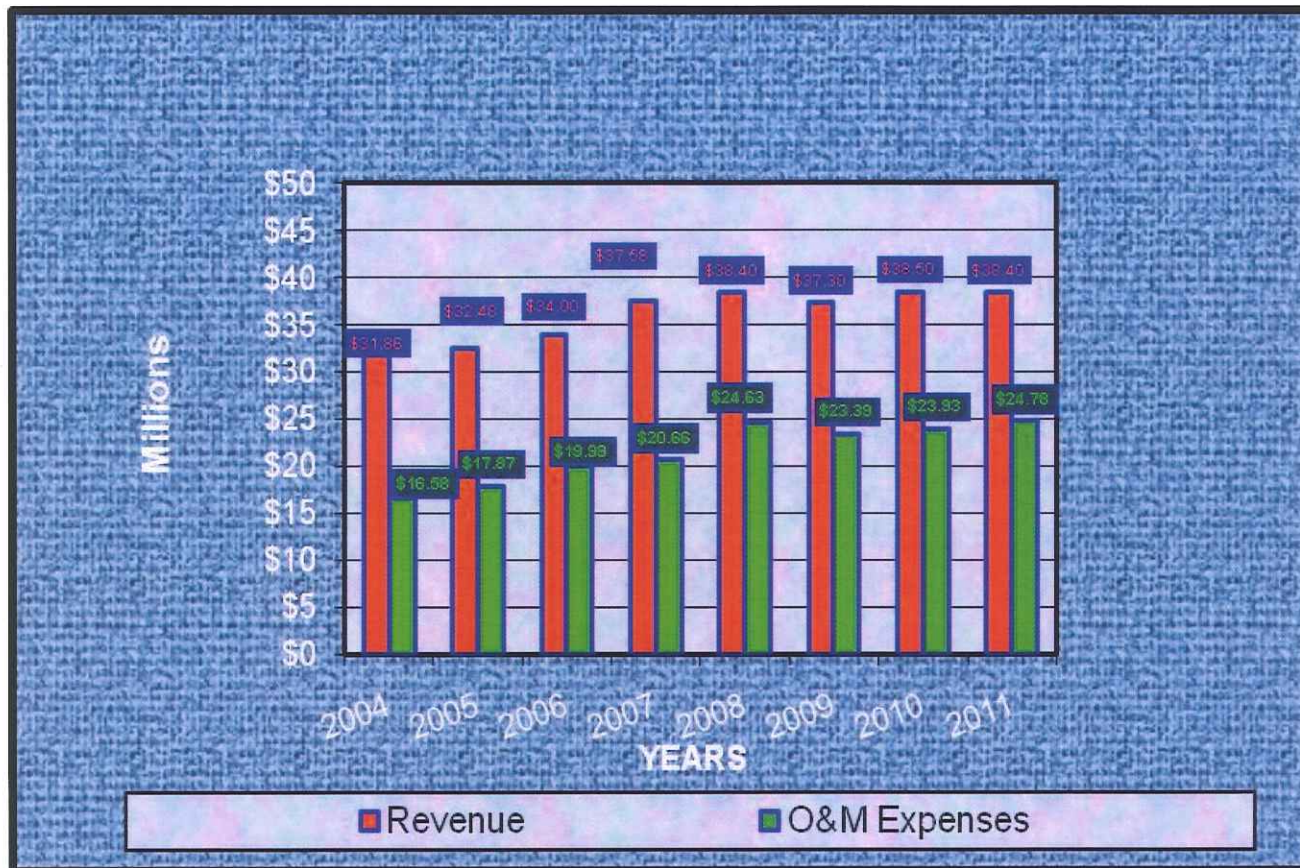
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Inflation vs. O&M Expenses and Management Fees



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O&M Expenses Compared to Revenue



As a percentage of Revenues, O&M Expenses have increased from 52.04% to 64.53% from 2004 to 2011

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$$RR = (RB \times ROR) + \underline{O\&M} + DEP + TAX$$

Depreciation Expense

TAWC	\$4.88M	
CAPD	\$4.704M	
Difference	\$.176M	

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$$RR = (\text{RB} \times ROR) + O\&M + DEP + TAX$$

Rate Base

CAPD

\$115M

TAWC

\$120.9M

Source: Amended Exhibit CAPD Schedule 2; Amended TAWC Exhibit No. 1, Schedule 1.

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$$RR = (RB \times \text{ROR}) + O\&M + DEP + TAX$$

Rate of Return

CAPD

6.84%

TAWC

8.38%