

PETITIONER'S EXHIBIT DEA-1

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. _____

DIRECT TESTIMONY

OF

DERON E. ALLEN

ON

**OVERVIEW OF THE CASE,
ORGANIZATIONAL STRUCTURE,
REGULATORY MECHANISMS, AND
COMMUNITY INVOLVEMENT**

WITNESS BACKGROUND

Q. Please state your name and business address.

A. My name is Deron E. Allen and my business address is 1101 Broad Street,
Chattanooga, TN 37402.

Q. By whom are you employed and in what capacity?

A. I am employed by Tennessee-American Water Company (“TAWC” or
“Company”) as President.

Q. What is your educational background?

A. I graduated from Crowder College, Neosho, Missouri, in 1985 with a Water-
Wastewater Treatment Certificate. I received an Associate in Applied Science
Degree from Crowder College in 1987. I later graduated from Indiana State
University with Bachelor of Science (1991) and Master of Arts (1994) degrees in
Geology, specializing in Hydrogeology. I have also passed State Operator
certifications in Nebraska, Kansas, Oklahoma, Arkansas, Missouri, and Indiana. I
currently hold Water Treatment certifications for the State of Indiana.

Q. Please describe your business experience.

A. In 1983, I worked for TAWC as a Production Laborer. From 1984 to 1985 I
worked as a student assistant performing water quality sampling at Crowder
College and as a volunteer in the Volunteers in Parks Program for the Missouri
Department of Natural Resources. Between 1985 and 1993, I was employed with
the Indiana-American Wabash Valley Operation in several roles including Plant

1 Operator and Distribution Senior Utility worker. From 1993 to 1994, I was an
2 Instructor for the Water/Wastewater Treatment School at Crowder College. From
3 1994 to 1995, I was the Department Supervisor for the Water/Wastewater
4 Treatment School.

5 **Q. What were your duties in your role as Department Supervisor at Crowder**
6 **College?**

7 A. In that role, I was responsible for all courses including the water/wastewater short
8 courses offered throughout Missouri by the College. From 1996 to 2001, I was
9 the Chairperson for the Environmental Health and Safety Division and Director of
10 the Environmental Resource Center for the College. In this role, I was
11 responsible for all grants, course work, and coordination of activities with the
12 USEPA and the Missouri Department of Natural Resources to ensure the College
13 was achieving the goals of the water/wastewater treatment programs within the
14 state. I remained in this position until I returned to American Water in 2001.

15 **Q. What were your roles once returning to American Water?**

16 A. Between 2001 and 2004, I was the Operations Manager for the Indiana American
17 Water Kokomo Operation. I was in charge of all budgeting, operations, and
18 maintenance activities for that operation. In 2004, I was promoted to Operations
19 Manager for the Central Indiana Operations. I was later promoted to Director for
20 the Western Indiana Operations of Indiana American Water. In 2010, I was
21 promoted to the position of Vice President, Operations for Indiana American
22 Water. In 2011, I was promoted to my current position as President of TAWC.

1 I will generally describe TAWC and provide an overview of the request for rate
2 relief that we have filed. I will also introduce the witnesses that will testify. I
3 will outline the significant drivers for the proposed new rates. I will describe the
4 Company's organizational structure, the responsibilities of the TAWC
5 management team, and all reporting relationships. I will explain the Company's
6 plans in the coming years to implement new information systems, which we refer
7 to as "Business Transformation." Finally, I will describe TAWC's community
8 involvement efforts.

9 **RELIEF REQUESTED AND SUMMARY OF WITNESSES**

10 **Q. What relief is TAWC seeking in this Case?**

11 A. TAWC is seeking a rate increase to produce additional revenues of \$10,586,344
12 per year.

13 **Q. Why does TAWC need to file rate cases?**

14 A. TAWC has provided safe and reliable water service to the Chattanooga area for
15 over 125 years. Our customers rely on the Company to ensure the safety and
16 reliability of the drinking water supply. We have an obligation to meet our
17 customers' needs and expectations. These are responsibilities that TAWC takes
18 very seriously, but these services are not without cost. These services require a
19 significant amount of operational expense and ongoing capital investments. It is
20 not possible to meet these requirements without recovery of needed expense and
21 capital investment. These costs will be described in the various testimony

1 provided in this filing. Without this recovery, there is serious risk to reliability of
2 any system.

