

TENNESSEE REGULATORY AUTHORITY



2009-2010
Annual Report



TENNESSEE REGULATORY AUTHORITY

460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Mary W. Freeman, Chairman
Eddie Roberson, Director
Kenneth C. Hill, Director
Sara Kyle, Director

January 24, 2011

The Honorable Bill Haslam
Governor, State of Tennessee

The Honorable Ron Ramsey
Lieutenant Governor

The Honorable Beth Harwell
Speaker of the House of Representatives

Members of the General Assembly:

It is with great pleasure that we present to you the Annual Report of the Tennessee Regulatory Authority for Fiscal Year 2009-2010. This report has been prepared in accordance with Tennessee Code Annotated § 65-1-111. The Authority works fervently to ensure that fair market competition is fostered and that all stakeholders are participating on an equal playing field in the private utility sector.

Respectfully submitted,

Mary W. Freeman, Chairman

Eddie Roberson, Director

Kenneth C. Hill, Director

Sara Kyle, Director



Table of Contents

Message from the Chairman	1
Authority Overview	
Introduction to Tennessee Regulatory Authority	3
Authority Organizational Chart.....	7
Utilities under the Authority’s Jurisdiction.....	8
Office of the Chairman	
Budget Summary	10
Revenue.....	11
Docket Room and Authority Activity	12
Consumer Services Division.....	13
Economic Analysis and Policy Division.....	19
Gas Pipeline Safety Division	20
Information Technology Division.....	23
Legal Division.....	24
Utilities Division.....	28



Message from the Chairman



It is my sincere pleasure to present to you the annual report of the Tennessee Regulatory Authority for the fiscal year 2009-2010. This year's report details the Authority's activities and highlights some of our accomplishments from the fiscal year that ended on June 30, 2010.

The Tennessee Regulatory Authority has jurisdiction over privately-owned utilities including electric, telephone, water and wastewater, natural gas and methane gas. Our agency is responsible for promoting the public interest by balancing the interests of utility consumers and providers while facilitating the transition to a more competitive environment.

There have been many changes in the areas of telecommunications and the Authority seeks to ensure that Tennessee consumers are protected in this new age of market regulation. It is the goal of this agency to try to help any consumer who presents the agency with a complaint, and in addition, we have implemented procedures to increase enforcement of state law and the Authority rules.

Changes abound in other areas of public utility regulation as well. There has been an increase in dockets filed seeking rate increases, and companies are attempting to implement new strategies to meet their need for revenue while encouraging consumer energy conservation. Our talented staff works hard to analyze the information presented and to assist in designing creative solutions that are fair to both the utilities and the consumers. The agency is also developing its own initiatives to educate consumers regarding energy conservation and seeking new strategies that will actually encourage consumers to conserve.

The Tennessee Regulatory Authority is pleased to report that its Do Not Call and Do Not Fax programs continue to flourish. Our staff performs various outreach activities to educate consumers about the agency's programs, such as the Telecommunications Devices Access Program (TDAP), CapTel and Lifeline and Link-Up programs, which assist low income consumers and those with disabilities. The Authority is also very proud of the efforts of the Gas Pipeline Safety division. Our inspectors visit operators across the state and conduct intensive inspections of the gas pipeline. The agency has always placed great importance on this function and from what we have learned from the explosions in other states, we will continue to be diligent in this respect.

With my appointment in 2008, I was honored to become the first African-American female to serve as a Director of the Tennessee Regulatory Authority. I take my duties very seriously, and I have strived to promote the public interest by protecting the rights of Tennessee consumers and to provide regulatory oversight of investor-owned utilities.

The Tennessee Regulatory Authority understands the importance of the work it does and the vital role it plays in the state. With the support of the Tennessee General Assembly, the Authority is empowered to ensure that both consumers and regulated utilities are provided with an environment conducive to high quality service and competitiveness. We look forward to continuing to work with you to serve the great State of Tennessee.

Please contact me at any time if I can assist you or your colleagues.

With Warmest Regards,

Mary W. Freeman



Authority Overview



The directors are: Chairman Mary W. Freeman, Eddie Roberson, Sara Kyle, and Kenneth C. Hill.

Introduction

The Tennessee Regulatory Authority (the Authority), a governing body to regulate utilities in Tennessee was created in 1996. The Authority's mission is to promote the public interest by balancing the interests of utility consumers and providers while facilitating the transition to a more competitive environment.

The Directors of the TRA are appointed by the Governor, Lt. Governor, and Speaker of the House. At the beginning of each fiscal year, the TRA Directors elect a new Chairperson. Director Mary W. Freeman is the 2010/2011 Chairman. Chairman Freeman is the joint appointee of the Governor, Lt. Governor, and House Speaker. Chairman Freeman is joined by fellow Directors Sara Kyle, appointee of House Speaker Emeritus Jimmy Naifeh, Eddie Roberson, appointee of Governor Phil Bredesen, and Kenneth C. Hill, appointee of Lt. Governor Ron Ramsey.



Directors



Mary W. Freeman

Mary W. Freeman was elected by her fellow Directors to serve as Chairman of the Tennessee Regulatory Authority at an Authority Conference held on June 21, 2010. A joint appointment of Governor Phil Bredesen, Lieutenant Governor Ron Ramsey and Speaker of the House Jimmy Naifeh,

Chairman Freeman began her three-year term as a Director on July 1, 2008. With her appointment, she became the first African-American woman to serve as Director of the TRA.

Chairman Freeman has over fifteen years of legislative and policy experience in state government. Prior to her appointment to the TRA, she served as legislative director for Governor Phil Bredesen where she assisted the Governor and the Senior Policy Advisor for Legislative Affairs in developing the Administration's legislative agenda. Chairman Freeman served as executive assistant to State Representative Lois DeBerry, Speaker Pro Tempore of the Tennessee House of Representatives prior to joining the Bredesen Administration.

A Memphis native, Chairman Freeman was born in 1966 and is the daughter of Grace Freeman and the late Wiley Freeman. She graduated from Central High School and holds a bachelor's degree in Speech Communications from Tennessee State University.

Chairman Freeman is a member of the National Association of Regulatory Utility Commissioners and serves on the Committee on Energy Resources and the Environment as well as on the Consumer Affairs Committee. She also serves as Secretary of the Board of Directors for the Organization of PJM States, Inc. and is a member of the Eastern Interconnection States' Planning Council. Chairman Freeman also serves as Chair of the TRA's 2-1-1 Advisory Council.

Chairman Freeman resides in Nashville and attends St. Luke CME Church where she serves in various capacities. In 2008, the Nashville National Association for the Advancement of Colored People recognized Chairman Freeman as one of the Top 40 Under 45. Very active in her community, Chairman Freeman serves on the Executive Committee for United Ways of Tennessee; Advisory Board of the Davidson County Community Corrections Program; Board of Directors of the St. Luke Geriatric Center, Inc.; St. Luke Housing Ministry; Creative Artists of Tennessee, and is a member of Alpha Kappa Alpha Sorority, Inc.



Dr. Eddie Roberson

Eddie Roberson was born in 1952 in Nashville. Raised in the home of a minister, his family was transferred to Chattanooga in 1960. He attended Chattanooga public schools graduating from Chattanooga High School in 1971. He graduated from University of

Tennessee with a bachelors and master degrees. He received a Ph.D. in Public Administration from The Institute of Government at Tennessee State University in 1998. He is also a Rule 31 Mediator. While in Chattanooga, he was elected twice to the Chattanooga School Board and served as President of the Chattanooga Sertoma Club in 1988.

Dr. Roberson was hired by the Public Service Commission (PSC), the predecessor to the Tennessee Regulatory Authority, in 1975. He was appointed as Chief of Consumer Services Division of the PSC and transferred to Nashville in 1989. He also served as the agency's executive director from 1995 to 1996. He was appointed by Governor Phil Bredesen in 2006 as director to the TRA and reappointed in 2008. He served as agency chairman in 2007-2009. While at the TRA, he has been instrumental in encouraging the regulated energy utilities to implement energy conservation programs for its customers.

