

BUTLER | SNOW

RECEIVED
2015 FEB 30 PM 3:43
T.R.A. DOCKET ROOM

March 2, 2015

VIA HAND DELIVERY

Hon. Kenneth C. Hill, Chairman
c/o Sharla Dillon
Tennessee Regulatory Authority
502 Deaderick Street, 4th Floor
Nashville, TN 37243

DOCKET NO.

15-00029

RE: Petition of Tennessee-American Water Company in Support of the Calculation of the 2015 Capital Riders Reconciliation

Dear Chairman Hill:

Enclosed please find an original and thirteen (13) copies of Tennessee-American Water Company's *Petition in Support of the Calculation of the 2015 Capital Riders Reconciliation*. Additionally, consistent with the electronic filing rules, the following supporting documents are being filed electronically:

- Five copies of the following:
 - Petitioner's Exhibit LCB – *Direct Testimony of Linda C. Bridwell* A
 - Petitioner's Exhibit BEO – *Direct Testimony of Brent E. O'Neill, PE* B
 - Current Tariff Sheet No. 12 – Riders C
 - Proposed Tariff Third Revised Sheet No. 12 Riders D
 - Workpapers 1
 - Workpapers 2
- Five copies of the **CONFIDENTIAL** AW Capitalization Policy, an exhibit in support of the *Direct Testimony of Linda C. Bridwell*, which is being filed separately as **CONFIDENTIAL** and **UNDER SEAL**.
- Two compact discs, each containing electronic copies of the following:
 - Petitioner's Exhibit LCB – *Direct Testimony of Linda C. Bridwell*
 - Petitioner's Exhibit BEO – *Direct Testimony of Brent E. O'Neill, PE*
 - Current Tariff Sheet No. 12 – Riders
 - Proposed Tariff Third Revised Sheet No. 12 Riders
 - Workpapers 1
 - Workpapers 2

*The Pinnacle at Symphony Place
150 3rd Avenue South, Suite 1600
Nashville, TN 37201*

VALERIA GOMEZ
615.651.6739
valeria.gomez@butlersnow.com

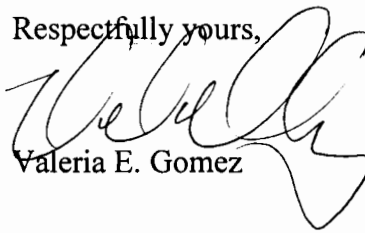
T 615.651.6700
F 615.651.6701
www.butlersnow.com

- Two compact discs, each containing an electronic copy of the **CONFIDENTIAL** AW Capitalization Policy, an exhibit in support of the *Direct Testimony of Linda C. Bridwell*, which is being filed separately **UNDER SEAL**.

As referenced above, please note that the *Direct Testimony of Linda C. Bridwell* includes as a Supporting Petitioner's Exhibit the AW Capitalization Policy, which contains **CONFIDENTIAL INFORMATION**. As such, the AW Capitalization Policy is being submitted separately with this filing **UNDER SEAL** and should be treated as such. Among other things, this **CONFIDENTIAL INFORMATION** should not be placed on the Authority's web site.

An extra copy of Tennessee-American Water Company's *Petition in Support of the Calculation of the 2015 Capital Riders Reconciliation* and this letter are 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.

Respectfully yours,



Valeria E. Gomez

VEG/mjb

Enclosures

cc: Wayne Irvin, Esq., Office of the Attorney General, Consumer Advocate and Protection Division
Vance Broemel, Esq., Office of the Attorney General, Consumer Advocate and Protection Division

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

**PETITION OF TENNESSEE-AMERICAN)
WATER COMPANY REGARDING)
CHANGES TO THE QUALIFIED)
INFRASTRUCTURE INVESTMENT)
PROGRAM RIDER, THE ECONOMIC)
DEVELOPMENT INVESTMENT RIDER,)
AND THE SAFETY AND)
ENVIRONMENTAL COMPLIANCE)
RIDER)**

DOCKET NO. _____

**PETITION IN SUPPORT OF THE CALCULATION OF THE 2015 CAPITAL RIDERS
RECONCILIATION**

Pursuant to Tennessee Code Annotated § 65-5-103 *et seq.*, and the Tennessee Regulatory Authority's ("Authority" or "TRA") approval of the Amended Petition in TRA Docket No. 13-00130 on April 14, 2014, Tennessee-American Water Company ("Tennessee American," "TAWC" or "Company") submits this Petition in Support of the Calculation of the 2015 Capital Riders Reconciliation. Consistent with the action of the Authority in TRA Docket No. 13-00130, and the approved tariffs submitted therein, Tennessee American states as follows in support of this Petition:

I.

DESCRIPTION OF TENNESSEE AMERICAN

1. Tennessee American, a Tennessee corporation authorized to conduct a public utility business in the State of Tennessee, is a public utility as defined in Tenn. Code Ann. § 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 approximately 75,840 customers, 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 109 Wiehl Street, Chattanooga, Tennessee 37406.

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

Linda Bridwell
Manager of Rates and Regulation – Tennessee and Kentucky
Kentucky American Water Company
2300 Richmond Road
Lexington, KY 40502
Linda.Bridwell@amwater.com
(859) 268-6373 (office)
(859) 268-6374 (fax)

Melvin J. Malone
Valeria Gomez
Butler Snow LLP
The Pinnacle at Symphony Place
150 3rd Avenue South, Suite 1600
Nashville, TN 37201
melvin.malone@butlersnow.com
valeria.gomez@butlersnow.com
(615) 651-6700 (office)
(615) 651-6701 (fax)

II.

BACKGROUND

5. In 2013, the Tennessee General Assembly passed House Bill 191, which revised Tenn. Code Ann. § 65-5-103 to allow alternative regulatory methods and mechanisms that recover certain costs without convening a general rate case, as long as specific criteria are satisfied, including, but not limited to, the Authority making a finding, prior to approval, that such alternative methods and mechanisms are in the public interest.

6. On October 4, 2013, Tennessee American submitted a Petition (the “*October 2013 Petition*”) seeking approval of four (4) proposed alternative regulatory methods and mechanisms as permitted under Tenn. Code Ann. § 65-5-103 *et seq.* More specifically, the Company sought approval for a Qualified Infrastructure Investment Program Rider (“QIIP”),¹ an Economic Development Investment Rider (“EDI”),² a Safety and Environmental Compliant Rider (“SEC”) ³ and a Pass-Throughs mechanism for Fuel, Purchased Power, Chemicals, Purchased Water, Wheeling Water Costs, Waste Disposal and TRA Inspection Fee (“PCOP”).⁴⁵ One of the primary regulatory concepts underlying the then-proposed Capital Riders and PCOP was to allow, with the requisite safeguards to serve the public interest, smaller, gradual increases

¹ The QIIP Rider is designed, in part, to mitigate regulatory lag, to accelerate the timeframe of essential infrastructure upgrades and replacements, and to produce a safer and more reliable water distribution and production system for ratepayers. Additionally, this mechanism has many other customer benefits and protections, including the lessening of the occurrence of “rate shock” associated with Base Rate increases.

² The EDI Rider is designed, in part, to promote the public interest by supporting and enhancing Tennessee American’s ability to serve both growing and new businesses and by permitting the Company to prudently promote economic development, growth and expansion in its service area.

³ Generally, the SEC Rider supports the Company’s ability to serve the public interest by providing safe and reliable drinking water. The current regulatory environment, coupled with aging infrastructure, will require a larger investment in safety and environmental compliance not previously recognized in the Company’s rates. Hence, one of the benefits of this rider is avoiding “rate shock” by permitting smaller, more gradual rate increases over time.

⁴ The PCOP is designed to streamline the recovery process by permitting Tennessee American to recovery the largest non-labor related component of the Company’s operations and maintenance expenses in a more timely manner, as increases in these essential and non-discretionary expenses (such as chemicals and power) are outside the control of the Company’s management.

⁵ For ease of reference, the QIIP, the EDI and the SEC are referred to collectively herein as the “Capital Riders.”

in rates and thereby lessen the occurrence of “rate shock.” One of the many benefits of this new, more streamlined recovery approach would be the likelihood of less frequent rate case filings.

7. On January 10, 2014, the Company and the Attorney General and Reporter for the State of Tennessee, through the Consumer Advocate and Protection Division (“CAPD” or “Consumer Advocate”), submitted a Stipulation in TRA Docket No. 130-00130 (the “*Stipulation*”), resolving the contested issues presented and offering the *Stipulation* to the Authority for its review, consideration and approval. Considering the *Stipulation* and the supporting documentation as an Amended Petition, the Authority approved the Capital Riders and the PCOP on April 14, 2014.⁶

III.

THE APPROVED CAPITAL RIDERS, THE PCOP AND THIS PETITION

8. Detailed explanations of the Capital Riders and the PCOP, along with underlying supporting documentation, are set forth in the Direct, Rebuttal and Supplemental Testimony of Gary M. VerDouw in TRA Docket No. 13-00130.⁷ Moreover, the Company’s revised tariff sheets setting forth the Capital Riders, the PCOP, and the regulatory safeguards related thereto, were submitted in TRA Docket No. 13-00130 on March 25, 2014 (the “*Approved Tariffs*”), and approved by the Authority as part of the Amended Petition on April 14, 2014.

9. On April 14, 2014, the Authority determined, after a review of the evidentiary record in TRA Docket No. 13-00130, including the *Stipulation* and the *Approved Tariffs*, that the proposed Capital Riders and the PCOP were reasonable and that the *Approved Tariffs* met the

⁶ *Transcript of Proceedings, In the Matter of Tennessee Regulatory Authority Conference*, TRA Docket No. 13-00130, pp. 14-16 (April 14, 2014) (excerpt) (hereinafter “*Hearing Tr.*”).

⁷ The Testimony of CAPD Witness William H. Novak in TRA Docket No. 13-00130 likewise aided in shaping the *Stipulation* and the Amended Petition as well.

requirements of Tenn. Code Ann. § 65-5-103 *et seq.*⁸ As set forth in the *Approved Tariffs*, the Authority noted that the Capital Riders and the PCOP would not only accommodate a more timely recovery process for necessary costs and expenses, but also that these methods and mechanisms would further avoid the delay and expense commonly associated with full blown rate case proceedings.⁹ Finally, the Authority found that the Amended Petition to be in the public interest.¹⁰

10. As set forth in the *Approved Tariffs* approved by the Authority, on or before December 1 of each year, Tennessee American is required to file with the Authority its QIIP, EDI and SEC Rider projections for the upcoming calendar year in the manner, and with the accompanying support, required by the *Approved Tariffs* and the Authority. As required, the Company previously submitted these projections to the Authority in TRA Docket No. 14-00121.

11. As set forth in the *Approved Tariffs* approved by the Authority, within thirty (30) days of the end of the most recently authorized attrition year set forth in the most recent rate case order, and every twelve (12) months subsequent to the end of that attrition year, the Company shall submit to the Authority an annual filing calculating the PCOP percentage rate.¹¹ The PCOP percentage rate shall become effective thirty (30) days after the annual filing is submitted to the Authority and shall be applied as an adjustment to customers' bills for the twelve (12) month period following the effective date of the PCOP percentage rate. As required, the Company previously submitted the annual filing calculating the PCOP percentage rate to the Authority in TRA Docket No. 15-00001.

⁸ *Hearing Tr.* at 14-16.

⁹ *Id.* at 15.

¹⁰ *Id.*

¹¹ The PCOP differs from the Capital Riders in that it is based upon actual historical expense increases, rather than a forward-looking, projection mechanism.

12. As set forth in the *Approved Tariffs* approved by the Authority, no later than March 1 of each year, Tennessee American is required to file with the Authority its QIIP, EDI, and SEC Rider reconciliations for the previous calendar year in the manner, and with the accompanying support, required by the *Approved Tariffs* and the Authority. Based upon Tenn. Code Ann. § 65-5-103 *et seq.*, and consistent with the *Approved Tariffs*, and the Petition and the Direct Testimony of TAWC Company Witness Linda Bridwell in TRA Docket No. 14-00121, Tennessee American is submitting its reconciliation for the Capital Riders.¹²

13. As set forth in Witness Bridwell's Direct Testimony in TRA Docket No. 14-00121 and in Witness Bridwell's Direct Testimony accompanying this Petition, strictly adhering to the timeframes set forth in the *Approved Tariffs* would create a "mis-match" of reconciliation periods that would continue until the Company submits a new rate case. Such an unintended mis-match of reconciliation periods would create additional expense for TAWC, and a heightened, though avoidable, resource burden to the Authority and CAPD, relative to the preparation and review of additional reconciliations. Further, and perhaps more importantly, such a mis-match would result in three (3) adjustments to Customer bills over a 12-month period on the Capital Riders alone, which may lead to Customer confusion. The proposal set forth in the accompanying Direct Testimony of Witness Linda Bridwell is a well-conceived approach to eliminating the mis-match without undermining either the Authority's regulatory oversight or the established public interest safeguards in the *Approved Tariffs* and without harming consumers.