3 **Q. How does the responsibility of providing safe and reliable water impact the**
4 **need of increasing rates?**

5 A. It is important to maintain an appropriate level of investment in maintaining and
6 improving the water system. Water utilities are the most capital intensive utility
7 in the industry. According to AUS Utility Reports (May 2010), the water industry
8 is three times more capital intensive than the gas industry and about 30% more
9 than electric utilities. The best way to ensure that the appropriate level of
10 expenditures and capital investment are consistently funded is through predictable
11 and timely rate recovery. The timely cost recovery of these expenditures in turn
12 provides an incentive for increased and continued levels of capital infusion. This
13 results in a stronger and more reliable water system for both current and future
14 customers.

15 **Q. How does the responsibility of maintaining the system relate to the need to**
16 **increase rates so that TAWC has an opportunity to earn a fair rate of**
17 **return?**

18 A. Rate recovery that provides TAWC an opportunity to earn a fair rate of return on
19 its investments provides an incentive for the continued levels of capital infusion
20 necessary to maintain and improve TAWC's system.

21 **Q. If the Company did not seek rate relief from time to time, would there be an**
22 **impact on the safety or reliability of the system?**

1 A. Without the ability to recover expenses and capital investment in a timely manner,
2 yes, there would be a negative impact on the water system over time. However,
3 there are additional methods of rate recovery, as proposed in this filing, that can
4 benefit the customer and provide timely recovery of some expenses and
5 investments outside of a general rate case filing. These methods are outlined in
6 the section below concerning “Reducing Rate Shock.”

7 **Q. What witnesses will be testifying in TAWC’s case-in-chief and what subjects**
8 **will they be addressing in their testimony?**

9
10 A. In addition to myself, our witnesses are:

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|------------------------|---|
| Linda Bridwell | Ms. Bridwell will testify on Regulatory Expense, Support Services, Insurance Other Than Group, Regulatory Deferrals, General Office, Depreciation/Amortization, and Rate Base including Working Capital and Deferred Taxes. |
| Gary VerDouw | Mr. VerDouw will discuss Business Transformation, alternative rate making including pass-throughs and DSIC, and Capital Structure. |
| Melissa Schwarzell | Ms. Schwarzell will testify on Labor and Labor related expenses, Property Taxes, and Rents. |
| Lew Keathley | Mr. Keathley will discuss Purchased Water, Fuel and Power, Chemicals, Waste Disposal, Transportation, and Maintenance Expense. |
| Kevin Rogers | Mr. Rogers will discuss operations including valve maintenance and non-revenue water, operational performance, and operational responsibilities. |
| Paul Herbert | Mr. Herbert will discuss cost of service. |
| Dr. James Vander Weide | Dr. Vander Weide will discuss cost of capital. |
| Jim Chelius | Mr. Chelius will discuss water usage trends for Tennessee American’s residential and commercial customers. |

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| Don Petry | Mr. Petry will testify on Revenues, Customer Accounting, Uncollectibles, Franchise Tax, Miscellaneous Expenses, TRA Fees, and Tariffs. |
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REASONS FOR RATE REQUEST

4 **Q. When were TAWC's current rates approved?**

5 A. Pursuant to TRA approval, the current rates became effective on April 5, 2011 as
6 a result of the previous rate case TAWC filed on September 17, 2010.

7 **Q. Since those base rates were approved in April 2011, have there been**
8 **adjustments to TAWC's rates?**

9 A. While the rates have remained the same, there was a temporary surcharge
10 approved by the TRA to become effective on October 1, 2011 and to be removed
11 when recovery was complete. It was removed from customer bills on March 25,
12 2012.