Dr. Roberson is active in the National Association of Regulatory Utility Commissioners, currently serving on its Board of Directors and the committees of Natural Gas, Consumer Affairs (of which he is the former Vice Chairman) and as Chairman of the Education and Research Committee. He is also on the Advisory Council of the Center for Public Utilities at the University of New Mexico and on the board of the Center for Public Service and Urban Affairs at Tennessee State University. He was also elected president of the Southeastern Association of Regulatory Utility Commissioners for 2010-2011.

He currently lives in Hendersonville where he is actively involved in the community and his church where he serves as an elder and on the State Missions Board for the Church of God. He is a member of the Hendersonville Rotary Club where he is a multiple Paul Harris Fellow and past club president for 2007-2008. He is married and has two daughters.



Directors (cont.)



Dr. Kenneth C. Hill

Dr. Kenneth C. Hill was appointed to the Tennessee Regulatory Authority in 2009 by Lieutenant Governor Ron Ramsey. Dr. Hill is married and lives with his wife, Janet, in Blountville, Tennessee. The couple has three children.

Dr. Hill's educational achievements include a Bachelor of Science degree in Speech (Broadcasting) and History from East Tennessee State University; a Master of Science Degree in Speech (Broadcasting) from Indiana State University; a Bachelor of Arts degree in Biblical Studies from Baptist Christian College; a Master of Religious Education from Manahath School of Theology; and a Doctor of Religious Education from Andersonville Baptist Seminary.

Dr. Hill has been active in communications and broadcasting all of his adult life, having been involved for over three decades in virtually every aspect of television and radio. For the past twenty-seven years, Dr. Hill has been affiliated with the Appalachian Educational Communication Corporation (AECC) Bristol, Tennessee and at the time of his appointment to the TRA was Chief Executive Officer of AECC and served as General Manager of five radio stations reaching portions of East Tennessee and four surrounding states.

Dr. Hill has also provided consulting and contract services for over two decades in the areas of technical writing and editing, public relations, proposal writing and editing, independent R&D documentation, corporate and business communication, media acquisition, media appraisal and media utilization.

Dr. Hill is active in the community, serving as Chairman of the Publications Board of the Evangelical Methodist Church, Member of the Board of Directors of the Tri-Cities Mass Choir, Member of the Board of the Sister Community Project (Sullivan County, Tennessee and Siguatepeque, Honduras), and Member of the Bristol Evening Lions Club. Dr. Hill also served as Secretary of the General Conference of the Evangelical Methodist Church for twelve years and is a former member of the Sullivan County Board of Zoning Appeals.

Since his appointment, Dr. Hill has been involved with the National Association of Regulatory Utility Commissioners (NARUC) and the Southeastern Association of Regulatory Utility Commissioners (SEARUC). He is a member of the NARUC Committee on Water and the Committee on International Relations and has been a presenter at the NARUC Annual Meeting. Dr. Hill has also been a panelist at the National Association of Water Companies (NAWC) Conference and the Emerging Issues Policy Forum.



Sara Kyle

Sara Kyle was born in 1952 near the Tri-Cities area of Upper East Tennessee just a few days before her uncle, the late Frank G. Clement, was elected to his first of three terms as governor of Tennessee. She

attended Lincoln Elementary in Kingsport, and after moving to Middle Tennessee, graduated from Dickson High School. The daughter of Mr. and Mrs. Bruce Peery, she attended the University of Tennessee in Knoxville before graduating from Austin Peay State University and teaching elementary school in Clarksville. She attended graduate courses at Middle Tennessee State University while teaching. She received her law degree in 1987, the same year she married Senator Jim Kyle (D-Memphis). She practiced law in the same firm with her husband and was an assistant public defender until she was elected to the Memphis City Court bench in 1991. A member of a family with a proud tradition of public service in elective office, she has studied the ways government relates to its citizens and worked to make that government and its agencies and courts sensitive to the needs of its citizens.

Director Kyle resigned from the bench in March 1994 to become a candidate for the Public Service Commission ---a race in which she stressed a strong ethics and reform program as a way to restore public confidence in the commission. She was nominated on February 29, 1996 by House Speaker Jimmy Naifeh to become one of three members of the new Tennessee Regulatory Authority. She was reappointed by Speaker Naifeh in 2002 and again in 2008 to serve another six-year term. The Kyles have four children and attend Second Presbyterian Church in Memphis. Long active in organizations promoting better government and public awareness, she is involved in numerous community and civic organizations. Additionally, she is a board member of the National Association of Regulatory Utility Commissioners (NARUC), serving on the Telecommunications Committee, and is past president of the Southeastern Association of Regulatory Utility Commissioners (SEARUC).



Our Mission

To promote the public interest by balancing the interests of utility consumers and providers while facilitating the transition to a more competitive environment.

The Authority’s mission is fulfilled through two major operational components: consumer assistance and regulatory oversight of utility operations and market conditions.

Consumer Assistance Component

In alignment with its consumer assistance component, the Authority offers an efficient forum for the filing, investigation and hearing of consumer complaints against regulated utilities. The Authority also engages in consumer outreach activities in an effort to educate consumers on its services and the regulated utilities. The Authority manages consumer-friendly programs developed by the General Assembly, such as the Do Not Call Program, the Do Not Fax Program, the Telecommunications Device Access Program (TDAP), and the Life Line and Link Up telephone assistance program.

Regulatory Oversight Component

The Authority operates as Tennessee’s regulatory oversight engine for privately-owned utilities serving Tennessee consumers. The Authority provides an accessible and efficient process that is fair and unbiased. Through this process, the Authority evaluates many items, including requests for rate modifications, applications for authority to provide service, requests for approval of financing transactions, requests for approval of mergers, petitions for transfer of authority to

provide service, numbering appeals, requests for numbering allocations, requests for rule modifications, petitions for approval of interconnection agreements and utility-to-utility complaints. The Authority also monitors utility markets to evaluate current trends and determine the need for future action. The Authority is also designated to ensure the safety of natural gas distribution and transmission pipeline facilities in the state.

The Authority has jurisdiction over public utilities including:

- ◆ Electric companies
- ◆ Telephone companies
- ◆ Water and wastewater companies
- ◆ Natural gas companies
- ◆ Methane gas companies

The Authority is financially independent of Tennessee’s general fund. The Authority’s operational expenses are covered wholly by the industries it regulates, with a small portion coming from the federal government.

