

**PETITIONER'S EXHIBIT LEK-1**

**TENNESSEE-AMERICAN WATER COMPANY, INC.**

**CASE NO. \_\_\_\_\_**

**DIRECT TESTIMONY**

**OF**

**LEWIS E. KEATHLEY**

**ON**

**ADJUSTMENT OF PURCHASED WATER,  
ADJUSTMENT OF FUEL AND POWER,  
ADJUSTMENT OF CHEMICAL,  
ADJUSTMENT OF WASTE DISPOSAL,  
ADJUSTMENT OF MAINTENANCE,  
AND  
ADJUSTMENT OF GENERAL TAXES  
(FRANCHISE TAX, TRA INSPECTION FEE, AND GROSS RECEIPTS TAX)**

**SPONSORING PETITIONER'S EXHIBITS:**

**EXP-2-PURCHASED WATER-LEK,  
EXP-3-PURCHASED POWER-LEK,  
EXP-4-CHEMICALS -LEK,  
EXP-5-WASTE DISPOSAL-LEK,  
EXP-15-MAINTENANCE EXPENSE-LEK,  
AND  
EXP-18-GENERAL TAXES AND FEES-LEK**



1 providing the following services to American Water's utility subsidiaries in the  
2 Central Division, including Tennessee American Water Company, Inc.  
3 ("Tennessee American" or "Company"):

- 4 a) Preparing and presenting rate change applications and supporting  
5 documents and exhibits according to management policies and guidelines  
6 along with state regulatory commission requirements;
- 7 b) Implementation of rate orders to produce the approved revenue level;
- 8 c) Verification and testing of all rate changes to ensure that the billed  
9 amounts and bill calculations are accurate;
- 10 d) Provide financial analysis of special contracts, and ad-hoc financial  
11 analysis of various other issues.

12 I have attended the Utility Rate Seminar sponsored by the National Association of  
13 Regulatory Utility Commissioners ("NARUC") water committee and I have  
14 participated in rates seminars sponsored by the Service Company.

15 **Q. Have you previously participated in regulatory matters?**

16 **A.** Yes. I have assisted with the preparation of a 2009 rate case before the Indiana  
17 Utility Regulatory Commission (Cause No. 43680), prepared schedules and presented  
18 testimony to the Indiana Utility Regulatory Commission for a 2011 rate case (Cause  
19 No. 44022), prepared schedules and presented testimony to the Public Utilities  
20 Commission of Ohio in Ohio American Water's 2009 rate case (Case No. 09-391-  
21 WS-AIR), and prepared schedules and presented testimony to the Public Utilities  
22 Commission of Ohio in Ohio American Water's 2011 rate case (Case No. 11-4161-  
23 WS-AIR).

1 **PURPOSE OF TESTIMONY**

2 **Q. What is the purpose of your testimony in this proceeding?**

3 **A.** The purpose of my testimony is to explain the pro forma adjustments presented in  
4 several of the Company's expense schedules. For example, based on my analysis, the  
5 Company proposes a pro forma adjustment to its Purchased Water Expense in an  
6 effort to present to the Authority the expense the Company will incur for purchasing  
7 water in the relevant time period. The Company proposes, and I support, such pro  
8 forma adjustments to the following schedules: Adjustment of Purchased Water,  
9 Adjustment of Fuel and Power, Adjustment of Chemical, Adjustment of Waste  
10 Disposal, Adjustment of Maintenance, and Adjustment of General Taxes (Franchise  
11 Tax, TRA Inspection Fee, and Gross Receipts Tax). Each of these schedules was  
12 prepared by me or under by supervision.

13 **PURCHASED WATER**

14 **Q. Please discuss the Purchased Water adjustment on Petitioner's Exhibit EXP-2-**  
15 **Purchased Water-LEK.**

16 **A.** Petitioner's Exhibit EXP-2-Purchased Water-LEK contains the Company's  
17 adjustment to purchased water expenses. This is an expense incurred by the Company  
18 for purchasing water that the Company then sells to certain customers. The  
19 normalized adjustment includes a 2011 billing adjustment, which is for bills received  
20 from the Eastside Utility District for the periods of usage of November and December  
21 2011. These were paid in 2012 and in order to represent a true normalized year, these  
22 bills were added to the 2011 bills. The two bills that were added total \$2,363.62 for  
23 November and \$254.97 for December. Also, a December 2010 invoice that was paid

1 in 2011 was removed from the normalized year. This bill totals \$737.43. The total  
2 adjustment for normalizing the test year totals \$1,881.