13 **Q. Why is it necessary to increase rates now?**

14 A. The need for filing rate cases is driven by the expenses and capital investment
15 needed to maintain and improve the system. It is important for a regulated utility
16 to file for rate relief when its ability to earn a fair rate of return is compromised. If
17 TAWC's ability to earn a fair return is compromised, it will impair the
18 Company's ability to maintain an appropriate level of investment in maintaining
19 and improving the water system. It is also important to seek rate increases at
20 intervals that avoid or minimize rate shock to customers. Delaying a needed rate
21 case only increases rate shock to customers at a future time, essentially "kicking
22 the can down the road."

1 The expense and capital investment in this case are not a list of “wishes
2 proposed.” Instead, they are expenditures that must happen. TAWC is proposing
3 the adoption of adjustment mechanisms to its rate treatment. Along with an
4 Infrastructure Replacement Program, these methods are very effective in
5 controlling rate shock and allowing timely recovery of necessary expenditures by
6 the utility. These are explained further below.

7 **COST CONTROL EFFORTS**

8 **Q. What is TAWC doing to control its operational expenses?**

9 A. TAWC continually strives to find more efficient and cost effective ways to
10 operate and maintain its business. TAWC uses various operational and efficiency
11 reviews to further focus on improving customer service and efficiency of
12 production and field operations. TAWC will leverage the size and scale of
13 American Water to improve transactional efficiencies through increased
14 automation, standardization of best practices business processes, and a continuous
15 improvement mindset.

16 **Q. Will this result in a decrease in employee headcount for TAWC?**

17 A. The purpose of this ongoing review is not specifically to reduce headcount. The
18 intention is to improve efficiencies, customer service, and to control cost to the
19 customer. TAWC intends to evaluate constantly the total number of employees
20 needed to properly manage its operation in the most efficient manner possible.
21 TAWC believes that improvements in processes, along with the addition of
22 technology, will allow certain operating efficiencies to be realized. Further,

1 TAWC will take every opportunity to utilize these concepts to continue to provide
2 customers with the very highest quality of water at a reasonable cost. Kevin
3 Rogers will provide further details on our ongoing operational review efforts.

4 **Q. What else is TAWC doing to control costs?**

5 A. TAWC will continue to evaluate costs and expenses going forward. If a position
6 becomes vacant in our organization, we will look to the value of that position.
7 We will review the need of that position overall, consider whether that position be
8 transferred to another area, and consider whether that position should be changed.
9 Also, we will look to see if the position should be eliminated. Cost control is the
10 goal of these efforts.

11 **Q. Do the outcomes of these operational and efficiency reviews have a**
12 **meaningful impact upon TAWC customers?**

13 A. Yes. These reviews and expense scrutiny produce direct benefits to TAWC
14 customers. Our customers can see that TAWC is continually evaluating the cost
15 of doing business. These efforts will provide future efficiency for TAWC and its
16 customers, which mitigates cost increases and results in less frequent rate cases.

17 **BUSINESS TRANSFORMATION PROJECT**

18 **Q. What is the purpose of your testimony on American Water's Business**
19 **Transformation program?**

20 A. I will introduce American Water's Business Transformation ("BT") program,
21 explain why the program is reasonable and necessary, and summarize the BT
22 implementation schedule.

1 **Q. Please provide a brief overview of the scope of the projects that comprise the**
2 **BT program.**

3 A. In 2008-09, American Water's BT team (consisting of American Water
4 employees) embarked on a comprehensive review and analysis of the state of its
5 information technology systems and then made recommendations for its
6 improvement. As a result of this comprehensive review and analysis, American
7 Water identified the investments necessary to replace and upgrade applicable
8 system components. The scope of the BT program includes a range of core
9 functional areas, including: human resources, finance and accounting, purchasing
10 and inventory management, capital planning, cash management, and customer and
11 field services.