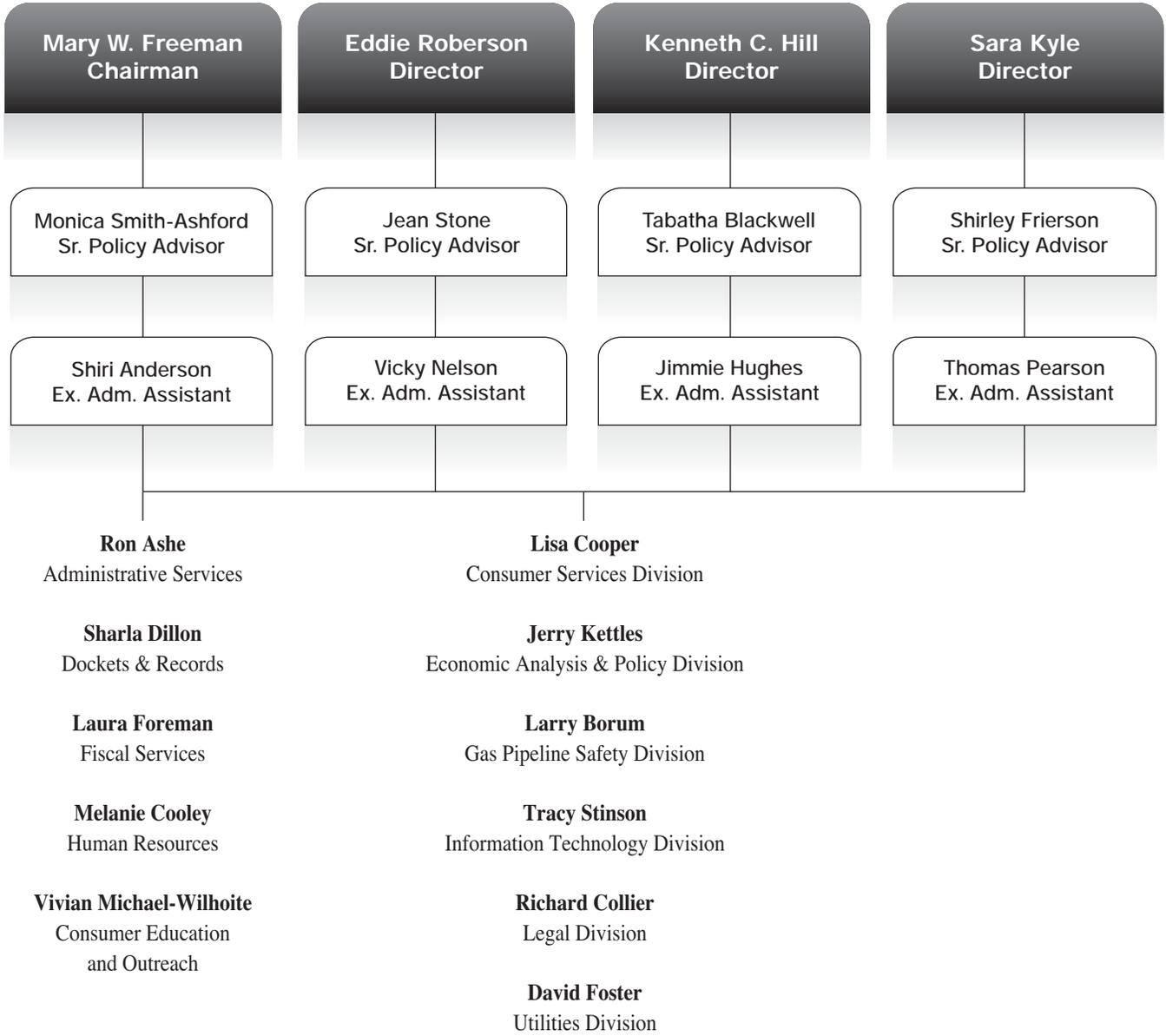
Authority staff includes accountants, administrators, attorneys, consumer specialists, economists, engineers, information technology specialists, a consumer outreach manager, and administrative support.

As of June 30, 2010, the TRA was budgeted for 72 Positions

TRA Employees	Total Positions	Abolished 08-09	Added 08-09	Total Positions	Filled	Vacancies
Directors	4			4	4	0
Directors’ Staff	8			8	8	0
Administrative Staff	8	(1)		7	6	1
Consumer Services	14	(1)		15	13	2
Utilities	16	(2)		15	15	0
Gas Pipeline Safety	7			7	6	1
Information Technology	2			2	2	0
Legal	8	(1)		7	6	1
Economic Analysis and Policy	3			3	3	0
ARRA Electric Grant	2		2	2	2	0
Cable & Gas Damage Prevention	2			2	0	2
Total Positions	74	5	2	72	65	7



Tennessee Regulatory Authority Organization Structure





Utilities Under the Authority's Jurisdiction

The following are the approximate number of utilities under the jurisdiction of the Tennessee Regulatory Authority as of June 30, 2009.

Energy and Water

Electric	3
Natural Gas Companies**	5
Water & Waste Water	17
Methane Gas Provider	1
Intrastate Pipeline	1

Telecommunications

Competing Telephone Service Providers	129
Customer Owned-Coin Operated Telephone Providers	117
Incumbent Telephone Companies	18
Resellers and Operators Service Providers	226
Long Distance Facility Providers	6

Gas Pipeline Safety

Direct Sales*	16
Intrastate Pipeline*	18
Liquefied Natural Gas (LNG) Operators*	2
Master Meters*	30
Municipalities*	72
Utility Districts*	25

Total Public Utilities	686
-------------------------------	------------

*These entities are regulated by the Authority only to ensure compliance with Minimum Federal Safety Standards for the transmission of natural gas.

**The Authority also has jurisdiction over these companies' gas pipeline safety.



The Office of the Chairman

Mission

The office of the chairman serves as the TRA's chief administrative officer with the power and duty to conduct the ordinary and necessary business in the name of the Tennessee Regulatory Authority.

The duties of the chairman's office include, but are not limited to, the following:

- ◆ Serve as the chief operating officer of the Authority responsible for the supervision and hiring of all joint staff members and ensuring that all divisions operate efficiently;
- ◆ Recommend to the Authority such rules and policies as necessary and appropriate to efficiently and economically provide internal management of the Authority;
- ◆ Coordinate the preparation of the annual report to the General Assembly as required by Tennessee Code Annotated Section 65-1-111;
- ◆ Keep the official record of all proceedings and transactions of the Authority;
- ◆ Schedule and prepare the docket for the Authority's hearings;
- ◆ Prepare and distribute the Authority's conference agendas;
- ◆ Coordinate and expedite matters pending before the Authority;
- ◆ Serve as the Authority's designated contact for all media inquiries;
- ◆ Oversee the expenditure of funds and compliance with all applicable provisions of state and federal law in receipt and disbursement of funds;
- ◆ Prepare the annual budget.





Budget Summary

Appropriations, Fees and Expenses

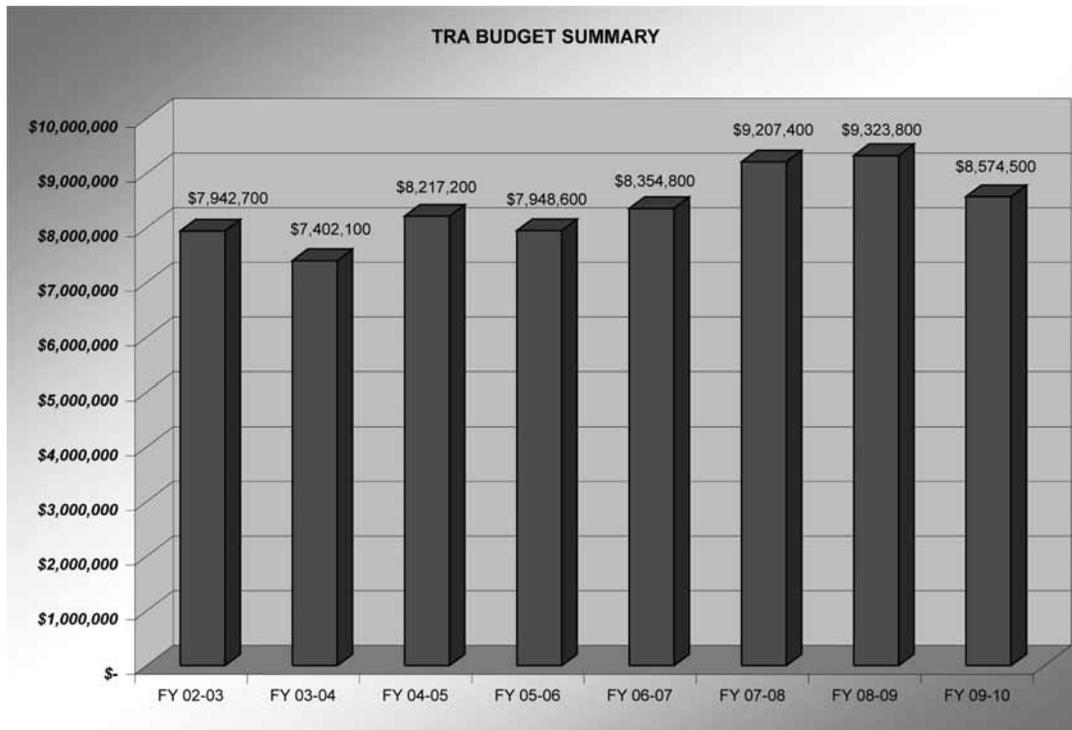
The Tennessee Regulatory Authority (TRA) began fiscal year 2009-2010 (FY 09-10) with a budget of \$8,574,500 which was a decrease of 8% over the FY 08-09 budget of \$9,323,800. The majority of the decrease in the projected budget for FY09-10 was due to the voluntary abolishment of eight (8) vacant positions. However, due to further cost efficiencies implemented during FY09-10, the TRA's actual FY09-10 operational costs were \$7,224,096 - a total savings of \$1,350,404 (15.7%) from the original FY 09-10 budget.

