



AMERICAN WATER

# Tennessee American Water Customer Information Meetings

Regarding Critical Funding for Local Water  
Infrastructure Surcharge

May 8 & May 12, 2014

## The Needs & Challenges of Local Water Infrastructure

- Across US - infrastructure is aging
- American Society of Civil Engineers 2013 “Report Card” :
  - **\$3.5 billion over next 20 years** to renew and replace water infrastructure in Tennessee
- The water industry is capital intensive
- Repairing and replacing water infrastructure – can be expensive and challenging
- Tennessee American Water is taking action now

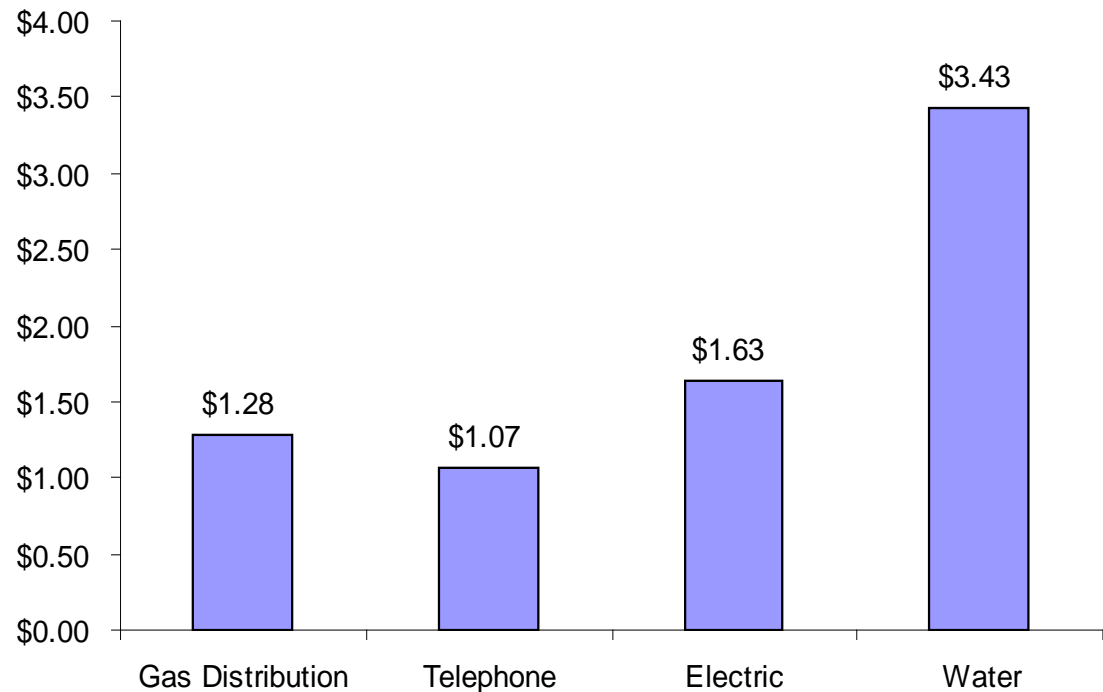
## Old Pipes = Failing Pipes



## The Water Industry is the Most Capital Intensive of all Utility Types

Capital Invested per \$1 of Revenue

- More capital per revenue than all other utilities
- Large Capital Investments needed over the next 20 years mainly for distribution and collection systems
- New, more stringent regulations from EPA for both water and wastewater



## The Need to Invest Has Never Been Greater



- Many in-service water pipes are **over 100 years old**
- In the United States, approximately **seven billion gallons** of treated drinking water are “lost” each day primarily due to system leaks—approximately 16% of the nation’s total daily drinking water production
- Additional investment will be needed to meet evolving drinking water regulations
- In many communities, current rates do not generate enough revenue to meet maintenance, repair & replacement needs
- Aging or inadequate infrastructure can negatively impact every aspect of life—from public health, to fire safety, to the vitality of the economy

## An Innovative Solution: Critical Funding Surcharge

- **April 14, 2014 the Tennessee Regulatory Authority (TRA) approved Tennessee American Water's alternative rate mechanism.**
- **April 19, 2013 House Bill 191 enacted**
  - Encourages the TRA to consider an alternative rate mechanisms
- **The goal:**
  - Allow Tennessee American Water to continue making necessary investments in the local water system's infrastructure with minimal impact to customer's rates.

## Four Parts to the Surcharge and What It Funds

- **1. Qualified Infrastructure Improvement Program “QIIP” Rider**
  - Replacement of water mains, fire hydrants, water meters, production plant structures, equipment,
  
- **2. Economic Development Investment “EDI” Rider**
  - The capital investment and operational expenses related specifically to economic development. Examples include water main construction to new real estate development areas or projects that may add jobs to the area.

## Four Parts to the Surcharge and What It Funds (cont.)

- **3. Safety and Environmental Compliance “SEC” Rider**
  - Capital investment and operational expenses related specifically to safety and environmental compliance. Includes water treatment processes.
  
- **4. Expense Tracker for Production Costs and Other Pass-Throughs “PCOP” Rider**
  - Allows expenses for items such as electricity, chemical, waste disposal and TRA inspection fee to be equalized for increases or decreases within a given year (sometimes known as truing up or down).



## Benefits of an infrastructure surcharge program:



- ✓ Continued investment in local water-wastewater system.
- ✓ Supports rate stability with gradual and incremental rate increases in line with inflation.
- ✓ Encourages ongoing improvements while holding down costs.
- ✓ Supports local economic development & reduces possibility of rate shock.
- ✓ Diminishes regulatory lag.
- ✓ Ensures reliability of local water-wastewater systems for future generations.

## What this Means to the Customer's Bill

- **There will be two line items on your bill:**
  - One is for the 3 Capital Riders
  - One is for the Expense Tracker

In terms of actual impact in terms of cents on the customer's bill, for 2014 bills beginning April 15, the average Chattanooga customer will benefit from a 2 cent refund.

Will be trued up annually

## The process from year to year

- Tennessee American Water gives TRA list of capital projects in October with dollar amounts they will be spending on these projects in the following year
- TRA gives approval for the incremental surcharge for customer's bill to begin in January
- In March, customer's bill will "true up" for the costs that were spent on capital items, and production costs from the previous year.
- In October, Tennessee American Water gives TRA list of capital projects for the next year for the next year's riders

## Conclusion

- **Water is still less than a penny a gallon, even with the surcharge.**
- **Tennessee American Water isn't waiting for problems to rise to the surface. Instead, it's taking action now**
- **With every payment, customers are helping to invest back into the system to assure that this most precious resource is available today and tomorrow.**