12 **Q. Why was it necessary for American Water to undertake its BT program?**

13 A. To state it simply, our technology has become antiquated, and our information
14 technology systems need to be replaced. ECIS (the customer service and
15 information system) was first implemented for American Water in 2001 and for
16 TAWC in 2003. JD Edwards, the system for accounting procurement, and human
17 resources functions was first implemented for American Water in 1997 and for
18 TAWC in 1998. The JD Edwards system is well beyond its useful life and ECIS
19 is approaching the end of its useful life. Consider the technological advances that
20 have taken place over just the last five years. Today, our customers and
21 employees can access the internet on a handheld smartphone at a faster speed than
22 they could from a personal computer only five years ago. Now consider that our
23 existing technologies were all developed when use of the internet was in its

1 infancy. The American Water BT review effort demonstrated that the
2 information technology systems of American Water, which support many
3 American Water core processes, are at or approaching the end of their useful life
4 cycles. The technology now being used is outdated, and lacks the functionality to
5 meet today's customer expectations.

6 **Q. Do the current information systems adequately support TAWC's customer**
7 **and business requirements?**

8 A. No. When American Water's information technology systems were acquired in
9 the mid-1990s and early 2000s, they met the customer expectations of the time.
10 TAWC's customer requirements still are being met through our existing systems,
11 but American Water's non-integrated systems have limited automation and
12 functionality, and over the last 10 to 15 years, more has changed than just
13 technology. Customer expectations have also shifted. As always, TAWC's
14 customers expect to receive high quality, reliable supplies of water. But today's
15 customers also expect more functionality (including internet billing, self-service
16 inquiry, and appointments for repair calls) than our existing information
17 technology systems can readily support.

18 American Water has fully maximized its software and systems by
19 implementing significant customizations or workarounds, in part, to meet
20 requirements and expectations that the original software was not equipped to
21 support. These customizations have addressed the needs of the business, but we
22 have reached a point where additional customizations would be inefficient and
23 increasingly expensive to maintain. In addition, when customizations were too

costly or impractical, manual processes were put in place. These manual solutions are not optimal because they introduce redundancy and inconsistency of data, require additional manual steps, and limit information availability. Because American Water's software has such a large number of customizations, system upgrades would be cost prohibitive and still would result in limited functionality. Additional questions related to BT will be addressed in testimony provided by Company Witness Gary VerDouw.

TAWC ORGANIZATIONAL STRUCTURE

Q. Please explain TAWC's current organizational structure.

A. TAWC has three levels of management. As President, TAWC Directors report to me. We have Directors of: Operations, Government Affairs, Customer Relations/External Affairs, Operational Risk Management, and Engineering. Our Supervisors report to our Directors. For example, Distribution, Commercial and Production Supervisors all report to the Director of Operations. Several other positions are shared roles with TAWC's sister companies and partially report to me. These roles are Financial Specialist, Human Resources, and Business Development. Kevin Rogers and Linda Bridwell will provide testimony as to the organizational structure of Operations and Engineering.

Q. What are the responsibilities of the Government Affairs and Customer Relation/External Affairs positions?

A. The Government Affairs position is responsible for communications and relations with local and state governmental entities. This position has also been

1 instrumental in relations with the TRA and the Consumer Advocate Division.
2 This has allowed for customer related communication with these entities that
3 includes necessary legislative and regulatory discussions of potential rate making
4 policies that will assist in cost management and the reduction of rate shock.
5 These efforts benefit customers directly.

6 The Customer Relations\External Affairs (“CREA”) position is a recently
7 expanded role in the Company. TAWC has increased the level of involvement in
8 community affairs, environmental and educational partnerships. Additionally,
9 this position will address future issues with large customers and sale for resale
10 customers. The CREA position will lead the Company’s participation in local
11 activities and programs. This position will also lead the Customer Advisory
12 Committee. This committee was formed in 2011 and is made up of community
13 leaders, large and small customers, and former intervening groups. The purpose
14 of this committee is to evaluate how TAWC can do a better job in both service
15 and educating the public as to the value of water service.