Total revenues collected by the TRA during FY 09-10 were \$9,147,421, the majority of which was derived from utility inspection fees paid by the public utilities regulated by the TRA. Total inspection fee revenue received during FY 09-10 was \$7,010,726. In addition to the inspection fee revenue, the TRA received \$776,046 in federal revenue for

the gas pipeline safety programs; \$68,395 in federal ARRA funds; \$254,780 in registration fees from telemarketers for the "Do Not Call" program; \$200,963 in fines and penalties; \$724,464 in contributions to the Telecommunications Devices Assistance Program; \$75,503 in application and amendment fees from certain cable companies; \$3,328 in current services, and \$33,216 in filing fees. All of the revenues are earmarked for the Public Utilities Account and are to be used to defray the cost of regulation by the TRA. Should revenues in a future fiscal year(s) not be sufficient to cover the costs of the TRA for that fiscal year, the deficit is funded by the Public Utilities Reserve Account.

The TRA also funds the majority of the administrative costs of the Office of State Assessed Properties. For FY 09-10, the TRA's share of the cost of the Office of State Assessed Properties is \$480,922.

TRA Budget Summary





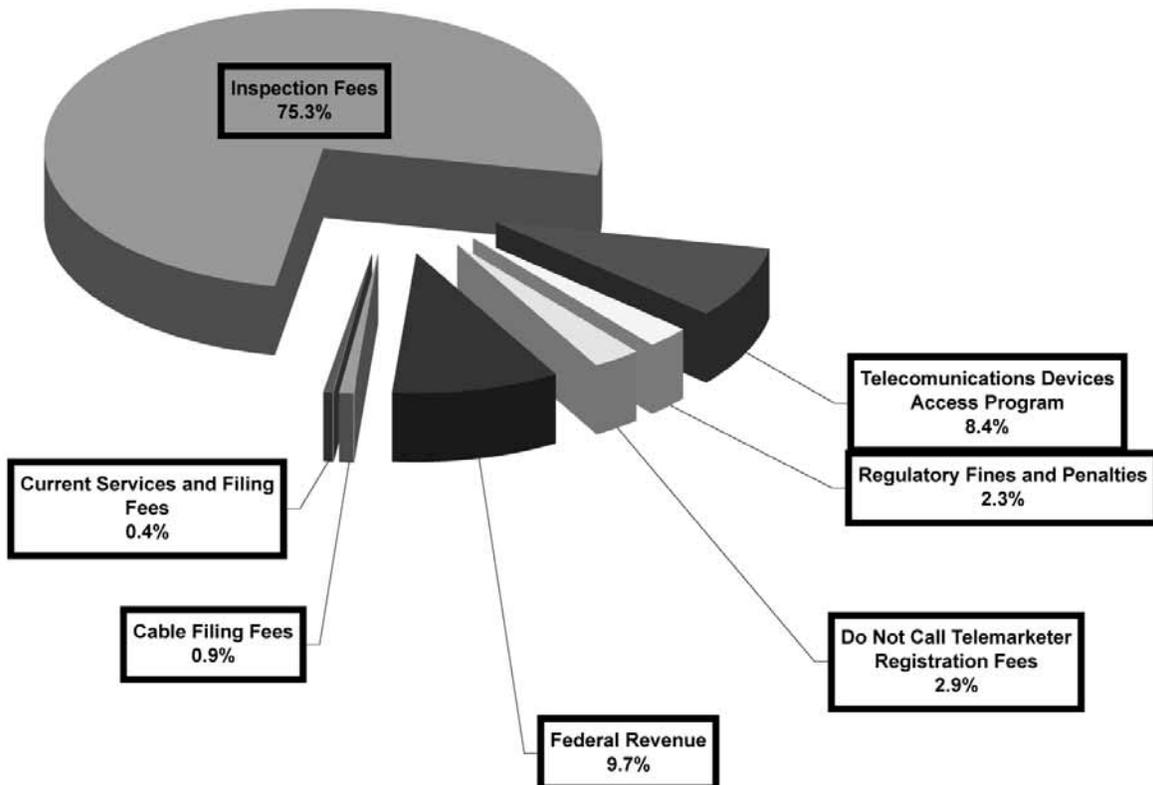
Budget Summary (cont.)

FY 09-10 Revenues

Inspection Fees	\$6,529,804	75.3%
Telecommunications Devices Access Program	\$724,464	8.4%
Regulatory Fines and Penalties	\$200,963	2.3%
Do Not Call Telemarketer Registration Fees	\$254,780	2.9%
Federal Revenue	\$844,441	9.7%
Cable Filing Fees	\$75,503	0.9%
Current Services and Filing Fees	\$36,544	0.4%
TOTAL REVENUES FOR FY 09-10	\$8,666,499	100.0%

The FY09-10 Total Inspection Fee Revenue of \$7,010,726 received by the TRA has been reduced by \$480,922 which is the amount charged the TRA for its share of the cost of State Assessed Properties.

TRA FY 09-10 Revenues





Docket Room and Authority Activity

TRA directors conduct the business of the Authority through regularly scheduled Authority conferences. The official minutes of the conferences are kept in the Docket Room and are available for public inspection during regular business hours. The minutes show every action taken by the Authority and are prepared in a manner permitting immediate reference to the actions of the Authority. The Docket Room also maintains all filings made with the Authority and updates the official calendar of the agency. In addition to paper files, the

Authority maintains an electronic file room on its Web site which contains all documents filed since January 1, 1999.

The following information is available in the Docket Room:

- Docket numbers
- Name of applicants/petitioners
- Subject matter of applications/petitions
- Dates of final orders
- Summaries of Authority action

Docket Activity

(overview since 2008 Fiscal Year)

Type of Docket	Fiscal 2008 (7/1/07 - 6/30/08)	Fiscal 2009 (7/1/08 - 6/30/09)	Fiscal 2010 (7/1/09 - 6/30/10)
	256	219	251
Arbitrations	0	0	3
Inconx/Resale Agreements	70	70	73
PGAs, Audits,CCN Amendments	23	21	15
CSD Staff Investigations	2	2	2
CCNs	19	17 ^{^^}	11
COCOTS	292	8 ^{^^}	13 (8 reopened)
Name Changes	14	13	15
Resellers	142	13 ^{^^}	8 (1 reopened)
N11 / Pooling	14	9	12
Rulemaking	0	3	0
Telecom Dockets (ETC)	13	2	6
Notice - Market Regulation**	-	-	30
Cable Franchise**	-	-	4
Transfers, Mergers, Financing	35	26	32
Misc. (not otherwise listed above)	23	35	27
	222 New	206 New	242 New
	34 Reopened	13 Reopened	9 Reopened

²³ COCOT dockets and 11 Reseller dockets were reopened fiscal year 2008 for cancellation or revocation of authority.

^{^^} 7 COCOT dockets, 2 CCN dockets and 4 Reseller dockets were reopened fiscal year 2009 for cancellation or revocation of authority.

**New docket type due to legislation



Consumer Services Division

Mission

To ensure consumers receive an adequate level of service from regulated companies and to educate consumers regarding changes and new programs in the regulated utility sector. This mission is accomplished through consumer outreach, monitoring services utilities provide using quality of service reports and tests, initiating investigations, and mediating consumer-utility disputes resulting from consumer complaints.