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

¹² In the Direct Testimony of TAWC Witness Linda Bridwell filed simultaneously with this Petition, Witness Bridwell again explains the underlying rationale of the approach applied by the Company in submitting this reconciliation.

- (a) **Direct Testimony of Linda Bridwell**, which provides the underlying support for the calculation of the 2015 Capital Riders Reconciliation and sponsors certain Tennessee American Exhibits.

15. Tennessee American has filed simultaneously with this Petition the necessary tariffs.

16. Tennessee American submits that the Petition, and its accompanying support documentation, are consistent with Tenn. Code Ann. § 65-5-103 *et seq.*, consistent with the action of the Authority on the Amended Petition and consistent with and serve the public interest. Therefore, this Petition and Tennessee American's associated tariffs should be approved.

WHEREFORE, Tennessee American respectfully requests:

1. That the Authority approve this Petition and issue an order pursuant to Tenn. Code Ann. § 65-5-103 *et. seq.* and consistent with the action of the Authority on the Amended Petition;

2. That the Authority approve the calculation of the 2015 Capital Riders Reconciliation as submitted herein;

3. That the Authority approve Tennessee American's tariffs, as submitted herein, as soon as is practicable; and

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

This the 2nd day of March, 2015.

RESPECTFULLY SUBMITTED,



MELVIN J. MALONE (BPR #013874)

VALERIA GOMEZ (BPR #032131)

Butler Snow LLP

150 3rd Avenue South, Suite 1600

Nashville, TN 37201

melvin.malone@butlersnow.com

(615) 651-6705

valeria.gomez@butlersnow.com

(615) 651-6739

Attorneys for Tennessee-American Water Company

Dated: March 2, 2015

Tennessee American Water

Proposed Reconciliation of the Qualified Infrastructure Investment Program Rider,
the Economic Development Investment Rider and the Safety and Environmental
Compliance Rider

Docket No. 15-

Table of Contents
Petition

<u>Item No.</u>	<u>Description</u>
1	Petitioner's Exhibit LCB - 1 Direct Testimony Linda C. Bridwell
2	Petitioner's Exhibit BEO - 1 Direct Testimony Brent E. O'Neill, PE
3	Current Tariff Sheet No. 12-Riders-1
4	Proposed Tariff Third Revised Sheet No. 12-Riders-1
5	Workpapers 1
6	Workpapers 2

PETITIONER'S EXHIBIT LCB-1

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 15-_____

DIRECT TESTIMONY

OF

LINDA C. BRIDWELL

ON

**CHANGES TO THE QUALIFIED INFRASTRUCTURE INVESTMENT PROGRAM
RIDER, THE ECONOMIC DEVELOPMENT INVESTMENT RIDER, AND THE
SAFETY AND ENVIRONMENTAL COMPLIANCE RIDER**

SPONSORING PETITIONER'S EXHIBITS:

PETITIONER'S EXHIBIT CAPITAL RIDERS RECONCILIATION – LCB
PETITIONER'S EXHIBIT – SUMMARY UTILITY ACCOUNT BALANCES – LCB
PETITIONER'S EXHIBIT – CAPITAL RIDER CHARGES SUMMARY – LCB
PETITIONER'S EXHIBIT – WORK ORDER DETAIL SUMMARY – LCB
PETITIONER'S EXHIBIT – DECEMBER 2014 MONTHLY REPORT TO TRA – LCB
PETITIONER'S EXHIBIT – AW CAPITALIZATION POLICY – LCB
PETITIONER'S EXHIBIT – CURRENT TARIFF SHEET NO. 12 – RIDERS – LCB
PETITIONER'S EXHIBIT – PROPOSED TARIFF SHEET NO. 12 – RIDERS - LCB

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Linda C. Bridwell and my business address is 2300 Richmond Road,
3 Lexington, Kentucky 40502.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by American Water Works Service Company ("AWW") as Manager of
6 Rates and Regulation for Tennessee and Kentucky.

7 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS OR ANY**
8 **OTHER COMMISSION?**

9 A. Yes. I provided written testimony before the Tennessee Regulatory Authority ("TRA" or
10 "Authority") in TRA Docket No. 12-00049, Docket No. 14-00121 and Docket No. 15-
11 00001. I have also provided both written and oral testimony in at least fifteen different
12 proceedings before the Kentucky Public Service Commission ("PSC") including rate
13 cases, special investigations, and applications for a Certificate of Public Convenience and
14 Necessity.

15 **Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL**
16 **BACKGROUND.**

17 A. I received a B.S. degree in Civil Engineering from the University of Kentucky in 1988
18 and I received a M.S. degree in Civil Engineering from the University of Kentucky in
19 1992 with an emphasis in water resources. I completed a Masters of Business
20 Administration from Xavier University in Cincinnati, Ohio in 2000. I am a registered
21 Professional Engineer in the Commonwealth of Kentucky.

22 I have been employed by AWW since 1989. I began as a distribution supervisor
23 for Kentucky American Water ("KAWC") until 1990 when I was promoted to Planning

1 Engineer, then Engineering Manager, and later Director of Engineering in 1998. In July
2 2004, I accepted the position of Project Delivery and Developer Services Manager for the
3 Southeast Region of AWW, responsible for Kentucky, Tennessee, and West Virginia. In
4 2008, I became the KAWC Project Delivery Manager for the construction of a new water
5 treatment plant, booster station, and transmission main in Kentucky. This project was the
6 largest project completed by American Water, in any of its regulated businesses, at \$164
7 million. Upon completion of the project in October 2010, I became the Director of
8 Environmental Compliance and Water Quality for KAWC and in February of 2011 I
9 accepted my current position. I am an active member of the American Water Works
10 Association (AWWA), served as president of the local chapter and state section of the
11 American Society of Civil Engineering (ASCE), and served as an officer in the local
12 chapter of the National Society of Professional Engineers (NSPE) and as a State officer.
13 I have served periodically as an Adjunct Professor at the University of Kentucky in the
14 Civil Engineering Department, teaching "Water Quality and Pollution Control" and the
15 "Introduction to Environmental Engineering." I served as a member of the
16 Civil Engineering Industrial Advisory Committee at the University of Kentucky from
17 2005 until 2012. I served as a Commissioner on the Kentucky Water Resources
18 Development Commission established by Governor Patton and currently serve on the
19 Board of Directors for the Kentucky Infrastructure Authority and the Kentucky Board of
20 Licensure for Professional Engineers and Land Surveyors.

21 **Q. WHAT ARE YOUR DUTIES AS MANAGER OF RATES AND REGULATION?**

22 A. My primary responsibilities encompass the coordination of regulatory issues in
23 Tennessee and Kentucky. This includes coordinating all reports and filings, working

1 with regulatory staff to make sure that all information produced addresses the
2 requirements or requests, and overseeing the preparation and filing of rate cases and tariff
3 changes. I work with the senior management in both states on planning. I am also
4 responsible for keeping abreast of changes in regulation, or trends in regulatory oversight
5 across the United States that may impact our local operations. I report to the Director of
6 Rates for the Central Division of American Water and am accountable to the Presidents
7 of KAWC and Tennessee American Water ("Tennessee American", or "TAWC", or
8 "Company"). I am located in Kentucky, but work closely with the TAWC staff in
9 Tennessee as well.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 A. The purpose of my testimony is to support the calculation of the 2015 Capital Riders
12 Reconciliation described in TAWC's Petition. On April 14, 2014, the TRA approved
13 four new alternative rate mechanisms for TAWC, effective April 15, 2014, in TRA
14 Docket No. 13-00130. Three of these alternative rate mechanisms were capital program
15 riders and one was for a rider for production costs and other pass-throughs. The three
16 capital recovery riders are a Qualified Infrastructure Investment Program ("QIIP") Rider,
17 an Economic Development Investment ("EDI") Rider, and a Safety and Environmental
18 Compliance ("SEC") Rider. The QIIP Rider, the EDI Rider and the SEC Rider are
19 commonly referred to as the Capital Riders. The Capital Riders were based on certain
20 categories of capital expenditures to cover the investment period of 2014. The
21 Production Costs and Other Pass-throughs Rider ("PCOP") is based on a historical
22 review period. S

1 The purpose of TAWC's Petition, which this testimony accompanies (the
2 "Petition"), is to provide the required information for the reconciliation of the 2014
3 review period to comply with the previously approved capital rider tariffs, which as noted
4 above was approved in TRA Docket No. 13-000130. The information provided in my
5 testimony is consistent with Tenn. Code Ann. § 65-5-103 *et seq.* and the TRA's April 14,
6 2014, approval of the four riders.

7 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

8 A. Yes I am. I am sponsoring the following exhibits:

9 **Petitioner's Exhibit – Capital Riders Reconciliation – LCB**
10 **Petitioner's Exhibit – Summary Utility Account Balance – LCB**
11 **Petitioner's Exhibit – Capital Rider Charges Summary – LCB**
12 **Petitioner's Exhibit – Work Order Detail Summary – LCB**
13 **Petitioner's Exhibit – December 2014 Monthly Report to TRA – LCB**
14 **Petitioner's Exhibit – AW Capitalization Policy – LCB**
15 **Petitioner's Exhibit – Current Tariff Sheet No. 12 – Riders – LCB**
16 **Petitioner's Exhibit – Proposed Tariff Sheet No. 12 – Riders - LCB**

17
18 I will discuss these exhibits in further detail in my testimony below.

19 **Q. WERE THE PETITIONER'S EXHIBITS LISTED ABOVE PREPARED BY YOU**
20 **OR UNDER YOUR DIRECTION AND SUPERVISION?**

21 A. Yes.

22 **Q. WHAT WERE THE SOURCES OF THE DATA USED TO PREPARE THE**
23 **PETITIONER'S EXHIBITS LISTED ABOVE?**

24 A. The data used to prepare the exhibits was acquired from the books of account and
25 business records of Tennessee American, the officers and associates of Tennessee
26 American with knowledge of the facts based on their job responsibilities and activities,

1 and other internal sources which I examined in the course of my investigation of the
2 matters addressed in this testimony.

3 **Q. DO YOU CONSIDER THIS DATA TO BE RELIABLE AND OF A TYPE THAT**
4 **IS NORMALLY USED AND RELIED ON IN YOUR BUSINESS FOR SUCH**
5 **PURPOSES?**

6 A. Yes.

7 **Q. DOES THE PETITIONER'S EXHIBITS LISTED ABOVE ACCURATELY**
8 **SUMMARIZE SUCH DATA AND THE RESULTS OF ANALYSIS USING SUCH**
9 **DATA?**

10 A. Yes, it does.

11 **Q. CAN YOU ELABORATE ON THE THREE CAPITAL RECOVERY RIDERS**
12 **THAT WERE APPROVED BY THE TRA ON APRIL 14, 2014?**

13 A. Yes. The three capital program recovery riders authorized in Docket No. 13-00130 were
14 based on certain categories of capital expenditures to cover the investment period of the
15 calendar year 2014. The purpose of the current petition is to comply with the tariffs
16 approved in TRA Docket No. 13-00130 and provide the required information and
17 supporting documentation in each of the capital program riders based on the actual
18 capital investment of 2014. The first capital recovery rider is the QIIP Rider. This rider
19 is designed to recover the costs associated with the capital investment made in between
20 rate cases to replace aging infrastructure that is non-revenue producing. As discussed in
21 Docket No. 13-00130, aging water and wastewater infrastructure is a growing problem
22 across the United States that will require significant investments over the next few
23 decades to continue to provide clean and reliable water service. This rider helps TAWC

1 address its needs on replacing this critical infrastructure. The QIIP program includes
2 replacement of existing infrastructure in the areas of mains, meters, services, hydrants,
3 water treatment equipment, pumping equipment, and tank painting.

4 The second capital recovery rider is the EDI Rider. This rider is primarily for the
5 recovery of investment made in infrastructure to assist in economic development in the
6 communities and area served by TAWC. Communities across the country are competing
7 for economic development opportunities to provide growth in jobs, taxes, and overall
8 quality of life for residents. This rider provides an opportunity for TAWC to partner with
9 the communities it serves to assist in Economic Development. Additionally, this rider is
10 designed to capture investment for the use of alternative fuels, and unlike the QIIP Rider,
11 may include operating expenses related specifically to economic development.

