

TENNESSEE REGULATORY AUTHORITY



460 James Robertson Parkway
Nashville, Tennessee 37243-0505

April 1, 2011

Director Sara Kyle
Director Eddie Roberson
460 James Robertson Parkway
Nashville, TN 37243

**Re: Docket No. 10-00189 Petition of Tennessee American Water Company for a
General Rate Increase**

Dear Directors Kyle and Roberson:

Attached is the motion I intend to make at the Convening of the Panel to be held on Monday, April 4, 2011 in the above-referenced docket. This document is being filed for your convenience and to help expedite deliberations.

Sincerely,

A handwritten signature in black ink, reading "Mary W. Freeman".

Mary W. Freeman
Chairman

Attachment

Director Mary W. Freeman's Motion
Docket No. 10-00189

Test Period and Attrition Period

Because the TRA is not limited to adopting one test period for use throughout this case, I find that the normalized test period for the twelve months ended March 31, 2010 as proposed by Tennessee American Water Company ("Company" or "TAWC") or the September 30, 2010 normalized test period proposed by Consumer Advocate and Protection Division of the Tennessee Attorney General's Office ("CAPD") are both acceptable and move that the Tennessee Regulatory Authority ("Authority" or "TRA") use the test period which best fits the individual items being forecasted.

Because both the Company and the CAPD are in agreement as to the attrition period, I move we adopt the forward looking attrition period of the twelve months ending December 31, 2011.

Revenues and AWR Earnings

I move that the Authority adopt attrition period revenues of \$37,614,978. This amount is derived from:

- 1) Adopting the Company's calculated attrition period Residential Revenue, less the Weather Normalization Adjustment, which results in residential revenues of \$15,555,318;
- 2) Adopting the Company's calculated attrition period Commercial Revenues, less the Weather Normalizing Adjustment, which results commercial revenues of \$11,540,748;
- 3) Adopting the Company's attrition period Industrial Revenue of \$3,401,964;
- 4) Adopting the Company's attrition period Other Public Authority Revenue of \$2,556,253;
- 5) Adopting the Company's attrition period Other Water Utilities Revenue of \$1,308,493;
- 6) Adopting the Company's attrition period Public/Private Fire Service Revenue of \$1,735,066; and
- 7) Adopting the Company's attrition period Other Operating Revenues of \$1,517,135.

Additionally, I move that the Authority impute the Tennessee Net Income from the AWR Water and Sewer Protection Programs of \$306,611.

Expenses

Salaries and Wages

I move that the Authority adopt the Salaries and Wages Expense for the attrition period of \$5,279,477. Further, I move that the Company be required to submit semi-annual reports on

staffing levels with the Utility Division Chief. Such reports should include the following: the actual number of full-time employees ("FTEs") for the previous period, an explanation for any differences between authorized and actual FTEs, and the date TAWC expects to fill any vacant positions.

I also move that TAWC be required to submit a semi-annual report to the Utility Division Chief regarding its Valve Operation and Maintenance Program. The report should include the following: 1) the number of employees assigned to the valve program; 2) the target number of larger and smaller valves to be inspected/operated and maintained during the previous period; 3) the number of valves actually inspected/operated and maintained during that period; 4) the number of valves found to be in need of repair or replacement; 5) the date for repair or replacement of such valves; and 6) if TAWC decided not to repair or replace those valves in need of such, the number of valves that were not repaired or replaced and the reason for not doing so.

Purchased Water

I move that the Authority adopt the Company's attrition period forecast for Purchased Water Expense of \$47,692.

Fuel and Power

I move that the Authority adopt Fuel and Power Expense for the attrition period of \$2,277,057. This amount is based upon the Company's normalized test period usage and a water loss percentage of 15%.

Chemicals

I move that the Authority adopt Chemicals Expense for the attrition period of \$881,439. This amount is based upon the Company's normalized test period usage and a water loss percentage of 15%.

Waste Disposal

I move that the Authority adopt an attrition period Waste Disposal Expense of \$194,993.

Management Fees

I move that the Authority adopt an attrition period Management Fees Expense of \$4,741,068. This amount is based upon the Company-normalized amount of \$5,048,200 for the twelve months ended September 30, 2010 and (1) eliminating \$172,295 of External Affairs Expense; (2) eliminating \$89,720 of Business Development Expense; and (3) eliminating 50% (\$89,734) of the Annual Incentive Plan. The residual amount is then grown by an annual inflation factor of 0.76% for fifteen (15) months.

Group Insurance

I move that the Authority adopt an attrition period amount of \$2,111,420 for Group Insurance Expense.

Pensions

I move that the Authority adopt an attrition period amount of \$839,965 for Pension Expense.

Regulatory Expense

I move that the Authority adopt an attrition period amount of \$277,880 for Regulatory Expense.

Insurance Other Than Group

I move that the Authority adopt the CAPD's attrition period forecast of \$322,151 for Insurance Other Than Group Expense.

Customer Accounting

I move that the Authority adopt the CAPD's attrition period projection for Customer Accounting Expense of \$841,097.

Uncollectible Expense

I move that the Authority adopt an attrition period amount for Uncollectible Expense at current rates of \$198,122.

Rents

I move that the Authority adopt the CAPD's attrition period forecast of \$8,436 for Rent Expense.

General Office Expense

I move that the Authority adopt the CAPD's projected General Office Expense of \$218,374 for the attrition year.