16 **Q. How effective has the Customer Advisory Committee been so far?**

17 A. While the committee has only met a couple of times, it has been very helpful in
18 the communications about ending our third party billing services. Additionally,
19 the committee has helped with suggestions concerning the planning of community
20 events, plant tours, and discussion on how the Company should look into ways of
21 reducing rate shock. The proposals provided in this filing are, in general, the
22 result of discussion the Company has had within the community. The topics of
23 trackers, pass throughs, and infrastructure replacement programs have been

1 discussed in several forums. The overall feedback is that the TAWC customers
2 want rate shock reduction methods proposed by TAWC.

3 **Q. Can you discuss the Engineering Department within TAWC?**

4 A. Engineering directs the capital program and system planning for the Company. It
5 also is responsible for our new Computerized Maintenance Management System
6 (CMMS) and Geographic information System (GIS) areas of the business. The
7 department consists of six positions split equally between management and union
8 employees.

9 **Q. Can you explain the roles of Human Resources, Business Development, and**
10 **the Financial Specialist?**

11 A. The Human Resources (“HR”) position is primarily responsible for TAWC, but
12 also has a management oversight of Kentucky American Water. The Business
13 Development position assists with growth opportunities and is shared with several
14 sister companies. The Financial Specialist role is responsible for the financial
15 reporting of TAWC to American Water.

16 **COMMUNITY INVOLVEMENT**

17 **Q. What activities has TAWC partnered in locally?**

18 A. TAWC has participated in many local groups, activities, and sponsorships. We
19 have focused our community involvement in areas relating to the environment,
20 education, and organizations that provide benefits to our customer base.

1 **Q. How would you describe the Company's level of community involvement**
2 **since its last rate filing?**

3 A. TAWC has increased its level of involvement since 2010. In 2010, we partnered
4 with 10 different organizations and now we partner with 22 organizations. We
5 continue to sponsor several important community programs, such as the
6 Tennessee Aquarium and the Chattanooga Food Bank. We have become more
7 involved overall in community partnerships since 2010.

8 **Q. How does TAWC decide on its involvement with local groups and activities?**

9 A. TAWC decides on partnerships based on the value that organization provides to
10 our customers and the community. Looking forward, TAWC will participate in
11 environmental stewardship, education, and local economic development and
12 growth. This is in the best interests of our customers and returns an investment to
13 our community.

14 **Q. How has TAWC assisted in promoting economic development in the region?**

15 A. Over the Company's 125 year history, there have been a variety of key
16 community partnerships and major sponsorships. In recent years, TAWC has
17 made a conscious effort to promote economic development, environmental
18 stewardship, and education. TAWC's major economic development participation
19 has come in the form of the Chattanooga Area Chamber of Commerce's Can Do
20 Program. Over a five year period, we committed to a total of \$100,000 to support
21 the Chamber's initiative. The Can Do Program was aimed to promote job growth
22 and to strengthen the local economy. Over the last year, TAWC has strongly

1 supported and sponsored several key events by the Tennessee Chamber of
2 Commerce & Industry. TAWC is committed to working with local leaders and
3 both Chambers to secure a sound and prosperous future for our customers,
4 community, and the State of Tennessee.

5 **Q. Please describe TAWC's philosophy and efforts towards environmental**
6 **stewardship.**

7 A. As the largest private water utility in Tennessee, the management and employees
8 of TAWC believe we have an obligation as a good corporate citizen to protect our
9 natural resources and most importantly our water sources. We serve over 75,000
10 customers in the Tennessee Valley, and we play a vital role in delivering high
11 quality and reliable drinking water. As a good steward of the precious resource of
12 water, we must promote, protect, and educate our customers about the true value
13 of water. Some of our major conservation initiatives are our annual
14 Environmental Grant Program, Drug Take Back Day, and Earth Day partnership
15 with the Tennessee Aquarium. TAWC also participates in the sponsorship of an
16 internship at the Moccasin Bend Archaeological District. Additionally, the
17 Company sponsors TAWC Conservation Night at the Riverfront Nights Concert
18 series, the New Covenant Fellowship Church Community Garden, and also
19 provides support for the Lookout Mountain Conservancy.