12 The third capital recovery rider is the SEC Rider. This rider is for the recovery of
13 investment made to comply with safety and environmental regulations since the previous
14 rate case. TAWC, like other utilities, is faced with increasing capital investment needs to
15 comply with safety and environmental regulations. This rider assists TAWC in
16 addressing those needs. Like the EDI, the SEC may include operating expenses that can
17 be identified as specifically for the new infrastructure with this rider.

18 **Q. DO THE CAPITAL RECOVERY RIDERS BENEFIT THE CUSTOMERS?**

19 Yes. The QIIP, the EDI and the SEC are mutually beneficial to the ratepayers, the public,
20 and TAWC. The Qualified Infrastructure Program Rider, the Economic Development
21 Investment Rider, and the Safety and Environmental Compliance Rider, in part, reduce
22 the need for general rate cases, lessen the occurrence of consumer “rate shock,” support
23 the maintenance and improvement of essential infrastructure, support opportunities for

1 successful economic development, growth and job creation, ensure safety and reliability,
2 and allow for more efficient, streamlined regulation. The ratepayers and the public
3 benefit from the safety and reliability components and from the more seamless and timely
4 capital investment in infrastructure, coupled with the related support to economic
5 development, growth and job creation. The Company benefits from a more efficient,
6 streamlined regulatory process that presents TAWC with the opportunity to timely
7 recover its expenses and earn a fair rate of return on its investments.

8 **Q. CAN YOU EXPLAIN THE CALCULATION OF THE CAPITAL RECOVERY**
9 **RIDERS?**

10 A. Certainly. As set forth in the approved tariffs, all three capital recovery riders are
11 established on an annual prospective basis utilizing 12 month average end-of-month
12 balances and would reflect only those qualified plant additions installed after the
13 conclusion of the initial rate year in Docket No. 12-00049. Consistent with the tariffs, the
14 qualified plant additions are reduced by the projected retirements associated with the
15 capital rider additions in the calculation of applicable depreciation and property tax
16 expense. The EDI and SEC Riders are increased by the appropriate operating expenses as
17 discussed above. In this case, Tennessee American is proposing to reconcile the review
18 period for each of the capital riders beginning on January 1, 2014 and ending December
19 31, 2014. This annual review period was established in the tariffs submitted on March 25,
20 2014, and approved in Docket No. 13-00130 on April 14, 2014. The tariffs establish a
21 reconciliation period for each of the capital riders, which will occur 60 days after the
22 close of the attrition period. As the attrition period in Docket No. 13-00130 is for
23 January 1, 2014 through December 31, 2014, and this Petition addresses only the

1 reconciliation of that review period. The 2015 Capital Riders rates are the subject of
2 Docket. 14-00121 and not included in this Petition.

3 As approved, the capital riders are cumulative and remain in place until reset back
4 to zero at the conclusion of the Company's next rate case filing, at which point the capital
5 costs, depreciation and taxes, and other operating expenses approved and previously
6 recovered through the capital riders are then subsumed within Base Rates.

7 **Q. CAN YOU DISCUSS DETAILED SPECIFICS TO THE OPERATION OF THE**
8 **CAPITAL RECOVERY RIDERS NOT ADDRESSED ABOVE?**

9 A. Yes. TAWC utilizes an annual prospective approach to the utility plant additions that
10 qualify for recovery through the capital riders. The capital riders provide for the recovery
11 of revenue sufficient to cover the capital cost, depreciation and tax expense related to the
12 projected investment in qualified utility plant. These costs consider the effects of
13 associated retirements ("Net Plant"), Contributions in Aid of Construction (CIAC), and
14 Removal Spending net of Salvage value for the attrition period. To determine the rate of
15 return recovery, the 12 month-end balances of new utility plant in service is averaged,
16 less ½ of the anticipated annual associated CIAC, plus ½ of the anticipated annual
17 associated cost of removal net of salvage spending, to derive the "Net Plant" amount.
18 The current approved pre-tax rate of return ("PTR") is applied to this net amount to
19 determine the revenue requirement of the rate base portion. The PTR is calculated from
20 the weighted common equity and preferred equity, grossed up to include state and federal
21 taxes, plus the weighted cost of long-term debt and the weighted cost of short-term debt.
22 Next, the annual depreciation expense of the additional Net Plant is calculated
23 ("NetDep"), utilizing the current TRA approved depreciation rates by account and then

1 added. From there, incremental new property and Franchise taxes ("PFT") is added. For
2 the EDI and SEC, additional operating expenses are added as appropriate. The sum of
3 these components are grossed up to include the recovery of the associated additional
4 Gross Receipts taxes, Uncollectible expense, and forfeited discounts ("RT") to derive the
5 final revenue requirement. Then, any over or under capital rider collection of prior
6 periods is added or subtracted as applicable ("R"). The purpose of this petition
7 specifically is to address the over or under capital rider collection for the review period of
8 2014. This total is then divided by the authorized annual level of general metered service
9 and private fire service customer revenues from the prior docket (Docket No. 12-00049),
10 i.e. not including any other revenues, ("PAR") to render each of the new capital rider
11 percentages.

12 **Q. CAN THE ABOVE BE SHOWN AS A FORMULA?**

13 **A.** Yes, the calculation of the QIIP is:

$$14 \text{ QIIP \%} = \frac{[(\text{NetPlant} \times \text{PTR}) + \text{NetDep} + \text{PFT}] / (1 - \text{RT}) + \text{R}}{15 \text{ PAR}}$$

16 where:

- 17 (i) NetPlant: average forecasted cost of QIIP qualified plant additions l (computed by
18 use of average of 12 end-of-month balances).
- 19 (ii) PTR: current pre-tax rate of return as calculated from authorized weighted cost of
20 equity, grossed up for taxes, added to the authorized weighted cost of debt from
21 most recent Base Rate case Order.
- 22 (iii) NetDep: net annual depreciation expense related to the average forecasted QIIP
23 additions, net of retirements and CIAC, per application of current TRA approved
24 depreciation rates by account.
- 25 (iv) PFT: property taxes and Franchise Tax
- 26 (v) R: reconciliation component related to over/under recovery of QIIP costs during the
27 prior QIIP year.
- 28 (vi) RT: sum of revenue taxes % (Gross Receipts Tax), uncollectible expense %,
29 forfeited discounts %, expressed as a decimal
- 30 (vii) PAR: authorized annual base revenue subject to QIIP

The calculation of the EDI is:

$$\text{EDI \%} = \frac{\{(\text{NetPlant} \times \text{PTR}) + \text{NetDep} + \text{PFT} + \text{EDEX}\} / 1 - \text{RT} + \text{R}}{\text{PAR}}$$

where:

- (i) NetPlant: average forecasted cost of EDI qualified plant additions (computed by averaging the 12 end-of-month plant balances).
- (ii) PTR: current pre-tax rate of return as calculated from authorized weighted cost of equity, grossed up for taxes, added to the authorized weighted cost of debt from most recent Base Rate case Order.
- (iii) NetDep: net annual depreciation expense related to the average forecasted EDI additions, net of retirements and CIAC, per application of current TRA approved depreciation rates by account.
- (iv) PFT: property taxes and Franchise Tax
- (v) EDIEx: operational expense items related directly to economic development
- (vi) R: reconciliation component related to over/under recovery of EDI costs during the prior EDI year.
- (vii) RT: sum of revenue taxes % (Gross Receipts Tax), uncollectible expense % and forfeited discounts %, expressed as a decimal
- (viii) PAR: authorized annual base revenue subject to EDI

And the SEC calculation is:

$$\text{SEC \%} = \frac{\{(\text{NetPlant} \times \text{PTR}) + \text{NetDep} + \text{PFT} + \text{SECEX}\} / 1 - \text{RT} + \text{R}}{\text{PAR}}$$

where:

- (i) NetPlant: average forecasted cost of SEC Rider qualified plant additions (computed by averaging the 12 end-of-month balances).
- (ii) PTR: current pre-tax rate of return as calculated from authorized weighted cost of equity, grossed up for taxes, added to the authorized weighted cost of debt from most recent Base Rate case Order.
- (iii) NetDep: net annual depreciation expense related to the average forecasted SEC Rider additions, net of retirements and CIAC, per application of current TRA approved depreciation rates by account.
- (iv) PFT: property taxes and Franchise Tax

- 1 (v) SECEX: operational expense items related directly to safety and environmental
2 compliance
3 (vi) R: reconciliation component related to over/under recovery of SEC Rider costs
4 during the prior SEC Rider year.
5 (vii) RT: sum of revenue taxes % (Gross Receipts Tax), uncollectible expense % and
6 forfeited discounts %, expressed as a decimal
7 (viii) PAR: authorized annual base revenue subject to SEC Rider

8 **Q. HAVE YOU INCLUDED THE CALCULATION OF THE THREE CAPITAL**
9 **RECOVERY RIDERS IN THE PETITION?**

10 A. Yes. I have attached an exhibit that reflects the calculation of each of the three capital
11 recovery riders reconciliation percentage individually and in total. The calculation of the
12 reconciliation percentage for each rider is attached to my testimony as Petitioner's
13 Exhibit Capital Riders Reconciliation - LCB. The detailed calculations are attached in
14 to the petition in the workpapers. The calculations are consistent with the calculations
15 that were made in the approved tariff in Docket No. 13-00130. Again, these work-papers
16 are consistent with the calculations made to support the approved tariff in Docket No. 13-
17 00130.

18 **Q. HAS TAWC INCLUDED DETAILED INFORMATION REGARDING THE**
19 **PROJECTS THAT MAKE UP EACH OF THE PROPOSED CAPITAL**
20 **RECOVERY RIDERS?**

21 A. Yes. The detailed listing of the specific projects and the amount spent on each project by
22 type of expenditure is included in the workpapers. TAWC has provided the detailed
23 general ledger information for each project, and summarized each work order by expense
24 type. Company witness Brent O'Neill will discuss the variance regarding the capital
25 expenditures included in the QIIP, EDI and SEC reconciliation for 2014.

26 **Q. HOW ARE THE QIIP, EDI, AND SEC REVENUES RECOVERED?**

1 A. The QIIP, EDI and SEC are each expressed as a percentage, with the reconciliation
2 expressed as a separate percentage for all three capital recovery riders combined. The
3 current tariff Original Sheet No. 12 – Riders – 1 is attached to my testimony as
4 **Petitioner’s Exhibit Current Tariff Sheet No. 12 – Riders – LCB**, and the proposed
5 tariff sheet Third Revised Sheet No. 12 – Riders - 1 is attached to my testimony as
6 **Petitioner’s Exhibit Proposed Sheet No. 12 – Riders – LCB**. They are each applied to
7 the total amount billed to each customer under the otherwise applicable rates and charges
8 for basic service, metered usage charges, and private fire charges, and are applied prior to
9 the inclusion of any other taxes, charges, or surcharges. All three capital riders are
10 combined into one line item on the bill of each customer. The reconciliation percentage
11 will be a separate line item on the bill of each customer as well.

12 **Q. WHAT WILL HAPPEN TO THE CAPITAL RIDERS UPON APPROVAL OF**
13 **NEW RATES IN A RATE CASE PROCEEDING?**

14 A. The QIIP, EDI, and SEC will all be reset to zero as of the effective date of the new base
15 rates which Base Rates then provide for the recovery of the annual costs that had
16 theretofore been recovered through the capital riders. Thereafter, and consistent with the
17 tariffs, only the new QIIP, EDI, and SEC qualified plant additions and expenses not
18 previously included in rate base and Base Rates will be reflected in the future filings.

19 **Q. WHAT COST OF CAPITAL IS UTILIZED IN THE FORMULA OF THE**
20 **CAPITAL RIDERS**

21 A. The cost of capital is the established rate of return (on a pre-tax basis) in the Company’s
22 immediately preceding Base Rate case Order, currently TRA Docket No. 12-00049.

1 **Q. WHAT DEPRECIATION RATES ARE USED TO DETERMINE THE**
2 **DEPRECIATION EXPENSE RECOVERED BY THE QIIP, EDI AND SEC?**

3 A. The depreciation rates last approved by the TRA in Docket 12-00049 for the respective
4 plant accounts in which the specific items of qualified infrastructure under each rider are
5 recorded are the depreciation rates used to determine the depreciation expense. New
6 depreciation rates would be used only after depreciation rates are changed during a
7 general rate proceeding.

8 **Q. WHAT PROPERTY TAX RATE IS USED TO DETERMINE THE PROPERTY**
9 **TAX EXPENSE RELATED TO THE ADDITIONAL INVESTMENT TO BE**
10 **RECOVERED BY THE QIIP, EDI AND SEC?**

11 A. The property tax rate is based on the proportion of property taxes authorized in Docket
12 No. 12-00049 to the utility plant in service, multiplied by the additional utility plant less
13 retirements.