Lisa Cooper, Chief

Duties

The Consumer Services Division (CSD) is responsible for monitoring the quality of services provided by regulated utilities and enforcing the rules and regulations of the Authority. One aspect of this responsibility is to investigate and mediate consumer complaints filed against regulated utilities pursuant to T.C.A. §§ 65-4-119, 65-4-401 et seq., and 65-4-501 et seq. The CSD also performs other functions, such as providing consumer education/outreach including developing and implementing programs to educate the public on various utility issues; administering the Do Not Call telemarketing initiative through the registration of telemarketing companies and maintaining the Do Not Call Register; administering the Do Not Fax Program which is designed to prevent unsolicited faxes; and qualifying/certifying the Lifeline and Link-up Telephone Assistance Program candidates based on income.

The CSD administers the Telecommunication Devices Access Program (TDAP), which is designed to improve access to the telephone network by distributing equipment to assist individuals with disabilities. Additionally, the CSD monitors the operation of the Tennessee Relay Center. The Tennessee Relay Center provides telephone assistance for individuals with a hearing loss or speech disability.

The CSD conducts service hearings, community outreach meetings and utility service audits; provides testimony at utility proceedings, and provides recommendations in enforcement actions involving utilities not in compliance with state law or the rules and regulations of the Authority.

The CSD staff consists of a chief, deputy chief, program administrators, administrative service assistants, and consumer protection specialists.

2009-2010 Major Activities

- ◆ Investigated 795 Regulated consumer complaints and 339 Non-regulated consumer complaints filed against regulated utility companies.
- ◆ Investigated 1,252 consumer complaints filed against regulated utility companies.
- ◆ Assisted in securing \$149,069.12 in refunds for consumers as a result of investigations.
- ◆ Initiated enforcement action against various utility companies resulting in \$66,750 dollars in assessed fines.
- ◆ Enacted July 1, 2008 and in accordance with Tenn. Code Ann. §7-59-301, et seq., also known as the Competitive Cable and Video Services Act, the Tennessee Regulatory Authority issued two state video franchises. CSD has received 62 consumer complaints.
- ◆ Distributed 1,751 TDAP devices (costing \$547,658) to 1,729 Tennessee residents qualifying for assistive communication devices.
- ◆ Investigated 40 complaints against telephone companies for the unauthorized switching of consumer's phone service. A total of \$988.22 was refunded to consumers from companies found not to have proper authorization to switch the customer's service.
- ◆ Administered the Link-up Telephone Assistance Program. This program assists low-income citizens by reducing the installation charge to establish or transfer local telephone service. Eligible Telecommunications Carriers claimed \$606,240; thereby passing the savings to 26,944 recipients that utilized the Link-up Tennessee program.¹
- ◆ Administered the Lifeline Telephone Assistance Program. This program assists low-income citizens by reducing, up to a maximum of \$13.50, their monthly telephone bill. Eligible Telecommunications Carriers claimed approximately \$2,974,490; thereby passing the savings on to 297,449 recipients utilizing the Lifeline Tennessee program.
- ◆ In September 2009 Governor Bredesen signed the first-ever National Telephone Discount Lifeline Awareness Week. The event is being organized by the National Association of

¹ This information is based on data provided by USAC, [Reimbursement distribution filings]. *The average number of subscribers reported include true ups through March 2010.



Consumer Services Division (cont.)

Regulatory Utility Commissioners (NARUC). The Tennessee Regulatory Authority joined forces with the Department of Human Services, The Department of Education, The Office of the Attorney General and Reporter, and other state agencies to provide outreach and information to Tennessee residents. The outreach provided a 19% participation rate in landline residents enrolled in the Link-up and Lifeline programs.

- ◆ Reviewed the operations of the Tennessee Relay Center (TRC) to ensure that it is complying with the Authority's rules and regulations. The TRC is a service designed to assist individuals with hearing loss and speech disabilities to make and receive telephone calls. The TRC processed approximately 141,338 calls during fiscal year 09-10.
- ◆ Reviewed the operations of the Tennessee CapTel Service to ensure that it is complying with the Authority's rules and regulations. The CapTel Service is designed to assist individuals who are late deafened or hard of hearing to make and receive telephone calls with a captioning feature offered by this service. The CapTel Service processed approximately 212,811 calls during fiscal year 09-10. The CapTel Service began in Tennessee in November of 2005. Currently there are approximately 826 Tennesseans using the CapTel Service.
- ◆ Administered the Tennessee Do Not Call Program. At the end of fiscal year 09-10 there were 4,279,003 Tennesseans registered. There were 382 active telemarketers registered with the TRA at the end of fiscal year 09-10. The TRA investigated 365 Do Not Call telemarketing complaints by consumers against telemarketing companies during fiscal year 09-10. The most recent settlement payment received by the TRA as a result of DNC investigations was \$18,000 against Corporations for Character.
- ◆ Administered the Tennessee Do Not Fax Program. The TRA has investigated 321 fax complaints from consumers involving unsolicited facsimiles during fiscal year 09-10. The CSD has initiated one (1) show cause proceeding involving alleged violations resulting in \$25,000 in civil penalties against Healthcare Advantage LLC.

Consumer Education and Outreach

Today, consumer utility education continues to be a relevant necessity due to the landmark changes in the regulatory landscape as well as the changes in the economy. Because of these changes, consumers, more specifically, Tennessee consumers are searching for information, services and programs that can help maximize their quality of life as it relates to utility services.



Vivian Michael-Wilhoite

Other than the consumer in general, the TRA's Consumer Education and Outreach places an emphasis on reaching consumers that may be a target of unfair utility practices and consumers that are financially challenged. Consumer Education and Outreach creates effective partnerships with organizations that provide assistance to those in these targeted areas as well as organizations that are considered to be the go-to facilities in a community.

As a result of the Consumer Education and Outreach efforts, in 2009-2010, the Consumer Education Outreach served as an exhibitor at 20 conferences and participated in 92 outreach events. The types of organizations visited represented senior citizens, low-income customers, non-English speakers, people with disabilities, and entities working on behalf of the underserved and general consumers. Overall, these organizations represented an eligible population of well over 800,000 households statewide.

Recognizing that social networking sites like Facebook are becoming a necessity of life, the TRA launched the TRA Facebook site as another tool to keep consumers informed about the TRA. It is also being used to inform consumers about the availability of programs and services.

Here are just a few of the comments about the TRA's outreach efforts:

"Consumers call us like crazy to find out when the TRA Outreach representative will return because they have learned that the information is truly something that they can use and have shared it with others about the free telephone equipment and the discounts they can get on their telephone bill with Lifeline and Link-Up programs. They are so amazed that these programs exist and appreciate learning for themselves about



Consumer Services Division (cont.)

how they can take advantage of them or someone they know.”
 – Carolyn Boyce, Director, Commodities Supplement Food,
 Davidson County Nashville, TN

“Our department has been working with the TRA for quite some time. In addition to the help that we provide, we have been able to share with our clients, critical information that can help them get and retain needed telephone service. The programs offered by the TRA are excellent resources to my staff and the clients that we serve.” – Eva Mosby, Field Director, Department of Human Services, Shelby County, Memphis, TN

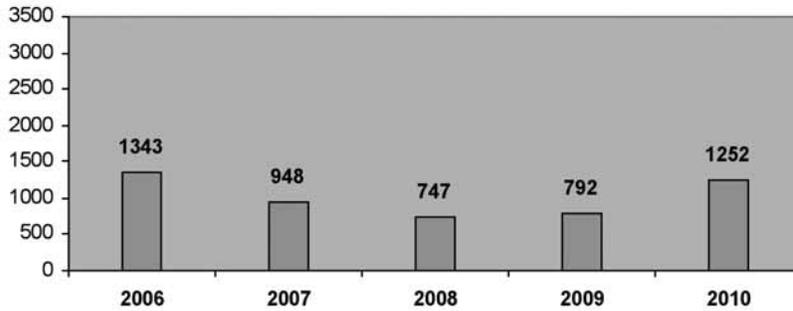
“My seniors were excited after the presentation to learn the wealth of resources offered by the TRA. Some of my seniors

are in need of programs that can help in their everyday life. The TRA provided that help. The TRA representative gave us real resources that can be used and made it so easy to understand. We appreciate this service.” – Marlana Williams, Senior Services Program Leader, Kingsport Senior Center, Sullivan County, Kingsport, Tennessee