20 **Q. Can you please describe the Company's Environmental Grant program and**
21 **how the Company involves others in that program?**

1 A. Most certainly. TAWC established an environmental grant program that awards
2 grants to local community organizations and groups that promote protection of
3 water sources such as rivers and creeks. In 2012, the Company awarded \$8,500 in
4 grants to six worthy organizations within our local community. Some of the
5 recipients included Howard School of Academics and Technology, Lookout
6 Mountain Conservancy, Tennessee Aquarium, the Tennessee Student
7 Environmental Alliance, and the Chattanooga School for the Arts and Sciences.
8 The organizations were responsible for submitting proposals to address a water
9 source and/or watershed protection need in the community. For example, Howard
10 High School's project includes water quality monitoring, land clean-up activities,
11 and slope remediation. Most importantly, the Howard High School project will
12 involve at least 300 students in their chemistry and environmental science classes.
13 Howard High School plans to partner with neighboring fifth grade students from
14 Calvin Donaldson Elementary School. We have also encouraged Lookout
15 Mountain Conservancy to partner with both schools on a similar project in the
16 same area. Without TAWC support and the grant program, it would be nearly
17 impossible for some groups to take part in the project.

18 **Q. Has TAWC supported any local college students or internship programs?**

19 A. TAWC partnered with the Student Conservation Association to sponsor an
20 internship at the Moccasin Bend Archaeological District. The intern selected was
21 Franklin Johnson, who is from Seymour, Tennessee, and is a Geology major at
22 the University of Tennessee at Chattanooga. During his internship at Chattanooga
23 and Chickamauga National Military Parks, Mr. Johnson was responsible for

1 researching and developing information relevant to the transportation and trade
2 route uses of the Tennessee River. The research examined the Moccasin Bend
3 National Archeological District over a 12,000 year time period. The information
4 was used to design a wayside exhibit at Moccasin Bend within the two national
5 military parks. In conjunction with the internship program, TAWC hosted a “Get
6 Outdoors Day” at Moccasin Bend. TAWC employees assisted park officials to
7 remove invasive species and pick up years of litter and debris. These two projects
8 were tremendously successful and reflect our focus and commitment to
9 conservation and environmental stewardship.

10 **Q. Has the Company undertaken any community activities that help to protect**
11 **the Tennessee River in addition to the clean-up day?**

12 A. In recent years, TAWC has developed a strong relationship with an inner city
13 organization known as the East Chattanooga Improvement, formerly known as the
14 East Chattanooga Weed and Seed. The agency is a non-profit organization
15 focused on crime prevention, healthy life-styles, and being a resource to
16 individuals in East Chattanooga. For many years, East Chattanooga Improvement
17 has worked to prevent crime and serve as an advocate for community
18 revitalization. Most recently, the program lost all funding from the United States
19 Department of Justice and was forced to seek private and community donations
20 for its specific programs. TAWC partnered with the organization to support a
21 program that will help prevent pharmaceuticals from going back into the water
22 system. The event allows people to turn over expired/unused medications to law
23 enforcement to be properly disposed offsite. TAWC has partnered with East

1 Chattanooga Improvement on the Drug Disposal Program over the last five years.
2 It is a hugely successful program that aims to protect our water source and our
3 community from harmful medications.

4
5 **Q. Please describe the partnership with the New Covenant Fellowship**
6 **Development Corporation.**

7 A. There are so many support needs within the community. All of the requests we
8 receive for community involvement are closely examined to ensure that they fit
9 within our focus areas as a water utility. One example of TAWC's participation
10 and involvement is shown in our partnership with the New Covenant Fellowship
11 Development Corporation to develop a community garden. The New Covenant
12 Fellowship determined there was a lack of readily available fresh fruit and
13 vegetables within a specific geographical area of Chattanooga. The Corporation's
14 leadership took it upon themselves to develop a community garden to be operated
15 by local high school students. The garden would serve as a resource tool to teach
16 students how to grow their own food and the health benefits of fresh food. All the
17 proceeds would be given back to the students to supplement college expenses.
18 TAWC donated materials and labor needed to set up a sprinkler system and water
19 faucet to the garden. New Covenant would have been forced to purchase
20 hundreds of feet of water hoses to provide water to the garden.