14 **Q. HOW ARE ANNUAL REVENUES DETERMINED FOR THE QIIP, EDI AND**
15 **SEC?**

16 A. The projected annual revenues will be the authorized water services revenues from the
17 last case, Docket No. 12-00049, including all service charges and volumetric charges for
18 all classes that are subject to the capital riders.

19 **Q. DID THE AMOUNT OF INVESTMENT RIDER REVENUES COLLECTED**
20 **FROM TENNESSEE AMERICAN'S CUSTOMERS VARY FROM THE ACTUAL**
21 **AMOUNT OF REVENUE NEEDED TO COVER A RETURN OF AND A**
22 **RETURN ON THE COMPANY'S QIIP, EDI AND SEC INFRASTRUCTURE**
23 **INVESTMENT AND TAXES?**

1 A. Yes. This occurred as a result of a difference between the actual and the allowed water
2 operating revenues upon which the capital riders are based. Additionally, the Capital
3 Expenditures for 2014 were actually greater than projected, while the completion of
4 projects occurred later than projected.

5 **Q. AS A REGULATORY SAFEGUARD TO CONSUMERS AND TO SERVE THE**
6 **PUBLIC INTEREST, DOES EACH OF THE CAPITAL RIDERS INCLUDE A**
7 **RECONCILIATION MECHANISM IN THE EVENT THAT THE LEVEL OF**
8 **INVESTMENT, EXPENSE, OR REVENUE APPROVED VARIES FROM THE**
9 **ACTUAL COSTS?**

10 A. Yes. As discussed earlier, the QIIP, EDI and SEC are all subject to this annual
11 reconciliation whereby the revenue received under each of the capital riders for the
12 reconciliation period is compared to the revenue necessary for the Company to recover its
13 return of and return on investment plus taxes, for that QIIP, EDI and SEC year. As I
14 stated earlier, this petition is only for the reconciliation to the QIIP, EDI or SEC. The
15 2015 proposed QIIP, EDI and SEC riders are included as Docket No. 14-00121 and are
16 not included in this Petition.

17 **Q. CAN YOU EXPLAIN THE RECONCILIATION CALCULATION?**

18 A. Yes. Consistent with the approved tariffs, Tennessee American has filed a reconciliation
19 for all three capital riders by March 1, 2015. There are actually two steps to the
20 reconciliation. The first is an adjustment for budget to actual investment. This is a
21 regulatory oversight and public interest component of the mechanism that results in a
22 true-up if the investment did not occur (up or down) as forecasted. The second is an
23 adjustment for the over or under recovery of revenues as projected, including interest. In

1 this way, the consumers are protected if sales exceed the amount authorized in the
2 previous rate case proceeding. This may occur if there is a significant amount of
3 customer growth, or if dry and hot conditions occur in any given year. This second
4 adjustment also allows TAWC to adjust if sales are less than the amount authorized in the
5 last case, as may occur with declining usage that TAWC has experienced in recent years.
6 The reconciliation percentage, pending approval by April 1, 2015, as contemplated in the
7 tariffs, will be applied to customer bills for 9 months in 2015.

8 **Q. MS. BRIDWELL, YOU INDICATED IN DOCKET NO. 14-00121 THAT THERE**
9 **WERE SOME ISSUES REGARDING THE RECONCILIATION OF THE**
10 **INITIAL FILING APPROVED BY THE AUTHORITY ON APRIL 14, 2014. CAN**
11 **YOU ELABORATE ON THOSE ISSUES AT THIS TIME?**

12 **A.** Yes I can. Based upon Tenn. Code Ann. § 65-5-103 *et seq.*, in Docket 13-00130,
13 Tennessee American proposed tariffs that it anticipated would be approved and be in
14 place in January 2014. As the tariffs became effective on April 15, 2014, as opposed to
15 sometime earlier in January, TAWC did not begin applying the capital rider surcharges
16 until mid-April. Because of this, if these dates are strictly applied, an annual
17 reconciliation of the first filing approved on April 14, 2014, would have to be completed
18 in two steps – a) one to capture the investments made as part of the capital riders for
19 calendar year 2014, which could be filed by March 1, 2015; and b) one to capture the
20 difference in dollars collected through the riders from April 15, 2014 through April 14,
21 2015, which would not be able to be filed until mid to late June, 2015. Filing in this
22 manner would create a mismatch of reconciliation periods that would remain until a new
23 rate case is filed and approved by the TRA and the filing periods would be re-set. The

1 mismatch of reconciliation periods will create additional expense for TAWC, and a
2 heightened, though avoidable, resource burden to the Authority and Tennessee Consumer
3 Advocate and Protection Division ("CAPD"), relative to the preparation and review of an
4 additional reconciliation. Further, this mismatch would result in three adjustments to
5 customer bills over a 12-month period on the capital riders alone, which may lead to
6 some customer confusion.

7 **Q. WHAT HAS TAWC DONE TO ADDRESS THIS RECONCILIATION ISSUE**
8 **WITH THE AUTHORITY AND THE CAPD?**

9 A. As noted in Docket No. 14-00121, TAWC carefully considered the options for the most
10 appropriate approach of the reconciliation to remain consistent with and within the spirit
11 of both the Consumer Advocate Protection Division's good faith settlement and the
12 TRA's approval, and remain in the public interest. We have done this without
13 compromising or undermining the regulatory oversight and public interest safeguards and
14 without harm to the consumers. Although the period for revenue adjustment is less than
15 originally anticipated in the tariffs, TAWC is filing one reconciliation for the investment
16 period of the calendar year 2014 by March 1, 2015, to incorporate both steps, and thus
17 eliminate the mismatch of the reconciliation periods. This has resulted in an under
18 collection situation for revenues on the capital riders which is offset by the actual in-
19 service timing of the capital expenditures. This will reduce the expense and
20 administrative burden for all parties involved by having only one proceeding for the
21 reconciliation of the capital riders for 2014. During the consideration of the three capital
22 riders and before approval by the TRA, both the CAPD and the TRA expressed concern
23 over whether these alternative methods would place significant burdens upon the agency

1 and its resources. Eliminating the mismatch also is an attempt to ensure seamless, easy to
2 verify filings in support of the capital recovery riders. The reconciliation of the capital
3 recovery riders is for the 2014 calendar year only and does not include 2015 investments
4 or revenue collections.

5 **Q. TAWC HAS NOT FILED ANYTHING IN THIS PETITION TO INCLUDE THE**
6 **RECONCILIATION OF THE PRODUCTION COSTS AND OTHER PASS-**
7 **THROUGHS RIDER. WHY IS TAWC NOT INCLUDING THE PCOP**
8 **RECONCILIATION IN THIS PETITION?**

9 A. The reconciliation of the PCOP is part of Docket No. 15-00001. The PCOP differs from
10 the capital riders, in that at the end of a year, it looks at the historical period and
11 compares the actual production expenses to the amount of production expenses
12 authorized in the previous rate case. It then applies an adjustment over the next year to
13 account for any differences between the two amounts, either over or under the authorized
14 amount. The first review period for the approved PCOP looked at the amount of
15 production expenses in the attrition year from the previous rate case, which was
16 December 1, 2012 to November 30, 2013 compared to the actual amount of production
17 expenses that occurred between December 1, 2012 and November 30, 2013. The
18 expenses in the attrition period were actually less than authorized in the case, so TAWC
19 under the approved PCOP applied a credit adjustment to customers.

20 The subsequent period approved for review in the tariff is defined as the twelve
21 months subsequent to the attrition period, and every twelve-month period after that. So
22 the review period for the PCOP in Docket No. 15-00001 is December 1, 2013 through

1 November 30, 2014. TAWC filed the reconciliation of the PCOP in a separate petition at
2 the end of 2014 in Docket No. 15-00001.

3 **Q. WHAT HAS TAWC DONE TO MAKE SURE THAT CAPITAL EXPENDITURES**
4 **WERE NOT DOUBLE COUNTED IN THE RATE CASE DOCKET NO. 12-00049**
5 **AND IN THE CAPITAL RECOVERY RIDERS?**

6 A. As part of the reconciliation, TAWC pulled all of the capital expenditures that were
7 placed in service in 2014. This meant that three types of capital expenditures were
8 accumulated in the detailed information: 1) Capital expenditures made in 2014 on
9 projects that were completed in 2014; 2) Capital expenditures that were made prior to
10 2014 but were not placed in service until 2014 along with the expenditures on that project
11 that were made in 2014; and 3) capital expenditures made in 2014 on projects that had
12 been placed in service prior to 2014. TAWC then reviewed each work order individually
13 within the recurring project lines and removed all capital expenditures that were not for
14 2014 projects placed in-service in 2014. So if a project was primarily part of construction
15 in 2013, but not placed in service until the beginning of 2014, the entire project was
16 removed from the capital riders reconciliation. This was to eliminate any question
17 whether those expenditures were part of the attrition year from the last rate case, Docket
18 No. 12-00049. If a project had some preliminary capital expenditures prior to 2014 but
19 was a project implemented and placed in service in 2014, all of the asset value placed in-
20 service in 2014 was included in the capital recovery riders. Capital expenditures for 2014
21 that were on projects previously placed in service were removed entirely. The summary
22 of capital riders charges is attached to my testimony as Petitioner's Exhibit Capital

1 **Rider Charges Summary – LCB.** A copy of all capital expenditures is included in the
2 workpapers.

3 **Q. WHAT ARE THE RESULTS FOR THE FIRST ADJUSTMENT OF THE**
4 **ACTUAL COMPARED TO THE BUDGET?**

5 The amount of actual in-service capital investment was actually higher than the
6 projected levels in Docket No. 13-00130. This is shown on the **Petitioner's Exhibit**
7 **Capital Riders Reconciliation – LCB** attached to my testimony at Line 1. This is due
8 partially to TAWC spending more in its overall capital expenditures in 2014 than
9 originally projected. As demonstrated in the exhibit, TAWC placed \$3,700,168 in
10 service under the capital recover riders, compared to \$3,389,028 budgeted. This was
11 offset however, in that average plant balances for 2014 were less than the projected
12 amounts. This was due to capital expenditures being placed in service later than
13 originally projected. The monthly plant balances are attached to my testimony as
14 **Petitioner's Exhibit Summary Utility Account Balance – LCB.** Additionally, the cost
15 of removal and depreciation expenses were actually less than projected in the riders in
16 Docket No. 13-00130. So overall, the amount of the revenue requirement for these
17 capital expenditures was less than originally projected in the riders. As shown on Line 18
18 of the same exhibit, the Actual Revenues Required was \$467,122 while the projected was
19 \$510,911.

20 **Q. WHAT ARE THE RESULTS FOR THE SECOND ADJUSTMENT FOR**
21 **OVER/UNDER REVENUE BILLINGS?**

22 The revenues billed were \$172,266 less than originally projected. This is
23 primarily for two reasons. First, the capital recovery riders were only in place eight and

one-half months and not a full year as proposed in the calculation of the amount of the capital recovery riders. Second, the water sales and revenues were less than the base amount authorized in Docket No. 12-00049.

Q. HAS TAWC APPLIED AN EARNINGS TEST ADJUSTMENT TO THE RECONCILIATION?

A. No. TAWC did not earn above its authorized rate of return in the review period of the calendar year 2014. I have attached a copy of the December 2014 Financial Statements Report filed with the TRA as Petitioner's Exhibit December 2014 Monthly Report to TRA – LCB that shows a 12-month rate of return of 6.63%. The amount authorized in Docket No. 12-00049 was 7.23%.

Q. WHAT IS THE PROPOSED QIIP RECONCILIATION PERCENTAGE?

A. TAWC is proposing a QIIP reconciliation that is 0.254%.

Q. WHAT IS THE PROPOSED EDI RECONCILIATION PERCENTAGE?

A. TAWC is proposing an EDI reconciliation of 0.052%.

Q. WHAT IS PROPOSED SEC RECONCILIATION PERCENTAGE?

A. TAWC is proposing a SEC reconciliation of 0.064%.

Q. WHAT IS THE TOTAL CAPITAL RECOVERY RIDER RECONCILIATION PERCENTAGE?

A. The total proposed capital recovery rider reconciliation percentage is 0.370%.

Q. WHAT IS THE IMPACT TO THE AVERAGE CUSTOMER BILL?

A. The typical residential customer living in the City of Chattanooga, and using an average of 4,154 gallons per month will see an increase in their bill of \$0.08 per month, or \$0.96 per year.

1 Q. HAS TENNESSEE AMERICAN FILED A TARIFF ADDRESSING THE
2 PROPOSED QIIP RIDER?

3 A. Yes. A new tariff Third Revised Sheet No. 12 – Riders – 1 reflects the Capital Recovery
4 Riders Reconciliation percentage and is attached to my testimony as Petitioner’s Exhibit
5 Proposed Sheet No. 12- Riders - LCB.

