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June 1, 2012

VIA HAND DELIVERY

Hon. Kenneth C. Hill, Chairman
c/o Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

**RE: Petition Of Tennessee American Water Company To Change And Increase
Certain Rates And Charges So Far 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, TRA Docket No. 12- 00049**

Dear Chairman Hill:

Pursuant to Tenn. Code Ann. § 65-5-101, *et seq.*, enclosed please find an electronic version of the *Petition Of Tennessee American Water Company To Change And Increase Certain Rates And Charges So Far 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* (the "*Petition*"), along with sworn testimony and exhibits.¹ Accompanying the electronic version are an original and four hard copies of the *Petition* and supporting documentation.

Attached to this cover letter are originals of the following: (1) the *Petition*; (2) the Affidavit of Linda C. Bridwell (Certification of Data Requests Responses from the TRA); (3) notarized verification statements from the witnesses submitting Pre-Filed Testimony in support of the *Petition*, namely Deron Allen, Linda Bridwell, Jim Chelius, Paul R. Herbert, Lewis Keathley, Donald Petry, Kevin Rogers, Melissa Schwarzell, Dr. James Vander Weide and Gary VerDouw; and (4) the revised tariff in support of the *Petition*, with an effective date of July 1, 2012.

We should note that this filing contains *Tennessee American Water Company's Motion for Entry of a Protective Order*. To ease the administrative burden upon the agency and to ensure that it received a complete *Petition* as soon as possible, the Company is, with the *Petition*, submitting certain marked **CONFIDENTIAL INFORMATION UNDER SEAL**. As such, this **CONFIDENTIAL INFORMATION** should not be placed on the TRA's website. We are requesting the Authority to act upon this motion as expeditiously as possible.

¹ For administrative convenience, two (2) CDs of the *Petition*, and supporting documentation, are enclosed.

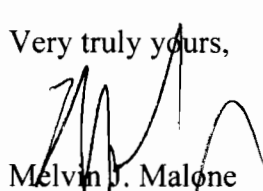
Hon. Kenneth C. Hill

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We have also enclosed a check in the amount of \$25.00 for the required filing fee. An extra copy of this cover letter is also enclosed to be file-stamped for our records. Should you have any questions concerning this filing, or require additional information, please do not hesitate to let me know.

Very truly yours,



Melvin J. Malone

clw

Enclosures

cc: Deron Allen, President, Tennessee-American Water Company
Lindsey W. Ingram III, Stoll Keenon Ogden PLLC
Cynthia Kinser, Deputy Attorney General, Consumer Advocate and Protection Division
(Non-Confidential Courtesy Copy)

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

**PETITION OF TENNESSEE AMERICAN)
WATER COMPANY TO CHANGE AND)
INCREASE CERTAIN RATES AND)
CHARGES SO FAR 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)**

DOCKET NO. _____

PETITION

Tennessee-American Water Company ("Tennessee American" or "Company"), a Tennessee corporation authorized to conduct a public utility business in the State of Tennessee, does hereby file with the Tennessee Regulatory Authority ("Authority") this Petition and revised tariff to become effective thirty (30) days after the date of the filing and requests that the Authority, pursuant to Tennessee Code Annotated ("T.C.A.") § 65-5-101, *et seq.*, hear and determine that the increased rates as reflected in the revised tariff are just and reasonable. In support of this request, Tennessee American states as follows:

Description of Tennessee American

1. Tennessee American is a public utility as defined in T.C.A. § 65-4-101 and provides residential, commercial, industrial and municipal water service, including public and private fire protection service, to Chattanooga and surrounding areas, including 75,840 customers as of June 1, 2012 that are subject to the jurisdiction of the Authority pursuant to Chapter 4 and Chapter 5 of Title 65 of the T.C.A. Tennessee American also serves customers in North Georgia. The rates for those customers are not regulated by the Public Service Commission of the State of Georgia, but are instead regulated by this Authority.

2. Tennessee American is a wholly-owned subsidiary of American Water Works Company, Inc., which is the largest water holding company in the United States, providing water

and wastewater services to sixteen (16) million people in thirty-five (35) states and two (2) Canadian Provinces.

