



TENNESSEE REGULATORY AUTHORITY

**460 James Robertson Parkway
Nashville, Tennessee 37243-0505**

April 4, 2011

Chairman Mary W. Freeman
Director Sara Kyle
Tennessee Regulatory Authority
460 James Roberson Parkway
Nashville, TN 37243-0505

RE: Docket 10-00189 *Petition of Tennessee American Water Company
for a General Rate Increase*

Dear Chairman Freeman and Director Kyle:

Please find the attached motion that I plan to make as an amendment to Chairman Freeman's pre-filed motion as we deliberate this docket on April 4, 2011. For your convenience, I am filing this today in order that you have sufficient time for review.

Sincerely,

Eddie Roberson
Director

Attachment

**Director Roberson's Motion to Amend
Chairman Freeman's Motion
Docket No. 10-00189**

I have reviewed Chairman Freeman's motion filed on April 1, 2011, and am in agreement with the majority of her findings and conclusions. However, I offer the following amendments to her pre-filed motion:

1.) I agree with the Consumer Advocate that the maximum number of employees should be 107, and I so move. This number is based on the current 108 employee count Mr. Watson testified to at the hearing, and the entire exclusion of the Governmental Affairs Specialist who is a registered lobbyist. I find that lobbying is not necessary for the provision of water service and that expenses related to lobbying should not be funded by the Company's customers and should be excluded for ratemaking purposes. The result of the adoption of this amendment is to reduce the revenue increase set forth in Chairman Freeman's motion by \$163,944.

2.) I find that the Finance Manager hired by Tennessee American Water Company duplicates a portion of American Water Works Service Company's functions for finance services that are provided to Tennessee American. Therefore, I move to eliminate from Management Fees the cost for the Finance Manager, including salary and benefits, in order to avoid customers paying for such duplication. The result of the adoption of this amendment is to reduce the revenue increase set forth in Chairman Freeman's motion by \$120,333.

3.) In Docket No. 08-00039, Tennessee American provided a capital additions forecast that it intended to fund and implement during the attrition period. Funding for these additions was included by the Authority in forecasting the attrition period rate base on which rates in the '08 rate case were established. The Company, however, did not follow through on its commitment by failing to implement its scheduled capital projects, namely the Citico Treatment Plant project. The net effect was that the Company was granted revenues for needed projects but diverted revenues to other purposes such as dividends and management fees to its service company. In this case, the Company again requests inclusion of the Citico project in its forecasted capital additions in calculating its attrition period rate base. As I understand it, the capital additions forecasted by the Company were used by the Consumer Advocate in projecting utility plant in service of \$225,496,165, which is included in Chairman Freeman's motion. Based upon the fact that the Company did not implement these same capital additions that were budgeted in the 2008 rate case, I am concerned about the Company's commitment level. I am looking for some type of assurance that capital additions, specifically

the Citico project, be implemented, especially if the Authority once again provides funding for this project through rates in this case.

Accordingly, I move that the capital addition for the Citico Treatment Plant project of \$5,301,305 be removed from the rate case calculations. Based upon my calculations, this adjustment will reduce the overall revenue requirement by \$753,736. This amount includes the reduced depreciation expense, accumulated depreciation and the resulting tax effects; this amount, however, does not include an adjustment to accumulated deferred income taxes. The Company will be allowed rate recovery for this project as it is implemented, in essence a tracker. And, in order to receive recovery, the Company must first submit documentation of its capital additions not to exceed the projected cost of \$5.3 million related to the Citico project, including all associated depreciation and tax effects, to the Authority in this docket. To expedite the review and disposition of any request for recovery by the Company, my motion includes delegating authority to the Hearing Officer to review and approve any such requests. Any request for recovery submitted to the Authority must be served on all parties to this docket at the time of submission to the Authority. Once approved, rates can be implemented to recover the additional revenue requirement. Therefore, the result of the adoption of this amendment is to reduce the revenue increase set forth in Chairman Freeman's motion by \$753,736.

4.) I move that the Return on Equity be set at 9.65%. This figure is slightly higher than CAPD witness Dr. Klein's maximum recommendation of 9.6% and below the Company's requested 11.5% equity return. This figure is similar to recent equity returns awarded by other state regulatory commissions, especially the 9.75% equity return recently awarded to Kentucky American. Given these factors, I believe that a 9.65% equity return is just and reasonable and is sufficient for the Company to attract the necessary capital. Using the other elements of cost of capital in Chairman Freeman's motion, this leads to a 7.68% overall rate of return, which I also find to be just and reasonable. The result of the adoption of this amendment is to reduce the revenue increase set forth in Chairman Freeman's motion by \$282,961.

The effect of these amendments, taken together, is to reduce the revenue increase from \$5,551,013 to \$4,242,134 and to reduce the total rate increase from 14.98% to 11.28%.

The above amendments, if adopted, will necessitate changes to many of the figures in Chairman Freeman's pre-filed motion. Therefore, I move to direct the Staff to make adjustments in the appropriate categories to reflect these amendments.

In addition, I would like to request a presentation of the Settlement Agreement before making a determination regarding rate design. In all other respects, I concur with Chairman Freeman's pre-filed motion.