Miscellaneous Expense

I move that the Authority adopt an attrition period amount of \$2,006,364 for Miscellaneous Expense.

Other Maintenance Expense

I move that the Authority adopt the CAPD's attrition period forecast of \$1,143,531 for Other Maintenance Expense.

Depreciation and Amortization Expense

I move that the Authority adopt the CAPD's forecast for Depreciation Expense of \$4,703,804 for the attrition period as originally filed in CAPD's Direct Testimony.

Taxes Other Than Income**Gross Receipts Tax**

I move that the Authority accept \$704,308 for the attrition period forecast of Gross Receipts tax; this amount is based on the methodology actually used to calculate these taxes.

TRA Inspection Fees

I move that the Authority adopt \$116,262 for the TRA Inspection Fee which is based on the attrition period Revenue at current rates.

Property Taxes

I move that the Authority adopt the CAPD's Property Taxes for the attrition period of \$2,572,725.

Franchise Taxes

I move that the Authority adopt the CAPD's Franchise Taxes for the attrition period of \$391,255.

FICA Tax

I move that the Authority adopt \$397,217 for FICA Taxes for the attrition period.

Unemployment Tax

I move that the Authority adopt \$16,688 for Unemployment Taxes for the attrition period.

State Excise Tax

I move that the Authority adopt Excise Taxes for the attrition period of \$223,534.

Federal Income Tax

I move that the Authority adopt Federal Income Taxes for the attrition period of \$1,672,871.

Allowance for Funds Used During Construction (AFUDC)

I move that the Authority adopt \$204,000 for AFUDC for the attrition period as agreed to by the Company and the CAPD.

Net Operating Income

Based upon the preceding determinations, I move that the Authority find that the Net Operating Income for the company is \$5,937,860 for the attrition period prior to the application of taxes for the additional attrition period revenues.

Rate Base

I move that the Authority adopt a rate base of \$118,459,808 for the attrition year ending December 31, 2011 consisting of the following:

Utility Plant in Service

I move that the Authority adopt Utility Plant in Service of \$225,496,165 for the attrition period.

Construction Work in Progress (CWIP)

I move that the Authority adopt a CWIP balance of \$2,681,318 for the attrition period.

Utility Plant Capital Lease

I move that the Authority adopt the amount agreed to by TAWC and the CAPD for Utility Plant Capital Lease of \$1,590,500 for the attrition period.

Working Capital

I move that the Authority adopt Working Capital in the amount of \$1,675,829 for the attrition period.

Accumulated Depreciation

I move that the Authority adopt the CAPD's projection of \$73,137,622 for Accumulated Depreciation for the attrition period.

Retired Work In Process (RWIP)

I move that the Authority adopt the unchallenged RWIP amount of \$0 for the attrition period.

Accumulated Amortization of Utility Capital Lease

I move that the Authority adopt the amount agreed to by TAWC and the CAPD for Accumulated Amortization of Utility Plant Capital Lease of \$1,387,268 for the attrition period.

Accumulated Deferred Income Taxes

I move that the Authority adopt Accumulated Deferred Income Taxes in the amount of \$22,638,057 for the attrition period.

Customer Advances for Construction

I move that the Authority adopt \$5,786,757 as proposed by TAWC and the CAPD for Customer Advances for Construction for the attrition period.

Contributions In Aid of Construction (CIAC)

I move that the Authority adopt \$9,932,550 as proposed by TAWC and the CAPD for Contributions in Aid of Construction for the attrition period.

Unamortized Investment Tax Credit (UITC)

I move that the Authority adopt \$26,899 for Unamortized Investment Tax Credits for the attrition period.

Utility Plant Acquisition Adjustment

I move that the Authority adopt the CAPD's projection of \$74,850 for Utility Plant Acquisition Adjustment for the attrition period.

Revenue Conversion Factor

I move that the Authority adopt an overall Revenue Conversion Factor of 1.643037 for the attrition year.

Rate of Return

I move that TAWC's rate of return be set using a double leveraged capital structure. To implement the double leverage methodology, I move that the Authority set the portion of TAWC's capitalization held by parties outside the American Water Works system at 6.81% at a cost of 8.3%. For TAWC's parent company, I move adoption of a capital structure consisting of 53.13% long-term debt, 2.63% short-term debt, 0.25% preferred stock and 43.99% equity. Additionally, I move adoption of a long-term debt cost of 6.27%, a short-term debt cost of 1.9% and the cost of preferred stock of 5%. I move adoption of an equity return of 10.0%. Using these values, I move for an overall rate of return of 7.83% for TAWC.

Revenue Deficiency

Based upon the preceding determinations, I find that the Revenue Deficiency is \$5,551,013 for the attrition period.

Rate Design

I move that the Authority deny the Settlement between the Chattanooga Regional Manufacturers Association and TAWC. The *Summary of Settlement between CRMA and TAWC* filed on March 28, 2011 did not contain sufficient information to determine the terms of the Settlement and potential impact on customers throughout the industrial class.

I move that the Authority deny the TAWC's proposed tariffs and instruct the Company to file new tariffs reflecting a 14.98% increase to rates in all rate classes. I also move that the Company file a rate design spreading the approved revenue change proportionately to all rates based on its attrition year billing determinants less the WNA adjustment, and that such price-out demonstrate that the proposed rates result in the approved revenue change.