6 Q. WHAT INFORMATION IS REQUIRED IN THE TARIFF TO BE INCLUDED IN
7 THE ANNUAL RECONCILIATION FILING?

8 A. Each tariff states that the Company will include in its Annual Reconciliation Filing the
9 following information at a minimum: (a) a schedule of all journal entries made related to
10 this Rider for the Annual Review Period, including any related general ledger support, (b)
11 actual billing determinants by month as used in the computation of the Total Collected
12 from Customers for the Annual Review Period, (c) capitalization policy effective for the
13 Annual Review Period, (d) computation of the Annual Reconciliation Factor Percentage
14 Rate, including the detailed calculation of each component, (e) schedules of the Actual
15 Investment Amount and Actual Operational Expense, including related general ledger
16 support, (f) a schedule of any proposed prior period adjustments, (g) an affirmative
17 statement of whether the Company is aware of any changes in market conditions or other
18 factors that may affect whether the Rider is still in the public interest, including the
19 identification of such factors if they exist, and (h) the cumulative amount collected from
20 customers.

1 Q. HAS TAWC PROVIDED THE INFORMATION IN THIS PETITION FILING
2 THAT IS REQUIRED PER THE QIIP, EDI AND SEC TARIFFS?

3 A. Yes. In order to provide this information, (a) TAWC has provided in the workpapers all
4 of the general ledger transactions for all of the capital expenditures in the capital recovery
5 riders, (b) TAWC has provided the billing determinants by month from April 2014 to
6 December 2014 in the workpapers, (c) a copy of the capitalization policy effective for the
7 Annual Review Period is attached as an exhibit to my testimony Petitioner's Exhibit
8 AW Capitalization Policy – LCB, (d) TAWC has provided a computation of the Annual
9 Reconciliation Factor Percentage Rate attached as Petitioner's Exhibit Capital Riders
10 Reconciliation – LCB and has provided the detailed calculation of each component in
11 the workpapers along with an explanation of the workpaper calculation, (e) TAWC has
12 provided schedules of the Actual Investment Amount including the detailed general
13 ledger support for each of the riders in the workpapers however there were no Actual
14 Operational Expenses in 2014; (f) TAWC has not included any proposed prior period
15 adjustments; (g) I discuss whether the Company is aware of any changes in market
16 conditions or other factors that may affect whether the Rider is still in the public interest,
17 including the identification of such factors if they exist; and (h) TAWC has provided the
18 cumulative amount collected from customers on the Petitioner's Exhibit Capital Riders
19 Reconciliation – LCB along with the detailed information of the amount of revenues
20 collected from customers for each of the capital recovery riders in the workpapers.

1 Q. HAS TENNESSEE AMERICAN PROVIDED INVOICES FOR ALL OF THE
2 CAPITAL EXPENDITURES INCLUDED IN THE CAPITAL RECOVERY
3 RIDERS?

4 A. No. TAWC has provided the detailed general ledger information for all transactions on
5 all projects in the workpapers, and summarized the type of expenses for each rider in
6 Petitioner's Exhibit Capital Rider Charges Summary -- LCB. Although individual
7 invoices are available for some contract services under some projects, TAWC uses a
8 purchase order system under blanket contracts that provides for billing for multiple
9 projects on one invoice. Further, TAWC uses purchase orders for materials, bringing
10 materials in and out of stock inventory on an average cost basis. Some material held in
11 inventory may have been purchased in previous years and tracing those items to specific
12 invoices or purchase order receipts will be extremely challenging. Finally, invoices for
13 all projects would be an extremely large filing that may be more information than is
14 feasible to review. TAWC has provided a summary of the work order detail of expenses
15 in Petitioner's Exhibit Work Order Detail Summary -- LCB. In order to assist in the
16 review process, TAWC has included in the workpapers a complete set of contractor
17 invoices on one project. TAWC would like to propose that parties to the case provide a
18 sample of projects that they would like to review for specific details. Further, TAWC is
19 prepared to provide a witness for the accuracy of the general ledger if necessary.

1 **Q. IS THE COMPANY AWARE OF ANY CHANGES IN MARKET CONDITIONS**
2 **OR OTHER FACTORS THAT MAY AFFECT WHETHER THE QIIP RIDER,**
3 **THE EDI RIDER AND THE SEC RIDER ARE STILL IN THE PUBLIC**
4 **INTEREST?**

5 A. No, the Company is not aware of any changes in market conditions or other factors that
6 affect whether the QIIP Rider, the EDI Rider and the SEC Rider are still in the public
7 interest. Tennessee American believes that the QIIP Rider, the EDI Rider and the SEC
8 Rider are all still in the public interest. Tennessee American understands that the purpose
9 of the legislation was, in part, to encourage an increase in certain types of infrastructure
10 investment and recovery by utilities, while reducing the costs to consumers and utilities
11 for regulatory review and implementation, and promoting rate gradualism for consumers.
12 TAWC believes the approved capital recovery riders are achieving that goal. Without the
13 approved alternative rate mechanisms, and specifically without the capital riders, TAWC
14 would be preparing another general rate case. TAWC has been able to partner with the
15 community to promote economic development, which we believe to be in the public
16 interest. TAWC has been able to increase infrastructure replacement and meet
17 environmental compliance needs on a timely basis, which we believe to be in the public
18 interest.

19 **Q. WHAT DO YOU RECOMMEND WITH REGARD TO THIS PETITION?**

20 A. I recommend that the petition be approved for the reconciliation in the QIIP, EDI and
21 SEC Riders for a total reconciliation of 0.370%. This will be applied beginning April 1,
22 2015 for nine months.

1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A. Yes.

Tennessee American Water Company
 Qualified Infrastructure Improvement Program Rider (QIIP)
 Economic Development Investment Rider (EDI)
 Safety and Environmental Compliance Rider (SEC)
 Reconciliation of the Calculation of Revenue Requirement
 As of 12/31/2014

Page 1 of 1

Line Number	Description	Qualified Infrastructure Investment Program QIIP Average YTD 12/31/2014			Economic Development Investment EDI Average YTD 12/31/2014			Safety and Environmental Compliance SEC Average YTD 12/31/2014			Total Average YTD 12/31/2014		
		Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
1	Additions Subject to Rider:	\$2,685,237	\$2,514,170	\$171,067	\$563,849	\$604,569	(\$40,720)	\$451,081	\$270,289	\$180,793	\$3,700,168	\$3,389,028	\$311,140
2	Plus: Cost of Removal less Salvage	36,881	97,710	(60,830)	0	0	0	3,256	0	3,256	40,137	97,710	(57,573)
3	Less: Contributions in Aid to Construction (CIAC)	0	0	0	0	53,204	(53,204)	0	0	0	0	53,204	(53,204)
4	Less: Deferred Income Taxes	1,474	(11,700)	13,174	(443)	(3,632)	3,190	1,013	1,614	(601)	2,045	(13,718)	15,763
5	Less: Accumulated Depreciation	9,719	42,224	(32,505)	4,325	11,169	(6,844)	2,385	11,687	(9,303)	16,429	65,081	(48,652)
6	Net Investment Supplied Additions:	\$2,710,925	\$2,581,357	\$129,569	\$559,966	\$543,829	\$16,138	\$450,940	\$256,987	\$193,953	\$3,721,831	\$3,382,172	\$339,659
7													
8	Pre-Tax Authorized Rate of Return:	9.45%	9.45%		9.45%	9.45%		9.45%	9.45%		9.45%	9.45%	
9	Pre-Tax Return on Additions:	\$256,301	\$244,051	\$12,250	\$52,941	\$51,416	\$1,526	\$42,634	\$24,297	\$18,337	\$351,876	\$319,763	\$32,113
10													
11	Depreciation Expense on Additions:	31,478	84,448	(52,970)	11,886	22,339	(10,453)	7,686	23,375	(15,689)	51,050	130,162	(79,112)
12													
13	Property and Franchise Taxes Associated:	36,231	32,862	3,369	7,622	8,168	(546)	5,437	3,652	1,785	49,290	44,682	4,608
14													
15	Revenues:	324,010	361,362	(37,351)	72,449	81,923	(9,474)	55,757	51,324	4,434	452,216	494,608	(42,392)
16													
17	Revenue Taxes	3.19%	3.19%		3.19%	3.19%		3.19%	3.19%		3.19%	3.19%	
18	Total Revenues with Revenue Taxes	\$334,690	\$373,273	(\$38,583)	\$74,837	\$84,623	(\$9,786)	\$57,595	\$53,015	\$4,580	\$467,122	\$510,911	(\$43,789)
19													
20													
21	Actual Revenues Billed (effective 4/15/14)		246,525			56,764			35,356			338,645	
22													
23	(Over)/Under Revenue Billings		126,748			27,859			17,659			172,266	
24	Budget to Actual Adjustment		(38,583)			(9,786)			4,580			(43,789)	
25	Earnings Test Adjustment												
26	Interest (Prime - 3.25%)		1,433			294			361			2,088	
27													
28	Reconciliation Amount		\$89,598			\$18,367			\$22,600			\$130,565	
29													
30	Authorized Revenues (9/12th)		\$35,305,293			\$35,305,293			\$35,305,293			\$35,305,293	
31													
32	Current Reconciliation Factor Percentage		0.25%			0.05%			0.06%			0.37%	
33													

Explanation:

Tennessee American Water has been authorized 3 capital riders based on a 13-month average of in-service capital projects in the forecasted period. The revenue requirement for each rider is calculated similar to how total ratebase is calculated by the Tennessee Regulatory Authority in a rate case. This table shows a comparison of the actual average over the reporting period to the proposed amount of each rider, and the total of the three.

Tennessee American Water Company
Qualified Infrastructure Improvement Program (QIIP)
Economic Development Investment Rider (EDI)
Safety and Environmental Compliance Rider (SEC)
Cumulative Plant Additions By Month
As of 12/31/2014

Page 1 of 1

Cumulative Balances For 2014																	
Line No.	Rate Mechanism	Account	Account Description	Depreciation Rates	January Actual	February Actual	March Actual	April Actual	May Actual	June Actual	July Actual	August Actual	September Actual	October Actual	November Actual	December Actual	Average Plant in Service
1	QIIP	320100	WT Equip Non-Media	1.09%	\$0	\$0	\$0	\$0	\$0	\$0	\$2,325,978	\$2,426,791	\$2,390,528	\$2,390,994	\$2,342,453	\$2,337,229	\$1,184,498
2		330000	Dist Reservoirs & Standpipes	2.08%	0	0	0	0	18,566	18,566	18,566	18,566	18,566	18,566	18,566	22,832	12,733
3		331001	TD Mains Not Classified	1.25%	114,817	294,635	301,786	549,293	666,624	768,922	1,017,136	1,083,645	1,127,139	1,239,664	1,389,640	1,874,749	869,004
4		333000	Services	1.11%	105,368	140,227	135,979	159,336	130,073	225,855	165,924	288,925	278,383	340,947	411,228	464,966	237,268
5		334100	Meters	7.47%	8,882	16,339	28,311	31,043	34,602	38,468	43,942	43,095	43,095	43,095	43,095	43,095	34,755
6		334200	Meter Installations	2.73%	5,291	9,502	20,582	37,444	50,251	76,288	154,615	266,341	401,723	548,185	604,343	618,384	232,746
7		335000	Hydrants	2.30%	15,431	20,842	35,359	56,411	64,908	87,895	117,992	188,722	171,863	168,997	196,010	246,387	114,235
8																	
9			QIIP Total		249,789	481,544	522,016	833,527	965,024	1,215,993	3,844,153	4,316,084	4,431,297	4,750,447	5,005,334	5,607,642	2,685,237
10																	
11	EDI	331001	TD Mains Not Classified	1.25%	(512)	195	296	7,823	3,829	17,211	17,441	21,134	24,461	24,247	23,971	23,936	13,669
12		333000	Services	1.11%	44,756	84,381	101,390	152,399	244,096	321,918	357,985	493,109	506,143	601,893	745,053	709,660	363,565
13		334100	Meters	7.47%	7,582	65,121	72,752	77,927	89,762	97,063	114,401	120,513	123,951	129,873	134,440	136,631	97,501
14		334200	Meter Installations	2.73%	15,482	(22,304)	(8,520)	5,676	33,212	50,312	69,249	118,334	112,656	127,412	139,539	144,915	65,497
15		335000	Hydrants	2.30%	3,632	9,201	8,650	19,638	23,616	24,503	27,726	28,620	31,001	30,848	37,387	38,569	23,616
16																	
17			EDI Total		70,941	136,595	174,567	263,463	394,515	511,007	586,803	781,710	798,212	914,273	1,080,389	1,053,711	563,849
18																	
19	SEC	304100	Struct & Imp-Supply	1.98%	0	0	0	0	0	38,646	52,621	52,621	52,621	52,621	52,621	132,235	36,165
20		304500	Struct & Imp-General	1.13%	0	0	0	0	0	0	0	0	0	0	0	6,193	516
21		309000	Supply Mains	1.87%	0	0	0	0	0	0	9,862	9,862	9,862	9,862	9,862	9,862	4,931
22		310000	Power Generation Equip	12.33%	0	0	0	26,638	25,066	25,066	25,066	25,066	25,066	25,066	25,066	25,066	18,931
23		311520	Pumping Equipment-SOS	1.83%	0	2,682	5,914	73,666	73,666	99,797	99,797	99,797	101,530	114,848	115,840	115,840	75,282
24		320100	WT Equip Non-Media	1.09%	0	0	7,449	237,593	262,716	262,716	264,364	307,811	307,811	307,811	307,811	644,552	242,553
25		340200	Comp & Periph Equip	2.19%	0	0	0	0	0	0	0	0	17,356	17,205	17,205	17,205	5,748
26		346100	Comm Equip Non-Telephone	4.21%	0	0	0	0	0	0	0	0	60,940	57,305	57,305	57,328	19,407
27		346190	Remote Control & Instrument	4.21%	0	0	0	0	0	0	0	0	142,541	133,433	149,762	144,865	47,550
28																	
29			SEC Total		0	2,682	13,364	337,897	361,448	426,225	451,710	495,156	717,726	718,150	735,472	1,153,147	451,081
30																	
31			Grand Total		\$320,730	\$620,821	\$709,947	\$1,434,887	\$1,720,987	\$2,153,224	\$4,882,665	\$5,592,950	\$5,947,235	\$6,382,871	\$6,821,195	\$7,814,500	\$3,700,168