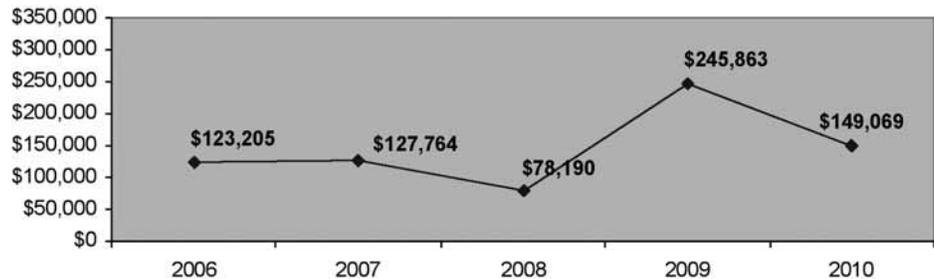
“At first I thought that these services were only for the low-income but quickly found out that the services are for citizens. Learning how to not be a victim of scrupulous telemarketer calls and how I can get free telephone equipment that will help me to use the phone was an eye-opener. I am glad that I attended the TRA presentation.” – Dorothy Boden, Millington, Tennessee

Consumer Services Activities Highlights

**Total Complaints Investigated
2006-2010**



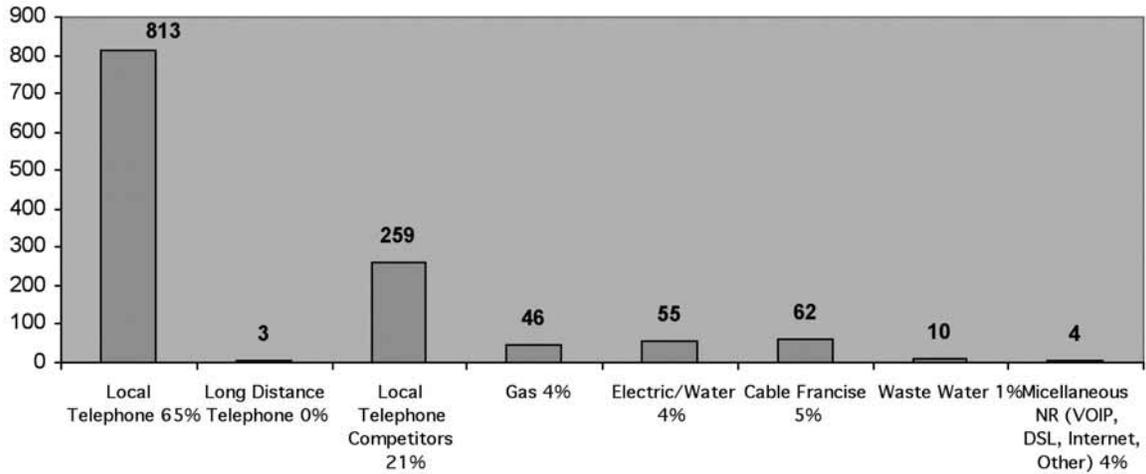
**Consumer Complaint Refunds
2006-2010**



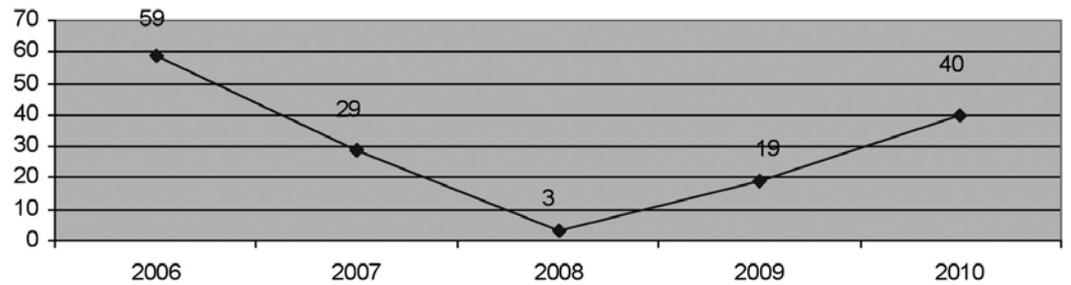


Consumer Services Division (cont.)

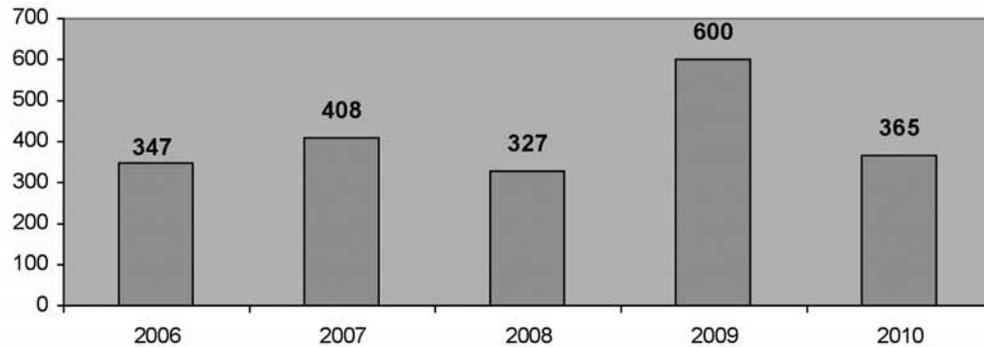
Complaints by Utility Sector 2010



Slamming Complaint Investigations 2006-2010



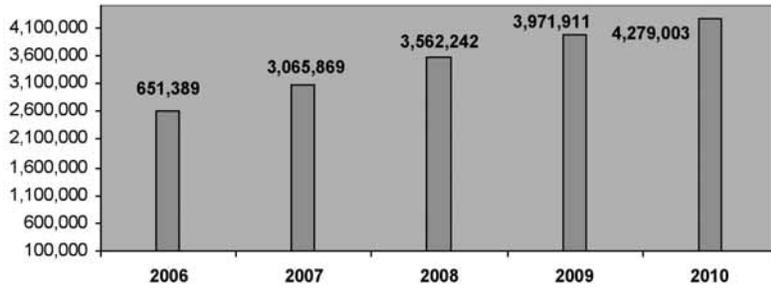
Telemarketing Complaint Investigations 2006-2010



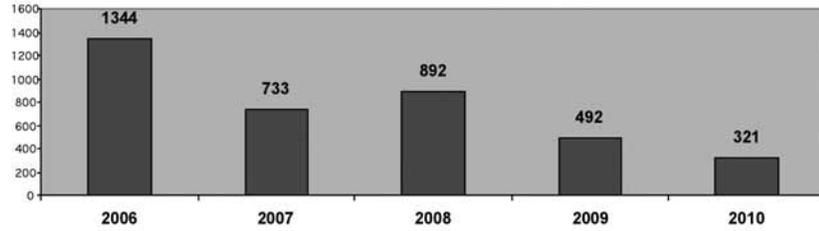


Consumer Services Division (cont.)