21 **Q. How does TAWC decide on its involvement with local groups and activities?**

22 A. TAWC makes community relations decisions based on what fits well within our
23 focus as a water utility and is in the best interest of our customers and local

1 community. We focus our attention on involvement that highlights groups and
2 activities that have a specific focus. We promote sponsorships and activities based
3 on environmental stewardship, education, and economic development and growth.
4 There are some programs like the environmental grant, Tennessee Aquarium
5 partnership, and Junior Achievement that are traditional program sponsorships for
6 the Company. However, TAWC is always seeking to identify new and innovative
7 programs that we may be able to provide with assistance. We review all requests
8 for support thoroughly and with a strategic focus. The TAWC management team
9 works closely with me to select the most sensible items within our defined
10 criteria. TAWC remains committed to investing in local community programs that
11 make a sustainable impact in the Tennessee Valley.

12 **Q. Does the Company have any larger community partners with longstanding**
13 **relationships?**

14 A. TAWC has developed some key relationships in the Chattanooga community. For
15 example, the Company has partnered with the Tennessee Aquarium on a host of
16 programs and education initiatives. Since 2006, TAWC has been the official
17 sponsor for the Tennessee Aquarium Education Outreach program. As a sponsor
18 of the Outreach program, TAWC has played a vital role in the Tennessee
19 Aquarium's ability to educate over 100,000 people in the last six years - and over
20 17,000 people in 2011 alone. The Education Outreach programs have taught the
21 importance of protecting the watershed and environment. Such programs as
22 Creepy Crawlies, Tropical Treasures, Swamp Things, Undersea Wonders, and
23 Rainforest make learning fun for all ages.

1 The Company has also been a major sponsor of the Tennessee Aquarium's
2 River Gorge Explorer naturalist presentations. The Explorer tours provide a
3 historical narrative about the Tennessee River and its benefits to the region.
4 Through this partnership, TAWC helps the Tennessee Aquarium to reach
5 thousands on such an exciting experience on the Tennessee River.

6 For over fifty years, TAWC has been a major supporter of the Junior
7 Achievement Program in the Chattanooga area. Junior Achievement designs
8 programs from kindergarten to high school in which partner businesses teach
9 students to better understand economics, budgets, manufacturing, and other
10 business applications. TAWC has supported such programs as "JA Job Shadow"
11 with Brainerd High School and "JA In-A-Day" for Rivermont Elementary and
12 Hardy Elementary for several years. Being able to teach young people the
13 relationship between education and business is a huge asset to our community.
14 Also, TAWC has been major supporter of the United Way of Greater Chattanooga
15 for over 50 years. The programs and organizations supported by the United Way
16 are a tremendous asset to our community. TAWC and our employees have made
17 it a priority to support such charitable organizations and are committed to helping
18 our customers and the community.

19 **Q. Has TAWC taken on any new initiatives and ways to connect to customers?**

20 A. TAWC is always looking for new and innovative ways to connect with our
21 customers and provide them with more timely information about the Company
22 and its programs and services. One example of a new way that TAWC is
23 connecting to its customers is through the establishment of a Customer Advisory

1 Committee. The TAWC Customer Advisory Committee is comprised of local
2 customers that represent various facets of the community, including large
3 industrial and manufacturing customers, governmental agencies, residential
4 customers, and other groups. The Company is also exploring the use of Social
5 Media to connect with our customers. TAWC is currently using Facebook for its
6 customers to link to, as well as a Company Twitter account. TAWC uses these
7 Social Media sites to keep its customers informed of basic and timely information
8 to those that participate.