Tennessee American Water Company

For 12 Months Ended December 31, 2014

2014 Capital Riders Reconciliation - Charge Detail Summary by Rider

Line	Rider	Charge Type	Additions	Removals	Total
1	QIIP	Labor	\$ 584,049	\$ 8,792	\$ 592,841
2		Labor Overhead	266,549	7,051	273,599
3		Licenses, Permits & Misc Fees	36,935	731	37,665
4		Materials & Supplies	403,811	4,828	408,638
5		Contracted Services	2,650,573	9,287	2,659,859
6		Other - Paving	763,160	19,078	782,237
7		Other	397,049	671	397,720
8		Overhead	399,883	5,233	405,117
9		Salvage Cash	-	(1,416)	(1,416)
10		CWIP Accrual	67,716	4,963	72,679
11		AFUDC Debt	19,897	-	19,897
12		AFUDC Equity	18,022	-	18,022
13					
14	QIIP Total		\$ 5,607,642	\$ 59,218	\$ 5,666,859
15					
16	EDI	Labor	\$ 287,527	\$ -	\$ 287,527
17		Labor Overhead	139,719	-	139,719
18		Licenses, Permits & Misc Fees	11,992	-	11,992
19		Materials & Supplies	277,346	-	277,346
20		Contracted Services	34,805	-	34,805
21		Other - Paving	127,897	-	127,897
22		Other	70,396	-	70,396
23		Overhead	89,863	-	89,863
24		Salvage Cash	-	-	-
25		CWIP Accrual	13,693	-	13,693
26		AFUDC Debt	248	-	248
27		AFUDC Equity	225	-	225
28					
29	EDI Total		\$ 1,053,711	\$ -	\$ 1,053,711
30					
31	SEC	Labor	\$ 30,837	\$ 308	\$ 31,145
32		Labor Overhead	14,599	148	14,748
33		Licenses, Permits & Misc Fees	-	-	-
34		Materials & Supplies	88,311	70	88,381
35		Contracted Services	718,539	6,731	725,270
36		Other - Paving	-	-	-
37		Other	133,828	938	134,766
38		Overhead	86,062	355	86,417
39		Salvage Cash	-	-	-
40		CWIP Accrual	71,701	0	71,701
41		AFUDC Debt	4,864	-	4,864
42		AFUDC Equity	4,406	-	4,406
43					
44	SEC Total		\$ 1,153,147	\$ 8,550	\$ 1,161,697

Petitioner's Exhibit Work Order Detail Summary LCB
Page 1 of 2

Tennessee American Water Company
For 12 Months Ended December 31, 2014
2014 Capital Rider Reconciliation - Charge Detail Summary by Work Order

Line	Rider	Work Order #	Work Order Description	Additions	Removals	Total
1	QIIP	R26-02B1.13-P-0016	OAK ST AND GLENN AVE 4" MAIN	\$ 66,645	\$ 1,829	\$ 68,474
2		R26-02B1.13-P-0019	INSTALL 780' - 8" MAIN IN	94,041	3,531	97,573
3		R26-02B1.13-P-0020	INSTALL 860' - 8" MAIN & FH IN	84,203	-	84,203
4		R26-02B1.13-P-0021	INSTALL 645' - 6" MAIN IN CRESCENT	43,903	-	43,903
5		R26-02B1.13-P-0022	INSTALL 575' - 6" MAIN IN 1ST	59,381	-	59,381
6		R26-02B1.13-P-0024	INSTALL 6" IN	174,680	-	174,680
7		R26-02B1.14-P-0001	Blanket Work Order	1,327	-	1,327
8		R26-02B1.14-P-0004	DAYTON BLVD 2-6" STUB OUTS FOR	31,082	1,835	32,917
9		R26-02B1.14-P-0005	Silverdale Wrkhouse 12" main instal	113,053	2,294	115,347
10		R26-02B1.14-P-0007	Sunbeam Ave Main Replacement.	110,531	-	110,531
11		R26-02C1.13-P-0001	Mains - Unscheduled Blanket	57,313	13,826	71,139
12		R26-02C1.14-P-0001	Mains-Unscheduled	801,070	-	801,070
13		R26-02C1.14-P-0002	MEMORIAL DRIVE 16" MAIN REPAIR	17,810	-	17,810
14		R26-02C1.15-P-0001	Blanket Work Order	1,728	-	1,728
15		R26-02D1.14-P-0002	INSTALL 6" & 4" MAIN IN STRINGER	31,428	6,061	37,490
16		R26-02D1.14-P-0007	OCHS HIGHWAY @ GUILD TRAIL	17,518	4,302	21,820
17		R26-02D1.14-P-0011	Seneca Ave Offset 8" Main around 2	20,524	-	20,524
18		R26-02F1.07-P-0011	Hyd & Vlv-Repl-East Ridge TN ALL	69	-	69
19		R26-02F1.14-P-0001	Hydrants Valves and Manholes-Rep	186,266	-	186,266
20		R26-02F1.14-P-0002	CENTRAL AVE 20" VALVE	14,930	-	14,930
21		R26-02F1.14-P-0003	Purchase (2) 6" Wheel Valves	883	-	883
22		R26-02F1.15-P-0001	Blanket Work Order	6,186	-	6,186
23		R26-02H1.14-P-0001	Services and Laterals-Replaced	345,407	-	345,407
24		R26-02H1.15-P-0001	Blanket Work Order	379	-	379
25		R26-02J1.07-P-0011	5/8 Renewed Settings AS	4,895	-	4,895
26		R26-02J1.13-P-0001	Meters-Replaced -Blanket	54,874	24,561	79,436
27		R26-02J1.14-P-0001	Meters-Replaced	601,065	-	601,065
28		R26-02J1.15-P-0001	Blanket Work Order	644	-	644
29		R26-02R1.13-P-0002	Aldrich Unit #7 and #8 Rehabilitati	2,337,229	-	2,337,229
30		R26-02R1.14-P-0002	TANK EVALUATION FOR CLEARWELL	2,707	-	2,707
31		R26-03C1.14-P-0001	Blanket Work Order	2,834	-	2,834
32		R26-03R1.14-P-0002	TANK EVALUATION FOR SUCK CREEK	1,559	-	1,559
33		R26-05B1.14-P-0002	W. GEORGIA AVE MAIN	75,596	-	75,596
34		R26-05C1.14-P-0001	Unscheduled Main Replacements	98,349	-	98,349
35		R26-05F1.14-P-0001	Blanket Work Order	32,249	-	32,249
36		R26-05H1.14-P-0001	Blanket Work Order	96,717	-	96,717
37		R26-05R1.14-P-0002	Repair Whitwell Tank	18,566	977	19,543
38						
39	QIIP Total			\$ 5,607,642	\$ 59,218	\$ 5,666,859

Tennessee American Water Company
For 12 Months Ended December 31, 2014
2014 Capital Rider Reconciliation - Charge Detail Summary by Work Order

Line	Rider	Work Order #	Work Order Description	Additions	Removals	Total
40						
41	EDI	R26-02E1.13-P-0001	Hydrants Valves and Manholes-New-	\$ 9,631	\$ -	\$ 9,631
42		R26-02E1.14-P-0001	Hydrants - Valves and Manholes-	25,954	-	25,954
43		R26-02E1.14-P-0003	Install a inserta valve at Moccasin	5,980	-	5,980
44		R26-02E1.14-P-0004	Inserta Valve 8" on Windtower Lane	6,269	-	6,269
45		R26-02E1.14-P-0005	RELOCATE FH ON CHICKAMAUGA	6,631	-	6,631
46		R26-02E1.15-P-0001	Blanket Work Order	769	-	769
47		R26-02G1.07-P-0011	3/4 New Services AS	3,803	-	3,803
48		R26-02G1.13-P-0001	Services and Laterals-New - Blanket	110,960	-	110,960
49		R26-02G1.14-P-0001	Services and Laterals-New	588,707	-	588,707
50		R26-02G1.15-P-0001	Blanket Work Order	581	-	581
51		R26-02I1.13-P-0001	Meters-New -Blanket	110,105	-	110,105
52		R26-02I1.14-P-0001	Meters-New	129,955	-	129,955
53		R26-02I1.14-P-0002	PURCHASE 4" METER FOR TN	2,163	-	2,163
54		R26-02I1.14-P-0003	8" Mstr Mtr The Springs at Chatt on	6,320	-	6,320
55		R26-02I1.14-P-0004	6" Mst Mtr Bridgeway Apts	3,814	-	3,814
56		R26-02I1.14-P-0005	purchase and install 8" meter - Als	20,435	-	20,435
57		R26-03G1.14-P-0001	Blanket Work Order	815	-	815
58		R26-05E1.14-P-0001	Blanket Work Order	7,268	-	7,268
59		R26-05G1.14-P-0001	Blanket Work Order	4,794	-	4,794
60		R26-05I1.14-P-0001	Meters - New	8,754	-	8,754
61						
62	EDI Total			\$ 1,053,711	\$ -	\$ 1,053,711
63						
64	SEC	R26-02L1.14-P-0002	Remove and Replace Controllres in th	\$ 268,337	\$ 5,933	\$ 274,270
65		R26-02L1.14-P-0003	UPGRADE COMMUNICATIONS	11,338	-	11,338
66		R26-02M1.14-P-4001	Wheel Street doors	4,296	-	4,296
67		R26-02M1.14-P-4003	Wheel Street gate	1,897	-	1,897
68		R26-02Q1.13-P-0027	Repl UPS Battery Back Ups @ Citico	25,066	115	25,181
69		R26-02Q1.14-P-0002	Replace N.End F/H #2 Surface Wash	7,449	213	7,662
70		R26-02Q1.14-P-0003	Rehabilitation of Hill City #7 Pump	67,752	679	68,432
71		R26-02Q1.14-P-0006	Citico Station WTP Filter #4 Rehab	333,885	-	333,885
72		R26-02Q1.14-P-0010	Replace Lab PH Meter	1,081	12	1,092
73		R26-02Q1.14-P-0011	Replace Lab Fluoride Meter	2,208	23	2,231
74		R26-02Q1.14-P-0012	Purchase Air Release Valves for #2	4,119	-	4,119
75		R26-02Q1.14-P-0013	Replace Carbon Slurry Line (Phase 2	40,890	412	41,302
76		R26-02Q1.14-P-0014	Replace HVAC Unit - Men' Restroom	11,731	102	11,833
77		R26-02Q1.14-P-0015	Replace #12 Low Service Coupling	22,444	694	23,138
78		R26-02Q1.14-P-0017	Install 6 Valve at Citico Campus @	9,862	-	9,862
79		R26-02Q1.14-P-0018	Rep Hill City Backflow Prev & Press	5,420	11	5,431
80		R26-02Q1.14-P-0019	Replace (2) Multilins @ Citico Pump	4,680	1	4,681
81		R26-02Q1.14-P-0020	Replace New Impeller for St. Elmo #	9,631	2	9,632
82		R26-02Q1.14-P-0031	Replace Roof @ Rossville Station	10,721	-	10,721
83		R26-02Q1.14-P-0032	Replace Roof @ Red Bank Station	2,607	-	2,607
84		R26-02Q1.14-P-0033	Replace Roof @ New York Station	11,927	-	11,927
85		R26-02Q1.14-P-0034	Replace Roof @ Elder Mtn. Station	9,177	-	9,177
86		R26-02Q1.14-P-0035	Replace Roof @ Citico Office	34,372	-	34,372
87		R26-02Q1.14-P-0036	Replace Roof @ Screen House	10,809	-	10,809
88		R26-02Q1.14-P-0037	Plant 1 Post Chlorine Feed Line Rep	2,857	-	2,857
89		R26-03Q1.14-P-0002	REP SC Plant Turbidimeters	3,809	200	4,010
90		R26-03Q1.14-P-0003	Rep SCUD Chemical Feed Pumps	2,916	153	3,069
91		R26-05L1.13-P-0001	Whitwell Booster & Tank	103,859	-	103,859
92		R26-05L1.14-P-0002	Whitwell Booster & Tank	98,706	-	98,706
93		R26-05L1.14-P-0003	Ketner Cove Tank PLC	5,496	-	5,496
94		R26-05Q1.14-P-0002	REP Whitwell #2 Raw Water Pump	5,914	-	5,914
95		R26-05Q1.14-P-0003	PUR Anthracite Filter Media	16,244	-	16,244
96		R26-05Q1.14-P-0004	INS Chlorine Sensor	1,649	-	1,649
97						
98	SEC Total			\$ 1,153,147	\$ 8,550	\$ 1,161,697
99						
100	Grand Total			\$ 7,814,500	\$ 67,768	\$ 7,882,267
101						
102						
103						

Petitioner's Exhibit AW Capitalization Policy – LCB

This exhibit is Confidential and is submitted under separate cover.