3. Tennessee American's principal place of business is located at 1101 Broad Street, Chattanooga, Tennessee 37402.

4. All correspondence and communication with respect to this Petition should be sent to the following:

Kevin Rogers
Operations Manager
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1101 Broad Street
Chattanooga, TN 37402
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Request for and Description of Rate Increase

5. Tennessee American's present rates were set in April 2011 in TRA Docket 10-100089, which was established by the Company's Petition of September 17, 2010. The present

rates represented an annual rate increase of \$5,551,013 above the previous rates. These rates were further memorialized by the Authority in its April 27, 2012 Final Order in that docket.

6. Tennessee American is requesting an increase in rates because its existing rates for water service do not afford the Company the opportunity to recover its reasonable operating costs or to earn a just and reasonable rate of return on its investment. Moreover, Tennessee American must be granted a rate increase in order to maintain its facilities and provide services commensurate with its customers' reasonable expectations and the Authority's requirements, as well as attract capital at reasonable rates.

7. As shown in the exhibits accompanying this Petition, based upon Tennessee American's current rates during the attrition period, the Company is expected to earn a return on common equity of 3.66%, which is well below the 10% authorized by the Authority in Tennessee American's most recent rate case. The projected return on common equity during the attrition period does not permit the Company to earn a just and reasonable return. Moreover, without rate relief, Tennessee American will incur a revenue deficiency during the attrition period¹ of \$6,203,017.

8. In this proceeding, Tennessee American is requesting that it be permitted to earn an 11.3% return on common equity, which, along with the other pro forma adjustments the Company has proposed, will produce an annual increase in rates of \$10,586,344. Tennessee American proposes that it be allowed to place into effect customer rates that will produce an overall rate of return of 8.23% on a rate base of \$135,820,256. If the proposed rates are approved, an average residential customer's monthly bill would increase by approximately \$5.94 per month.

¹ As set forth below, the attrition year is the twelve (12) months ended November 30, 2013 and represents the twelve (12) months following the implementation of rates.

9. Tennessee American makes every effort to provide water service as efficiently as possible. Despite its efforts, however, changing market conditions, increasing costs, and mounting capital expenditures have caused the existing rates to produce inadequate revenues. While costs are increasing, Tennessee American continues to see a decline in revenues that has been driven, in part, by declining water use. Both residential and commercial customer use is declining as a result of increasingly efficient plumbing fixtures and appliances and customer conservation.

10. Since the last rate case, Tennessee American has incurred substantial capital investments to ensure that it is providing quality water and customer service. As explained in the direct testimony of Gary VerDouw, the Company is engaged in a business transformation project regarding the development and system-wide deployment of new, integrated information technology systems. As part of the business transformation, Tennessee American is replacing its antiquated information technology systems that have reached or exceeded the end of their useful lives. The business transformation undertaking will benefit all customers, but is not presently reflected in Tennessee American's rates.

11. As explained in detail in Mr. VerDouw's testimony, a concern that must be addressed by many water service providers, including Tennessee American, is its aging infrastructure and the need to replace and/or upgrade its facilities in order to fulfill its obligations of providing safe, adequate, and reliable water service. Because of the substantial capital expenditures that are involved in performing the replacements and/or upgrades, Tennessee American is proposing a Distribution System Infrastructure Charge as a tariff rate adjustment mechanism that will allow Tennessee American to make capital improvements that are purposed

upon improving safe and reliable service without requiring the Company to frequently file rate cases, which will allow customers to gradually absorb the associated costs.

12. As explained in detail in Mr. VerDouw's testimony, because the combined cost of purchased power and chemicals is the largest non-labor component of the Company's operation and maintenance expenses, Tennessee American is proposing a Purchased Power and Chemicals Charge, which is a tariff rate adjustment mechanism, to recover from or credit to customers the incremental changes in purchased power and chemical costs above or below the level authorized for recovery in a base rate case proceeding through the Company's tariffs. Like the Distribution System Infrastructure Charge, a Purchased Power and Chemicals Charge should increase time between rate cases and will allow customers to gradually absorb any increased costs.

13. The current manner by which Tennessee American's pension expense is calculated does not permit the Company to adequately recover its costs, which is explained in detail in Mr. VerDouw's testimony. In order to permit Tennessee American to timely recover this prudent and reasonable expense and to credit customers if the expense decreases, the Company is proposing a pension tracker, which would balance current and future pension costs to keep both the Company and its customers whole, should pensions costs increase or decrease.