9 **Q. Describe the Company's participation in other education related programs.**

10 A. The Company's commitment to the Tennessee's Aquarium's educational program
11 and other similar partnerships shows our commitment to research, conservation
12 programs, and education. For example, each year we provide support to the
13 Chattanooga Regional Science Fair by providing judges and awards for the event.
14 Since 2006, we have partnered with Chattanooga State Technical Community
15 College for the Elementary Science and Math Olympiad for Hamilton County
16 schools. The participation this year included over 700 students which is a major
17 increase from the original 300 in 2006. The Olympiad highlights the value and
18 need for a stronger education in math and science. The event places teams of
19 students that compete against each on a variety of math and science activities. The
20 competition builds camaraderie amongst the students and helps to improve
21 academic skills.

REDUCING RATE SHOCK

Q. How does TAWC propose to reduce rate shock on customers?

A. TAWC is proposing several commonly used regulatory mechanisms that have been used around the United States to reduce rate impact on customers. Pass throughs and trackers are commonly used in the regulated and non-regulated utility environment. Another mechanism is the infrastructure replacement surcharge discussed below.

Q. Please describe “trackers” and “pass throughs.”

A. Trackers and pass throughs would provide a mechanism for expenses to be followed (or tracked) throughout a year by the Company. At predetermined time intervals, these expenses would be submitted to the TRA for review, with an opportunity for discussion. The rates could be adjusted up, or down, according to the tracking of the expenses. Gary VerDouw will provide further details on these mechanisms.

Q. What items would TAWC like to propose for “trackers” or “pass throughs”?

A. TAWC proposes expenses for pension, power, and chemicals are approved for pass throughs. These expenses typically increase and/or decrease between general rate cases which places a heavy burden on a utility that is trying to manage rate case filings and the cost to the customer.

Q. How does TAWC propose that this system work going forward?

A. TAWC proposes that the expenses would be tracked throughout the year with a review time established on the anniversary date of the rate order. This would

1 allow for review, and rate adjustment, on an annual basis. This adjustment would
2 also be communicated to the customer on an ongoing basis. Gary VerDouw will
3 provide further testimony on this subject.

4 **Q. What would you propose to be included in an Infrastructure Replacement**
5 **Program?**

6 A. This program would include the replacement of meters, mains, hydrants, services,
7 valves, and various system components. This program sets conditions for the
8 recovery of infrastructure investments outside of a general rate case and ensures
9 that the capital is used strictly for infrastructure replacement and not for revenue
10 or customer growth. Gary VerDouw will provide testimony that will detail
11 infrastructure replacement methods.

12 **Q. How do the proposed methods of trackers and pass throughs benefit the**
13 **customers of TAWC?**

14 A. Trackers and pass throughs benefit the customer by leveling out the expenses
15 between rate cases. They allows for the tracking of various costs throughout the
16 year for increases or decreases. Each year, there would be a review of the costs,
17 discussion would occur, and then an adjustment in rates would be implemented.
18 If the cost increases, the rates would be adjusted up in a timely manner. Likewise,
19 if the cost decreases, the rates would be adjusted downward in a timely manner.
20 If performed annually, rates would better reflect actual expenses than periodic
21 general rate cases. This proposed system is simple and timely for all involved and
22 reduces the rate shock of periodic general rate filings.

1 **Q. How does proposed method of an infrastructure replacement program**
2 **benefit the customers of TAWC?**

3 A. Infrastructure replacement programs are common in the water utility industry
4 around the United States. These programs provide a method of recovery for
5 replacement of system components between general rate filings. The programs
6 are very specific about the types of components that qualify for the program
7 recovery, as well as the level of investment that can be recovered in these
8 programs. Anything that is not within the requirements for recovery cannot be
9 recovered through the program. Such a program will benefit TAWC's customers
10 by ensuring timely and adequate infrastructure replacement in a way that levels
11 out the associated expense.

12 **Q. Does this conclude your testimony?**

13 A. Yes.

STATE OF TENNESSEE

COUNTY OF HAMILTON

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Deron Allen, being by me first duly sworn deposed and said that:

He 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, his testimony would set forth in the annexed transcript.


Deron Allen

Sworn to and subscribed before me
this 24th day of May, 2012.


Notary Public