Petitioner's Exhibit December 2014 Monthly Report to TRA -- LCB

PSC--3.06

(1) Includes Capital Lease

(1) Includes Capital Lease

FOR THE MONTH ENDED DECEMBER 2014

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$262,114,183	\$262,114,183
3	Plant Under Construction	7,586,831	7,879,559
4	Property Held For Future Use	0	0
5	Materials and Supplies	685,155	697,283
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	0
9	Working Capital C/	3,409,884	3,409,884
10			
11	Total Additions	275,386,553	275,691,409
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	83,981,722	83,390,340
16	Accumulated Deferred Income Taxes	32,701,324	32,474,903
17	Unamortized Investment Credit - Pre 1971	17,482	17,482
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	12,593,018	12,592,484
21	Customer Advances for Construction	4,783,202	4,814,889
22	All Other A/	(230,005)	(230,005)
23			
24			
25			
26	Total Deductions	133,846,743	133,060,093
27			
28	Rate Base	\$141,539,810	\$142,631,316
29			
30	Net Operating Income	\$346,106	\$8,740,743
31	Adjustments to NOI		
32	Allowance for funds used during construction	57,333	532,521
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	16,059	189,922
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$419,498	\$9,463,186
40			
41			
42	Rate of return B/	3.56%	6.63%
A/ All Other			
	Acquisition adjustment	\$0	\$0
	Accounts payable applicable to CVMF	53,825	53,825
	Unpaid for materials and supplies	50,084	50,084
	Taxes on CIAC-DEF. FIT & SIT	(333,914)	(333,914)
		(230,005)	(230,005)
B/ Rate of return - Monthly (L39 / L28) x 12			
C/ Per order			
	Cash working capital Lead Lag Study	\$591,674	
	Incidental collection	(116,192)	
	Average cash	0	
	Other components	2,934,402	
	Working cash	\$3,409,884	

TENNESSEE-AMERICAN WATER COMPANY

TRA NO. 19
Original Sheet No. 12-Riders-1

CLASSIFICATION OF SERVICE

SUMMARY OF RIDERS

1. Applicability

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider ("SEC"), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

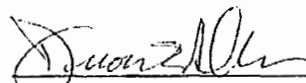
For the Riders defined in the tariffs :

QIIP	0.79 %
EDI	0.18 %
SEC	0.11 %
Subtotal of all Capital Recovery Riders	1.08 %
QIIP Annual Reconciliation Percentage	0.00 %
EDI Annual Reconciliation Percentage	0.00 %
SEC Annual Reconciliation Percentage	0.00 %
Subtotal of all Reconciliation Percentages	0.00 %
Total of Capital Recovery Riders and Reconciliation Percentages	1.08 %
PCOP	-1.15 %

ISSUED: March 25, 2014

EFFECTIVE: April 15, 2014

BY:


Deron E. Allen
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

CLASSIFICATION OF SERVICE

SUMMARY OF RIDERS

1. Applicability

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider (SEC), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

For the Riders defined in the tariffs :

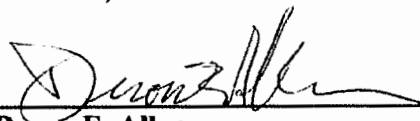
QIIP	2.13 %	
EDI	0.61 %	
<u>SEC</u>	<u>3.54 %</u>	
Subtotal of all Capital Recovery Riders	6.28 %	
QIIP Annual Reconciliation Percentage	0.254 %	(I)
EDI Annual Reconciliation Percentage	0.052 %	(I)
<u>SEC Annual Reconciliation Percentage</u>	<u>0.064 %</u>	(I)
Subtotal of all Reconciliation Percentages	0.370 %	(I)
Total of Capital Recovery Riders and Reconciliation Percentages	6.64 %	
PCOP	-0.83 %	

(I) Indicates Increase

ISSUED: March 2, 2015

EFFECTIVE: April 1, 2015

BY:


Deron E. Allen
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

STATE OF Kentucky)
COUNTY OF Fayette)

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

She 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, her testimony would be as set forth in her pre-filed testimony in this matter.

Linda C. Bridwell
Linda C. Bridwell

Sworn to and subscribed before me
this 26th day of February, 2015.

Dwight A. Stone
Notary Public

My Commission Expires: 10/3/2016

TENNESSEE-AMERICAN WATER COMPANY, INC

DOCKET NO. 15 - XXXXX

DIRECT TESTIMONY

OF

BRENT E O'NEILL, P.E.

ON

RECONCILIATION OF THE QUALIFIED INFRASTRUCTURE INVESTMENT
PROGRAM RIDER, THE ECONOMIC DEVELOPMENT INVESTMENT RIDERS,
AND THE SAFETY AND ENVIRONMENTAL COMPLIANCE RIDER

SPONSORING PETITIONER'S EXHIBIT:

PETITIONER'S EXHIBIT 2014 SCEP RESULTS - BEO

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Brent E. O'Neill and my business address is 2300 Richmond Road,
3 Lexington, Kentucky 40502.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by the American Water Works Service Company ("Service Company") as
6 Director of Engineering for Tennessee American Water Company ("TAWC", or
7 "Company") and Kentucky American Water Company ("KAWC").

8 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS OR ANY**
9 **OTHER COMMISSION?**

10 A. Yes. I have provided written testimony in the Application for Approval of a Qualified
11 Infrastructure Improvement Program, an Economic Development Investment Rider, a
12 Safety and Environmental Compliance Rider, and Pass-Throughs for Purchased Power,
13 Chemicals, Purchased Water, Wheeling Water Costs, Waste Disposal and TRA
14 Inspection Fee proceeding filed as Docket No. 13-00130 before the Tennessee
15 Regulatory Authority. I also filed written testimony in Docket No. 14-00121.

16 **Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL**
17 **BACKGROUND.**

18 A. I received a B.S. degree in Civil Engineering from the University of Illinois in Urbana,
19 Illinois in 1991. I completed a Masters of Business Administration from Eastern Illinois
20 University in Charleston, Illinois in 2002. I am a registered Professional Engineer in the
21 State of Tennessee, Commonwealth of Kentucky, State of Illinois and State of Iowa.

22 I have been employed by American Water Works Company ("AWW") or one of
23 its subsidiaries since 1996. I began as a Staff Engineer for Northern Illinois Water

1 Company ("NIWC") until 1999 when I was promoted to Engineering Manager for
2 Illinois American Water Company ("ILAWC"). In July 2004, I accepted the position of
3 Network Operations Manager for the Champaign County District of ILAWC. In June
4 2005, I accepted the position of Senior Asset Manager with AWW and worked in
5 Reading, England in a joint project with Thames Water. In 2006, I became the ILAWC
6 Project Manager for the construction of a new 15 MGD ground water softening treatment
7 plant, wells, and transmission main in Champaign, Illinois. In March 2008, I became the
8 Engineering Manager Capital Delivery with ILAWC with responsibilities for the delivery
9 of capital projects for the Central and Southern portions Illinois. In April 2013, I
10 accepted my current position as Director of Engineering for Tennessee American Water
11 Company and Kentucky American Water Company with the Service Company. I am an
12 active member of the American Water Works Association (AWWA) and American
13 Society of Civil Engineers (ASCE).

14 **Q. WHAT ARE YOUR DUTIES AS DIRECTOR OF ENGINEERING?**

15 A. I am responsible for the coordination of the Engineering Departments for both TAWC
16 and KAWC, which includes the planning, development, and implementation of all
17 aspects of construction projects. This includes working with all new main extensions and
18 developers, replacement mains, water treatment plant upgrades, new construction and
19 network facilities improvements. I coordinate technical assistance to all other company
20 departments as needed and oversee the capital budget development and implementation.
21 I report to the Presidents of TAWC and KAWC. I am located in Kentucky, but work
22 closely with the staff in Tennessee.

1 **Q. WHAT TOPICS WILL YOUR TESTIMONY ADDRESS?**

2 A. I will discuss the process for determining TAWC's capital investment plan, the oversight
3 for expenditures and changes to the plan, the level of capital expenditures for 2014, and
4 variances to the from the projected amounts in Docket No. 13-00103.

5 **Q. CAN YOU DESCRIBE THE PROCESS FOR DETERMINING THE CAPITAL**
6 **INVESTMENT PLAN?**

7 A. Yes. The Company's capital investment plan can be divided into two distinct areas: 1)
8 normal recurring construction (RPs), and 2) major projects identified as investment
9 projects (IPs). Normal recurring construction includes water main installation for new
10 development, smaller main projects for reinforcement and replacement, service line and
11 meter setting installation, meter purchases and the purchase of tools, furniture, equipment
12 and vehicles.

13 Recurring construction costs are trended from historical and forecasted data.
14 Estimates are prepared for the installation of new mains, service lines, meter settings and
15 the purchase of new meters based on preliminary plats from the appropriate governmental
16 planning agencies and consultations with developers, homebuilders, and engineering
17 firms.

18 Purchase of tools, furniture, equipment, and vehicles are based on needs. Each
19 item is reviewed independently and an itemized list of expenditures is prepared.
20 Estimates are made based on current year pricing.

21 The major project needs are developed from the Comprehensive Planning Study
22 that identifies major improvements needed to ensure safe, dependable and reliable
23 operations of the facilities and allows the facilities to meet the regulatory requirements

1 for the production and distribution of drinking water. The projects identified within the
2 study are prioritized for importance and are placed in the budgets based on the available
3 capital remaining after the determination of the needed capital for the recurring
4 construction needs described above.

5 **Q. CAN YOU DESCRIBE HOW THE CONSTRUCTION BUDGET IS MONITORED**
6 **DURING THE YEAR?**

7 A. Since 2003, the entire American Water system has used a process for the development
8 and review of capital expenditures that has incorporated industry best practices. TAWC,
9 like its sister companies, has benefitted from that process. The process includes a
10 regional Capital Investment Management Committee ("CIMC") to ensure capital
11 expenditure plans meet the strategic intent of the business, which intent includes
12 introduction of new technologies that result in efficiencies. In turn, this ensures that
13 capital expenditure plans are integrated with operating expense plans, and provides more
14 effective controls on budgets and individual capital projects.

15 The CIMC includes the TAWC President, TAWC Operations Manager, TAWC
16 Engineering Project Manager, TAWC Financial Analyst, and TAWC Operations
17 Specialist. The CIMC meets monthly. The CIMC receives capital expenditure plans
18 from project managers and approves them as required by the process. Once budgets are
19 approved, the CIMC meets monthly to review capital expenditures compared to budgeted
20 levels. Discussions are held on variances to budgets that include the reason for the
21 variance and suggestions to bring the budget lines back in line with the approved budget.

22 If changes in the budgets are required due to changes in priorities or unexpected
23 expenditures, then the CIMC reviews the request for changes and approves the movement

1 of available capital from other budget lines to offset the changes in the capital spend. All
2 projects, including normal recurring items, have an identified project manager
3 responsible for processing the stages of the project. The focus of the CIMC, along with
4 the monthly meetings, has allowed TAWC to be more flexible with changes that
5 inevitably occur during the course of implementation of projects while providing
6 oversight on capital expenditures.