3 **Q. Please explain the Walden's Ridge rate change adjustment.**

4 **A.** The water usage rate for Walden's Ridge increase as of 11/1/2011 to \$1.624 per 1000  
5 gallons. This rate, in addition to the wheeling charge, which is the charge incurred for  
6 the use of passing water through the Walden's Ridge infrastructure, is \$0.75 per 1000  
7 gallons. The total charge is \$2.374 per 1000 gallons, plus tax. This updated rate  
8 change was annualize for the usage in 2011 by multiplying the monthly usage amount  
9 by the new water usage rate of \$2.374 per 1000 gallons, plus tax. The total pro forma  
10 cost is \$39,773.48, which results in an adjustment of \$3,207.

11 **Q. What other adjustments were made for Purchased Water?**

12 **A.** For the attrition year, an adjustment is made based on the inflationary factor of 1.74%  
13 and totals \$859. The inflationary amount is discussed further in the testimony of  
14 Company Witness Donald Petry.

15 **FUEL AND POWER**

16 **Q. What Fuel and Power adjustments are included on Petitioner's Exhibit EXP-3-**  
17 **Purchased Power-LEK?**

18 **A.** Petitioner's Exhibit EXP-3-Purchased Power-LEK includes several adjustments to the  
19 expense the Company incurs to meets its fuel and power needs. The first adjustment  
20 is the result of timing, because several 2010 bills were paid in January. The  
21 adjustment for these bills is \$(27,045). Another adjustment is to annualize the 2011  
22 fuel and power expenses based on supplier rate increases. EPB Electric Power had a  
23 rate increase effective July 2011 and also October 2011. This rate increase results in

1 an adjustment of \$101,417. Additionally, there is an adjustment to update the fuel and  
2 power costs based upon the pro forma system delivery. The fuel and power system  
3 delivery adjustment for the normalized year is \$(1,532) and the attrition year  
4 adjustment is \$(19,515). The final fuel and power adjustment is for the attrition year,  
5 and is an adjustment made based on the inflationary factor of 1.74% and totals  
6 \$48,966. The inflationary amount is discussed further in the testimony of Company  
7 Witness Donald Petry.

8 **CHEMICALS**

9 **Q. Please explain the Chemical adjustments included on Petitioner's Exhibit EXP-**  
10 **4-Chemicals -LEK.**

11 **A. Petitioner's Exhibit EXP-4-Chemicals-LEK** includes the adjustments for costs the  
12 Company incurs in purchasing the chemicals it needs to provide safe water that is  
13 compliant with all state and federal water quality standards. The first adjustment is to  
14 reflect a change in water treatment resulting in an adjustment of \$(62,928).  
15 Additionally, included is an adjustment to reflect current 2012 chemical prices. This  
16 adjustment to normalize for price changes is \$28,601.

17 **Q. What additional Chemical adjustments are included on Petitioner's Exhibit**  
18 **EXP-4-Chemicals -LEK?**

19 **A.** There is also an adjustment to update the chemical costs based upon the pro-forma  
20 system delivery. The chemical system delivery adjustment for the normalized year is  
21 \$(19,780) and the attrition year adjustment is \$(6,528). The final chemical adjustment  
22 is for the attrition year, and is an adjustment made based on the inflationary factor of

1 1.74% and totals \$17,155. The inflationary amount is discussed further in the  
2 testimony of Company Witness Donald Petry.

3 **WASTE DISPOSAL**

4 **Q. What adjustment is included on Petitioner's Exhibit EXP-5-Waste Disposal-**  
5 **LEK?**

6 **A.** The Company incurs waste disposal costs as a result of the need to properly dispose  
7 of sludge and other by-products of the water treatment process. The only adjustment  
8 the Company proposes to its waste disposal expense is an adjustment based on the  
9 inflationary factor of 1.74% and totals \$3,568. The inflationary amount is discussed  
10 further in the testimony of Company Witness Donald Petry.