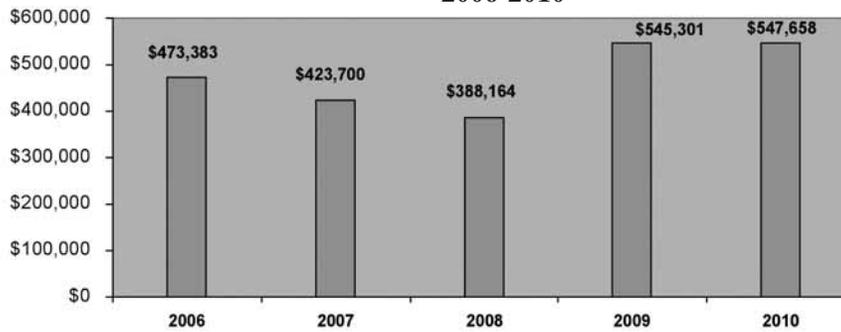
Consumer Registration History Do Not Call List



Do Not Fax Complaint Investigations 2006-2010



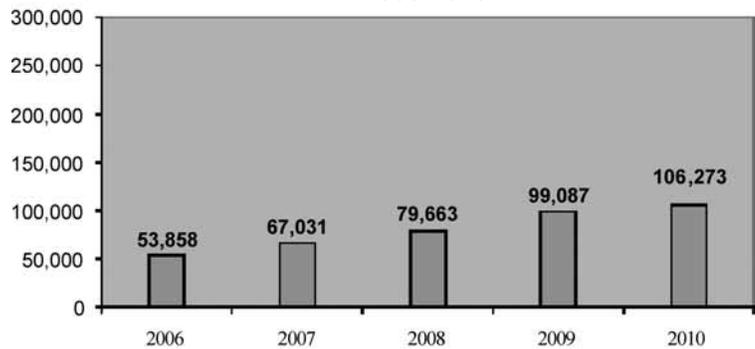
TDAP Device Costs 2006-2010



Tennessee LifeLine Telephone Assistance Subscribers 2006-2010

*The Number of Lifeline subscribers is based on a calendar year January-December. The 2010 total reflects only the months of January, 2010 through November, 2010.

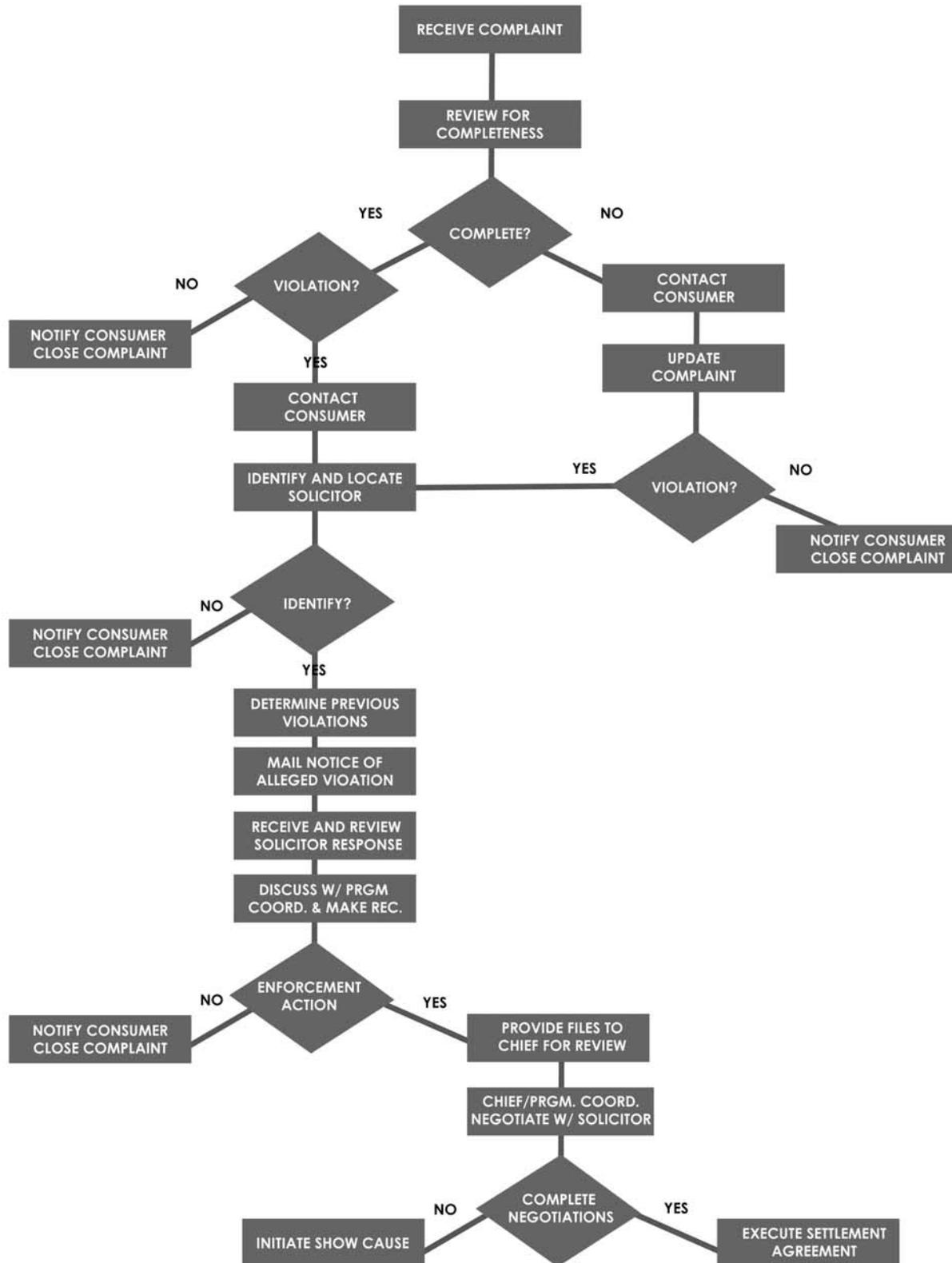
**Since the TRA does not administer Wireless Lifeline Offerings, the annual totals do not include wireless subscribers, however, information may be provided upon request.



This information is based on data provided by USAC, [Reimbursement distribution filings].



Do Not Call Complaint Flow Chart





Economic Analysis and Policy Division (EAPD)

Mission

The Economic Analysis and Policy Division (EAPD) is comprised of talented professionals with diverse backgrounds including academia, consumer protection and industry experience.



Jerry Kettles, Chief

The primary role of the division is to formulate recommendations on economic and policy matters pending before the Authority. The Division identifies and analyzes market trends that may impact regulation or consumers in telecommunications and natural gas markets. EAPD Staff continues to provide resources to support several task forces including the Tennessee Broadband Task Force and the Low- Income Energy Efficiency Task Force. The EAPD also monitors and evaluates the impact of TRA decisions on market outcomes in the various regulated industries. The Division has responsibility for analysis of mergers, acquisitions and the issuance of financial instruments by public utilities. Finally, the EAPD is responsible for evaluating the random assignment of dockets to voting panels of Directors.

The EAPD provides information concerning the financial activities of regulated firms. In the past fiscal year, EAPD Staff continued its role of providing expert advice concerning cost-of-capital issues in rate case proceedings. The EAPD reviews requests to engage in financing transactions by public utilities. The Division also evaluates requests for corporate mergers and transfers of control of Tennessee certificated utilities. In many instances, mergers and transfers of control involve the transfer

of customers to new service providers. To ensure the consumers receive adequate information, EAPD Staff review notification letters to be sent to customers for compliance with the TRA's consumer protection rules. During the past year, the Division has reviewed 33 requests for financing, merger or transfer of control. Given current economic condition and trends within the telecommunications industry, the current volume of mergers and transfers is expected to continue.

Changes in regulation, technology and industry consolidation have significantly altered the competitive landscape of the wireline telecommunications industry, creating new challenges for policymakers concerned about ensuring a healthy competitive environment. The General Assembly created the Broadband Task Force, whose goal is to examine the statewide deployment of broadband. The EAPD continues to provide support to the Broadband Task Force as it continues its work with Connected Tennessee.

In 2009, EAPD Staff worked with the Tennessee Recovery Act Management (TRAM) Broadband group in preparation of the grant applications submitted by the State of Tennessee for stimulus funds. EAPD Staff also participated in a joint project of the National Association of Regulatory Utility Commissioners (NARUC) and the Department of Energy to study deployment of solar energy infrastructure. The division participated actively in professional meetings, such as those sponsored by NARUC. Division Staff also attended training on stimulus fund grant administration.



Gas Pipeline Safety Division

Mission

The mission of Tennessee Regulatory Authority (TRA) Gas Pipeline Safety Division (GPSD) is to contribute to the safety and reliability of natural gas distribution and transmission pipeline facilities and to minimize the risk to public health and safety associated with the accidental release of natural gas.