7 As an added level of coordination a "Functional Sign-Off" Committee meets
8 monthly to sign-off on projects and review spending. This committee includes the
9 TAWC Operations Manager, the TAWC Engineering Project Manager, TAWC
10 Operations Specialist and the appropriate Distribution and Operations supervisors and
11 project managers. The purpose of the committee is to review projects that are moving
12 forward in the next step of approval, or that require a change. This allows the project
13 manager and operational area supervisors to communicate about the project on a monthly
14 basis and help coordinate projects from initial development through in-service as
15 compared to the approved budget and spending plan.

16 Both of these committees allows a continuous review of capital expenditures as
17 unexpected projects arise or the need to adjust projects to offset delays in other projects.
18 The use of the CIMC and FSO process allows TAWC to immediately address an increase
19 or decrease in projected spending in each line and make appropriate adjustments to
20 maintain the overall capital spend.

21 **Q. HOW DOES TAW HIRE CONTRACTORS?**

22 A. All significant construction work done by independent contractors and significant
23 purchases are completed pursuant to a bid solicitation process. We maintain a list of

1 qualified bidders and we believe that our construction costs are very reasonable.
2 American Water Works (AWW) takes competitive bids for material and supplies that are
3 either manufactured or distributed regionally and nationally through its centralized
4 procurement group. We have the advantage of being able to purchase these materials and
5 supplies on an as-needed basis at favorable prices. In the past ten years, AWW also has
6 undertaken a number of procurement initiatives for services and materials to reduce costs
7 through either streamlined selection or utilization of large volume purchasing power.
8 Some of these initiatives that have directly impacted capital expenditures include the use
9 of master services agreements with pre-qualified engineering consultants, national
10 vehicle fleet procurement, and national preferred vendor identification.

11 **Q. ARE YOU FAMILIAR WITH THE FACILITIES AND ENGINEERING**
12 **OPERATIONS OF THE COMPANY IN EACH OF ITS RATE AREAS?**

13 A. Yes.

14 **Q. WHAT CONTROLS ARE IN PLACE DURING PROJECT IMPLEMENTATION?**

15 A. The CIM and FSO meetings described above are used to oversee the progress of projects
16 from inception to completion. Along with review of the capital expenditures the
17 committee also reviews the requirements of an investment project and that they meet the
18 business need for expenditure and usefulness. The process includes five stages of
19 project review: 1) a Preliminary Need Identification defining the project at an early
20 stage; 2) a Project Implementation Proposal that confirms all aspects of the project are in
21 a position to begin work; 3) Project Change Requests, if needed (if the cost changes more
22 than 5% or \$100,000); 4) a Post Project Review; and 5) Asset Management. TAWC
23 personnel handle all of the stages, with oversight by the CIMC and FSO Committees.

1 **Q. WHAT CONTROLS ARE IN PLACE TO MAKE SURE PROPOSED PROJECTS**
2 **ARE IN THE PUBLIC INTEREST?**

3 A. Through the budgeting and planning process a broad and comprehensive review of
4 facility needs is conducted to establish a general guide for needed improvements over a
5 short-term horizon. These improvements are prioritized by TAW to allow it to: provide
6 safe, adequate, and reliable service to its customers to meet their domestic, commercial,
7 and industrial needs; provide flows adequate for fire protection; satisfy all regulatory
8 requirements; and enhance economic growth. The plan provides a general scope of each
9 project along with a preliminary design. The criteria for evaluating the various system
10 improvements are engineering requirements; consideration of national, state, and local
11 trends; environmental impact evaluations; and water resource management.

12 The engineering criteria used are accepted engineering standards and practices
13 that provide adequate capacity and appropriate levels of reliability to satisfy residential,
14 commercial, industrial, and public authority needs, and provide flows for fire protection.
15 The criteria are developed from regulations, professional standards, and company
16 engineering policies and procedures.

17 **Q. OVERALL, HOW DID TAW DO WITH REGARD TO ITS CONSTRUCTION**
18 **BUDGET COMPARED TO ACTUAL EXPENDITURES?**

19 A. For 2014 TAW ended the year with a net capital expenditures of \$18,205,874 compared
20 to an approved budget of \$18,337,559 resulting in an underspend of \$131,685 or 0.7% to
21 the budget.

22 With regard to the projects placed in service during the year compared to the QIIP, EDI
23 and SEC: The 2014 QIIP expected spend was projected at \$5,122,304 with an actual

1 spend placed in service of \$5,684,564 or 5.1% over projected. The EDI expected spend
2 was projected at \$1,252,951 with an actual spend of placed in service of \$1,051,706 or
3 16% under projected. The SEC expected spend was projects at \$1,113,404 with an actual
4 spend placed in service of \$1,184,873 or 6.4% over projected.

5 **Q. CAN YOU PROVIDE SPECIFIC INFORMATION ABOUT THE ACTUAL**
6 **CAPITAL EXPENDITURES COMPARED TO THE BUDGETED CAPITAL**
7 **EXPENDITURES?**

8 A. Yes. I've attached to my testimony an exhibit that provides a comparison of the 2014
9 Strategic Capital Expenditures Plan with Actual Capital Expenditures by recurring
10 project lines and investment project lines. The information provided in the workpapers
11 details the specific work orders that were included in each SCEP line, and the amount
12 placed in-service on each line.

13 **Q. CAN YOU EXPLAIN THE VARIANCES ON THE AMOUNT OF IN SERVICE**
14 **PLANT UNDER EACH RIDER?**

15 A. Yes. TAW was able to make adjustments in construction spending throughout the year
16 by the use of the FSO and CIM process to ensure that 99.3% of the approved level of
17 capital expenditures was invested during the year for infrastructure improvement. With
18 regard to the capital recover riders and the projected level of expenditures compared to
19 those projects that were implemented and placed in service, the overall variance with
20 projects placed in service compared with the projected spend for all three riders was
21 5.8%.

22 The major variance within the QIIP Rider was additional costs associated with
23 completion of the painting of Aldrich Units 7 and 8 that moved into 2014 due to weather

1 and construction schedule delays that resulted in the project that was expected to be
2 completed in 2013 not being finished and placed into service until 2014. The additional
3 spend was managed with the reduction of projects placed in service on the Mains
4 Relocated line and the additional of capital from other lines not associated with the QIIP
5 Rider.

6 Within the EDI Rider the decision to delay the spend the \$95,573 for the purchase
7 of fuel alternative vehicles and/or the conversion of vehicles due to concerns of
8 technology maturity and the availability of alternative fuels and its impact to operations
9 to locate the fuels for refilling the vehicles.

10 With regard to the SEC Rider additional spending within the SCADA line to
11 address additional cost associated with the Programmable Logic Controller ("PLC")
12 upgrade project that required more investment to ensure that the system was a more
13 modern, robust system compared to the existing system.

14 The workpapers filed in this petition give the detailed information regarding the
15 projects that were implemented and placed in service during 2014 for each of the capital
16 recovery riders.

17 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

18 **A. Yes.**

CAPITAL EXPENDITURE PLAN (Without BD)

Actual to Budget

Tennessee 2014

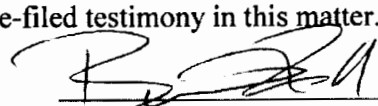
Units = \$

Project Code	Brief Description of Proposed Expenditures	Rider	YTD Actuals	YTD Budget	YTD Variance
DV	Projects Funded by Others (Contrib. /Adv./ Refunds)	-	637,513	1,500,000	(862,487)
A	Mains - New	EDI	280,825	91,166	189,659
B	Mains - Replaced / Restored	QIIP	917,785	1,148,192	(230,407)
C	Mains - Unscheduled	QIIP	989,088	800,000	189,088
D	Mains - Relocated	QIIP	270,724	250,000	20,724
E	Hydrants, Valves, and Manholes - New	EDI	65,025	42,797	22,228
F	Hydrants, Valves, and Manholes - Replaced	QIIP	256,754	365,034	(108,280)
G	Services and Laterals - New	EDI	689,002	461,000	228,002
H	Services and Laterals - Replaced	QIIP	410,018	246,000	164,018
I	Meters - New	EDI	314,469	562,415	(247,946)
J	Meters - Replaced	QIIP	743,430	663,078	80,352
K1	ITS Equipment and Systems	-	155,620	148,662	6,958
K3	ITS CS Projects	-	854,189	0	854,189
L	SCADA Equipment and Systems	SEC	523,186	185,414	337,772
M	Security Equipment and Systems	SEC	6,757	130,000	(123,243)
N	Offices and Operations Centers	-	160,727	23,000	137,727
O	Vehicles (1)	EDI	524,713	382,293	142,420
P	Tools and Equipment	-	48,065	29,523	18,542
Q	Process Plant Facilities and Equipment	SEC	2,252,993	797,990	1,455,003
R	Capitalized Tank Rehabilitation / Painting	QIIP	2,149,935	450,000	1,699,935
S	Engineering Studies	-	166,927	65,554	101,373
	TOTAL RECURRING PROJECTS DV - S		12,417,745	8,342,118	4,075,627
	TOTAL RECURRING PROJECTS A - S		11,780,232	6,842,118	4,938,114
I26-020036	New Office Building on Wiehl Street	-	182,237	0	182,237
I26-020017	Electrical Motor Efficiency Enhance	-	0	0	0
I26-020021	Conversion to ARCVIEW GIS	-	0	0	0
I26-020028	Citico Plant Improvements Phase 1B (2)	SEC	234,913	3,000,000	(2,765,087)
I26-020030	5933 If of 20" Ringgold Rd. at I-75	-	921,715	0	921,715
I26-020032	Wastewater Treatm't & Handling Impr (3)	SEC	5,843,139	2,000,000	3,843,139
I26-020002	Post Acquisition BD Capex	-	0	240,626	(240,626)
I26-000001	Whitwell Acquisition Capital Investment (4)	QIIP	0	1,200,000	(1,200,000)
	Business Transformation Costs	-	220,970	117,256	103,714
	Indirect Overhead Clearing Accounts Charges	-	0	0	0
	Unbudgeted	-	0	0	0
	TOTAL INVESTMENT PROJECTS		7,402,974	6,557,882	845,092
	TOTAL GROSS		19,820,719	14,900,000	4,920,719
	Advances		(733,684)	(400,000)	(333,684)
	Contributions		(129,394)	(1,000,000)	870,606
	Refunds		102,456	500,000	(397,544)
	Net Advances, Refunds, and Contributions		(760,622)	(900,000)	139,378
	Net US GAAP		19,060,097	14,000,000	5,060,097


STATE OF Kentucky)
COUNTY OF Fayette)

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Brent E. O'Neill, 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 be as set forth in his pre-filed testimony in this matter.


Brent E. O'Neill

Sworn to and subscribed before me
this 26th day of February, 2015.


Notary Public

My Commission Expires: 10/3/2016

CLASSIFICATION OF SERVICESUMMARY OF RIDERS**1. Applicability**

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider (SEC), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

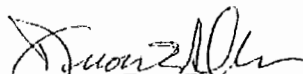
For the Riders defined in the tariffs :

QIIP	0.79 %
EDI	0.18 %
SEC	0.11 %
Subtotal of all Capital Recovery Riders	1.08 %
QIIP Annual Reconciliation Percentage	0.00 %
EDI Annual Reconciliation Percentage	0.00 %
SEC Annual Reconciliation Percentage	0.00 %
Subtotal of all Reconciliation Percentages	0.00 %
Total of Capital Recovery Riders and Reconciliation Percentages	1.08 %
PCOP	-1.15 %

ISSUED: March 25, 2014

EFFECTIVE: April 15, 2014

BY:


Deron E. Allen
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

CLASSIFICATION OF SERVICE**SUMMARY OF RIDERS****1. Applicability**

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider (SEC), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

For the Riders defined in the tariffs :

QIIP	2.13 %	
EDI	0.61 %	
<u>SEC</u>	<u>3.54 %</u>	
Subtotal of all Capital Recovery Riders	6.28 %	
QIIP Annual Reconciliation Percentage	0.254 %	(I)
EDI Annual Reconciliation Percentage	0.052 %	(I)
<u>SEC Annual Reconciliation Percentage</u>	<u>0.064 %</u>	(I)
Subtotal of all Reconciliation Percentages	0.370 %	(I)
Total of Capital Recovery Riders and Reconciliation Percentages	6.64 %	
PCOP	-0.83 %	

(I) Indicates Increase

ISSUED: March 2, 2015**EFFECTIVE: April 1, 2015****BY:**
Deron E. Allen
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403