11 **OTHER MAINTENANCE**

12 **Q. Please discuss the Maintenance Expense adjustments proposed for Petitioner's**  
13 **Exhibit EXP-15-Maintenance Expense-LEK?**

14 **A.** The Company incurs maintenance costs for the general operation of the business. The  
15 only adjustment that the Company is currently proposing to maintenance expense is  
16 an adjustment based on the inflationary factor of 1.74% and totals \$17,008. The  
17 inflationary amount is discussed further in the testimony of Company Witness Donald  
18 Petry.

19 **OTHER GENERAL TAXES**

20 **(Franchise Tax, TRA Inspection Fee, and Gross Receipts Tax)**

21 **Q. Please discuss the Franchise Tax adjustment to Other General Taxes Expense**  
22 **found on Petitioner's Exhibit EXP-18-General Taxes and Fees-LEK.**

1    **A.**     Petitioner's Exhibit EXP-18-General Taxes and Fees-LEK relates to other general  
2            taxes. The support pertaining to Franchise Tax, TRA Inspection Fee, and Gross  
3            Receipts Tax adjustments is set forth below. The discussion on Payroll Taxes and  
4            Property Taxes is included in Company Witness Melissa Schwarzell's testimony. The  
5            adjustment for Franchise Tax (Franchise Tax is the amount the Company pays to the  
6            state of Tennessee for the legal right to provide water to its customers) was  
7            determined by calculating the difference between the 2011 per books Franchise Tax  
8            amount and the calculated Attrition year tax amount. This methodology was utilized  
9            so that the attrition year calculated tax is matched to the property valuation for the  
10          same time period. This results in a Franchise Tax adjustment of \$63,403.

11   **Q.**     **How is the TRA Inspection Fee adjustment determined?**

12   **A.**     The TRA Inspection Fee (which is a fee imposed on all utilities by the Authority) is  
13          calculated based on the difference between the 2011 per books amount and  
14          normalized test year, which provides an adjustment of \$18,293, and the difference  
15          between the normalized and attrition amounts which results in an adjustment of  
16          \$(1,037).

17   **Q.**     **Please discuss the adjustment for Gross Receipts Tax.**

18   **A.**     The Gross Receipts Tax (which is a tax imposed by the state on the Company's gross  
19          receipts) is calculated based on the difference between the 2011 per books amount  
20          and normalized test year, which provides an adjustment of \$129,842, and the  
21          difference between the normalized and attrition amounts which results in an  
22          adjustment of \$(9,579).

23   **Q.**     **Does this conclude your direct testimony?**



1    **A.**     Yes, it does.

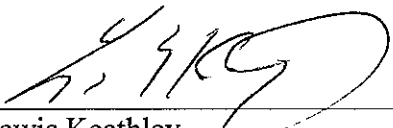
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**STATE OF MISSOURI**


**COUNTY OF ST. LOUIS**

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and City aforesaid, personally came and appeared Lewis Keathley, 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.

  
\_\_\_\_\_  
Lewis Keathley

Sworn to and subscribed before me  
this 24<sup>th</sup> day of May, 2012.

  
\_\_\_\_\_  
Notary Public

**JULIE M. POLZIN**  
Notary Public - Notary Seal  
STATE OF MISSOURI  
St. Louis County  
My Commission Expires 6/11/2012  
Commission # 08575308

Petitioner's Exhibit EXP-2-Purchased Water-LEK

Tennessee American Water Company  
Docket No. 12-XXXXX  
Pro Forma Adjustment of Purchased Water Expense  
For the Twelve Months Ended December 31, 2011

Witness Responsible:

Type of Filing: ☒ Original ☐ Updated ☐ Revised

Line No.	Description	Test Year Actuals	Test Year Adjustments	Attrition Year Adjustments	Pro Forma Purchased Water Expense
1	Test Year for the 12 Months Ended December 31, 2011	\$ 44,212			\$ 44,212
2					
3	Test Year Adjustment of Purchased Water Expense:				
4	2011 Billing Adjustment		\$ 1,881		
5	Waldens Ridge Rate Change Adjustment		3,207		
6					
7					
8					
9	Total Test Year Adjustment of Purchased Water Expense:		\$ 5,088		\$ 5,088
10					
11	Normalized Test Year of Purchased Water Expense (Line 1 + Line 9):				\$ 49,300
12					
13	Attrition Year Adjustment at Present Rates:				
14	Inflationary Factor 1.74%			\$ 859	
15					
16					
17					
18					
19	Total Attrition Year Adjustment at Present Rates:			\$ 859	\$ 859
20					
21					
22	Attrition Year at Proposed Rates (Line 11 + Line 19):				\$ 50,159
23					

Petitioner's Exhibit EXP-3-Purchased Power-LEK

Tennessee American Water Company  
Docket No. 12-XXXXX  
Pro Forma Adjustment of Power Expense  
For the Twelve Months Ended December 31, 2011

Witness Responsible:

Type of Filing: ☒ Original ☐ Updated ☐ Revised

Line No.	Description	Test Year Actuals	Test Year Adjustments	Attrition Year Adjustments	Pro Forma Power Expense
1	Test year for the 12 months ended December 31, 2011	<u>\$ 2,738,627</u>			<u>\$ 2,738,627</u>
2					
3	Test Year Adjustments of Power Expense:				
4	Power bill timing adjustment		\$ (27,045)		
5	Annualize 2011 supplier rate increases		101,417		
6	Annualize system delivery		(54,490)		
7					
8					
9	Total Test Year Adjustments of Power Expense:		<u>\$ 19,882</u>		<u>\$ 19,882</u>
10					
11	Normalized Test Year Power Expense (Line 1 + Line 9):				<u>\$ 2,758,509</u>
12					
13	Attrition Year Adjustments at Present Rates:				
14	Annualize system delivery			(18,340)	
15	Inflation Factor 1.74% (Normalized x Inflation Factor)			48,044	
16					
17					
18					
19	Total Attrition Year Adjustments at Present Rates:			<u>\$ 29,704</u>	<u>\$ 29,704</u>
20					
21					
22	Attrition Year at Proposed Rates (Line 11 + Line 19):				<u>\$ 2,788,212</u>
23					

Petitioner's Exhibit EXP-4-Chemicals -LEK

Tennessee American Water Company  
Docket No. 12-XXXXX  
Pro Forma Adjustment of Chemical Expense  
For the Twelve Months Ended December 31, 2011

Witness Responsible:

Type of Filing: ☒ Original ☐ Updated ☐ Revised

Line No.	Description	Test Year Actuals	Test Year Adjustments	Attrition Year Adjustments	Pro Forma Chemical Expense
1	Test Year for the 12 Months Ended December 31, 2011	<u>\$ 1,039,056</u>			<u>\$ 1,039,056</u>
2					
3	Test Year Adjustment of Chemical Expense:				
4	Treatment changes		\$ (62,928)		
5	Annualize chemical cost		28,601		
6	Annualize system delivery		(19,780)		
7					
8					
9	Total Test Year Adjustment of Chemical Expense:		<u>\$ (54,108)</u>		<u>\$ (54,108)</u>
10					
11	Normalized Test Year of Chemical Expense (Line 1 + Line 9):				<u>\$ 984,948</u>
12					
13	Attrition Year Adjustment at Present Rates:				
14	Annualize system delivery			\$ (6,528)	
15	Inflationary Factor 1.74%			17,155	
16					
17					
18					
19	Total Attrition Year Adjustment at Present Rates:			<u>\$ 10,626</u>	<u>\$ 10,626</u>
20					
21					
22	Attrition Year at Proposed Rates (Line 11 + Line 19):				<u>\$ 995,575</u>
23					

Petitioner's Exhibit EXP-5-Waste Disposal-LEK

Tennessee American Water Company  
Docket No. 12-XXXXX  
Pro Forma Adjustment of Waste Disposal Expense  
For the Twelve Months Ended December 31, 2011

Witness Responsible:

Type of Filing: ☒ Original ☐ Updated ☐ Revised

Line No.	Description	Test Year Actuals	Test Year Adjustments	Attrition Year Adjustments	Pro Forma Waste Disposal Expense
1	Test Year for the 12 Months Ended December 31, 2011	\$ 204,868			\$ 204,868
2					
3	Test Year Adjustment of Waste Disposal Expense:				
4			\$ -		
5					
6					
7					
8					
9	Total Test Year Adjustment of Waste Disposal Expense:		\$ -		\$ -
10					
11	Normalized Test Year of Waste Disposal Expense (Line 1 + Line 9):				\$ 204,868
12					
13	Attrition Year Adjustment at Present Rates:				
14	Inflationary Factor 1.74%			\$ 3,568	
15					
16					
17					
18					
19	Total Attrition Year Adjustment at Present Rates:			\$ 3,568	\$ 3,568
20					
21					
22	Attrition Year at Proposed Rates (Line 11 + Line 19):				\$ 208,436
23					

## Petitioner's Exhibit EXP-15-Maintenance Expense-LEK

Tennessee American Water Company  
Docket No. 12-XXXXX  
Pro Forma Adjustment of Maintenance Expense  
For the Twelve Months Ended December 31, 2011

Witness Responsible:

Type of Filing: ☒ Original ☐ Updated ☐ Revised

Line No.	Description	Test Year Actuals	Test Year Adjustments	Attrition Year Adjustments	Pro Forma Maintenance Expense
1	Test Year for the 12 Months Ended December 31, 2011	<u>\$ 976,549</u>			<u>\$ 976,549</u>
2					
3	Test Year Adjustment of Maintenance Expense:				
4			\$ -		
5					
6					
7					
8					
9	Total Test Year Adjustment of Maintenance Expense:		<u>\$ -</u>		<u>\$ -</u>
10					
11	Normalized Test Year of Maintenance Expense (Line 1 + Line 9):				<u>\$ 976,549</u>
12					
13	Attrition Year Adjustment at Present Rates:				
14	Inflationary Factor 1.74%			\$ 17,008	
15					
16					
17					
18					
19	Total Attrition Year Adjustment at Present Rates:			<u>\$ 17,008</u>	<u>\$ 17,008</u>
20					
21					
22	Attrition Year at Proposed Rates (Line 11 + Line 19):				<u>\$ 993,557</u>
23					

Petitioner's Exhibit EXP-18-General Taxes and Fees-LEK

Tennessee American Water Company  
Docket No. 12-XXXXX  
Pro Forma Adjustment of Other General Tax Expense  
For the Twelve Months Ended December 31, 2011

Witness Responsible:

Type of Filing: ☒ Original ☐ Updated ☐ Revised

Line No.	Description	Test Year Actuals	Test Year Adjustments	Attrition Year Adjustments	Pro Forma Other General Tax Expense
1	Franchise Tax	\$ 362,887			
2	TRA Inspection Fee	117,362			
3	Gross Receipts Tax	688,413			
4	Payroll Taxes	410,361			
5	Property Taxes	2,917,425			
6	<b>Test Year for the 12 Months Ended December 31, 2011</b>	<b>\$ 4,496,448</b>			<b>\$ 4,496,448</b>
7					
8	<b>Test Year Adjustment of Other General Tax Expense:</b>				
9	Franchise Tax		\$ -		
10	TRA Inspection Fee		18,293		
11	Gross Receipts Tax		129,842		
12	Payroll Taxes		-		
13	Property Taxes		(167,117)		
14	<b>Total Test Year Adjustment of Other General Tax Expense:</b>		<b>\$ (18,982)</b>		<b>\$ (18,982)</b>
15					
16	<b>Normalized Test Year of Other General Tax Expense (Line 1 + Line 9):</b>				<b>\$ 4,477,466</b>
17					
18	<b>Attrition Year Adjustment at Present Rates:</b>				
19	Franchise Tax			\$ 63,403	
20	TRA Inspection Fee			(1,037)	
21	Gross Receipts Tax			(9,579)	
22	Payroll Taxes			20,061	
23	Property Taxes			459,590	
24	<b>Total Attrition Year Adjustment at Present Rates:</b>			<b>\$ 532,438</b>	<b>\$ 532,438</b>
25					
26					
27	<b>Attrition Year at Proposed Rates (Line 11 + Line 19):</b>				<b>\$ 5,009,904</b>
28					