14. In further support of its Petition, Tennessee American has simultaneously filed the following direct testimony, which is incorporated herein by reference:

- (a) **Direct Testimony of Deron Allen**, which provides an overview of the request for rate relief; outlines the significant drivers for the new rates; describes the Company's organizational structure; describes the Community's community affairs efforts; and explains the management team's responsibilities and reporting relationships;

- (b) **Direct Testimony of Linda Bridwell**, which sponsors Tennessee American's Summary Accounting Exhibits that support the proposed revenue increase and addresses the Company's attrition level of Support Services, Regulatory Expense, Insurance Other than Group Expense, Regulatory Deferrals Expense, and Rate Base;
- (c) **Direct Testimony of Gary VerDouw**, which addresses the revenue requirement Tennessee American is requesting; describes the Company's capital structure and its unique risks; explains the developments and upgrades associated with the business transformation undertaking; addresses the Distribution System Improvement Charge the Company is proposing, as well as the Purchased Power and Chemicals Charge and pension tracker Tennessee American is requesting in this proceeding;
- (d) **Direct Testimony of Melissa Schwarzell**, which addresses various adjustments to Tennessee American's operating expenses, including all labor-related adjustments, and Rent Expense and Property Tax Expense;
- (e) **Direct Testimony of Kevin Rogers**, which addresses water safety and improvements, organizational structure and workforce planning, upgrades to the Company's valve maintenance program, non-revenue water, deteriorating infrastructure, and the leak detection program;
- (f) **Direct Testimony of Paul Herbert**, which presents a cost of service allocation study and proposed rate design, along with supporting testimony exhibits;

- (g) **Direct Testimony of Dr. James Vander Weide**, which presents an independent appraisal of Tennessee American's cost of equity capital and recommends a rate of return range that includes 11.3%, which is fair, and allows the Company to attract capital on reasonable terms and protect its financial integrity, along with supporting testimony exhibits;
- (h) **Direct Testimony of Jim Chelius**, which presents the results of an analysis regarding water usage trends, demonstrating there is a significant and continuing trend of declining water usage by residential and commercial customers, along with supporting testimony exhibits;
- (i) **Direct Testimony of Donald Petry**, which supports the Company's attrition year level of Customer Accounting, General Office Expense, Income Taxes and Miscellaneous Expenses; and addresses revenues at present and proposed rates, except for the average daily usage for the residential and commercial customer classes; and
- (j) **Direct Testimony of Lewis Keathley**, which presents several of the Company's expense schedules, as well as pro forma adjustments regarding same.

15. Tennessee American selected as the historical test year the twelve (12) months ended December 31, 2011, and has adjusted the test period for two (2) levels of adjustments. The first adjustment normalizes the test year to reflect known and measurable changes for the period of January 1, 2012 through November 30, 2012, which represents the period from the end of the historic test year through the end of the period in which any increases from this proceeding will take effect. The second level adjusts the normalized year to arrive at the attrition year, which is

the twelve (12) months ended November 30, 2013 and represents the twelve (12) months following the implementation of rates.

16. Tennessee American has filed simultaneously with this Petition a revised tariff effective July 1, 2012, designed to produce the additional revenues needed. The testimony of various Company witnesses and their corresponding exhibits show how these additional revenues will be derived.

17. Tennessee American submits that the proposed changes are necessary and will allow the Company to continue providing adequate water service to its customers. Tennessee American's revised tariff is fair and reasonable and in the best of interest of all parties and therefore should be approved.

WHEREFORE, Tennessee American respectfully requests:

1. That the Authority schedule a hearing upon proper notice for the presentation of evidence as to the rates necessary to provide adequate water service to its customers and a fair rate of return to Tennessee American;

2. That the Authority find that the existing rates of Tennessee American are inadequate and that the new rates proposed by the Company are fair, just and reasonable, and in the public interest;

3. That the Authority approve the Distribution System Infrastructure Charge and Purchased Power and Chemicals Charge, which are tariff rate adjustment mechanisms, as well as the pension tracker the Company has proposed;

4. That the Authority approve Tennessee American's revised tariff implementing the proposed rates to be effective July 1, 2012; and

5. That the Authority grant such other and/or further relief as may be warranted.

This the 1st day of June, 2012.

Respectfully submitted,

By: _____

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