Larry Borum, Chief

Compliance Program

Chapter 601, Title 49 of the United States Code provides the statutory basis for the pipeline safety program. Chapter 601 establishes a framework for promoting pipeline safety through Federal delegation to the States for all or part of the responsibility for intrastate pipeline facilities under annual certification or agreement. Chapter 601 authorizes Federal grants-in-aid of up to 80 percent of a State agency's personnel, equipment, and activity costs for its pipeline safety program.

The State of Tennessee annually enters into a certification agreement with the Secretary of the Department of Transportation and accepts the responsibility for regulation of intrastate natural gas pipeline facilities. The Pipeline and Hazardous Materials Safety Administration (PHMSA) directly administers the program under the Department of Transportation. The Tennessee Regulatory Authority is the state agency authorized to regulate intrastate pipeline facilities and does so through its Gas Pipeline Safety Division (GPSD). Calendar year 2010 will mark the fourteenth year the GPSD has submitted a certification agreement and been approved by the United States Department of Transportation to carry out an enforcement program based on regulations contained in Parts 191, 192, 193 and 199 of the Code of Federal Regulations. Part 192 is referred to as the Transportation of Natural and Other Gas by Pipeline: Minimum Federal Safety Standards (MFSS).

Energy needs are met for many Tennesseans through the use of natural gas. Natural gas is supplied through approximately 39,000 miles of distribution and transmission lines across the State. This length is equivalent to approximately 206,000,000 feet of pipeline and provides natural gas service to approximately 1,290,000 customers. The 168 natural gas operators in Tennessee range in size from eleven (11) to 306,000 customers. The GPSD is responsible for inspecting selected records and facilities for the purpose of determining if each operator is operating and maintaining the gas system in accordance with the Minimum Federal Safety Standards.

The GPSD has an inspection staff of five pipeline safety engineers. Each engineer completes mandatory pipeline safety courses at the PHMSA Training and Qualification center in Oklahoma City, OK. A minimum of one (1) onsite inspection is conducted on each of the 168 gas system operators during each



calendar year. Depending on need, some systems are inspected multiple times during a particular calendar year. The inspection staff accumulates approximately 450 inspection days annually. The goal of this work is to ensure that natural gas as a source of energy is available and that it is provided through facilities that are operated and maintained as safely as possible.

The state pipeline safety program is inspected by PHMSA personnel on an annual basis. The 2009 Tennessee program was evaluated in July 2010 and received a composite score of 100%. The results of the annual evaluation contribute to the determination of the level of federal funding.

Natural Gas Operator Inspections





Gas Pipeline Safety Division (cont.)

There are 168 local distribution companies (LDC), master meters, liquefied natural gas facilities and intrastate transmission mains that fall under GPSD jurisdiction. They include: 5 private, 72 municipals, 25 utility districts, 30 master meters, 2 liquefied natural gas, and 18 intrastate pipelines. The Division also provides courtesy inspections to 16 direct sales facilities. Operators are required to maintain records, compile reports, update operations and maintenance plans, and promptly repair all hazardous leaks. Drug and alcohol programs are reviewed annually to ensure that required testing is being conducted. The table indicates the inspection activity for the period July 1, 2009 through June 30, 2010.

Inspection Activity 09/10

Inspection Type	Number
Standard	180
Public Awareness	1
Specialized	150
Follow-Up	81
Construction	25
Incident	10
Training	11
Liquefied Natural Gas	2
Total Inspection Days	460

Natural Gas Incidents

The Minimum Federal Safety Standards §191.3 defines an incident as any of the following: 1) An event that involves a release of gas from a pipeline or liquefied natural gas or gas from an LNG facility and i) A death, or personal injury necessitating in-patient hospitalization; or ii) Estimated property damage, including cost of gas lost, of the operator or others, or both, of \$50,000 or more, 2) An event that results in an



emergency shutdown of an LNG facility, 3) An event that is significant, in the judgment of the operator, even though it did not meet the criteria of parts 1 or 2. Two reportable incidents occurred in the past fiscal year. The ultimate goal of the GPSD is to enforce pipeline safety regulations to the extent that there are no accidents or reportable incidents throughout the State of Tennessee.

Violations and Civil Penalties

The violations cited by the GPSD against an operator are recorded and filed on an ongoing basis. Each operator receives verbal and written notices of the violation(s) and is given sixty days from receipt of the written notice to correct any deficiencies that resulted in the citation. A follow-up inspection is scheduled after the sixty-day time period to ensure that the operator is taking action to correct these violations. Failure to take corrective action on cited violations could subject the operator to civil penalties in accordance with Tennessee Code Annotated §65-28-108. There were 124 violations cited and 101 violations corrected during this fiscal year. (Violations corrected include those cited from previous years.)

Activities and Accomplishments

Bare Steel and Cast Iron Replacement Programs

The GPSD continues to monitor efforts of natural gas system operators in Tennessee to eliminate all poorly coated steel, bare steel and/or cast iron pipe used in their distribution systems. As an example, Atmos Energy, Chattanooga Gas, Jackson Energy Authority, Knoxville Utilities Board, Lewisburg Gas, Memphis Light, Gas and Water, Covington Gas, Fayetteville Public Utilities, Harriman Utility Board, Humboldt Utilities and Springfield Gas System are presently replacing poorly coated/bare/unprotected steel and cast/ductile iron pipe that exists in their system. The GPSD staff receives periodic updates from representatives of the natural gas distributors relative to the status of their replacement programs.

The GPSD goal is to eliminate all bare/unprotected steel and cast iron material in the shortest time frame with the least cost to customers.

State Damage Prevention Program Improvement

Tennessee received State Damage Prevention Program grants from the Department of Transportation in 2008 and 2009 for the purpose of improving the State's underground utility damage prevention program. The funds from these grants have been used by the TRA to draft revisions to the Tennessee



Gas Pipeline Safety Division (cont.)

Underground Utility Damage Prevention Act and meet with stakeholder groups to build consensus for improvements to the damage prevention program. The main goal of the initiative is to strengthen enforcement of the Act.

New damage prevention legislation was introduced in the



Tennessee House and Senate on February 12, 2008. During the past fiscal year the Tennessee Advisory Committee on Intergovernmental Relations (TACIR) has been studying the overall Tennessee damage prevention program in order to make recommendations for future action.

Federal Safety Initiatives

Natural gas system operators continue to implement their programs of establishing communications and providing information necessary to help the public understand that pipelines are the major transportation system for petroleum products and natural gas in the United States, how pipelines function, and the public's responsibilities to help prevent damage to pipelines. These programs were mandated as a result of the Public Awareness rule added to the federal safety

standards. GPSD pipeline safety engineers have been reviewing operator public awareness plans during the past fiscal year.

Tennessee natural gas operators are presently working to prepare programs to address the requirements of the Distribution Integrity Management rule as added to the federal safety standards. The purpose of a Distribution Integrity Management Program (DIMP) is to ensure that each operator of a natural gas distribution system develops a systematic approach to minimizing threats to pipeline integrity. Although many operators are currently addressing these concerns, this will be a formalized program that can be monitored for effectiveness.

These are only two of many programs monitored by the GPSD in the work to achieve safe and efficient transportation and distribution of natural gas. Minimizing risk to persons and property is paramount in these efforts.

Underground Utility Damage Prevention and Three digit 8-1-1 number

The Pipeline Safety Improvement Act of 2002 provided a tool to enhance the effectiveness of the Dig Safely® program by requiring the implementation of a nationwide three-digit number for use in dialing one call centers. Tennessee was the first state to move forward with the assignment of this number designated by the FCC as 8-1-1. The three-digit number 811 was granted to Tennessee One Call System, Inc. on August 8, 2005 by the TRA.



**Know what's below.
Call before you dig.**



Information Technology Division

Mission

The mission of the Information Technology Division (IT) is to provide, support, and protect hardware and software computer systems used by the staff of the Tennessee Regulatory Authority.

The Division strives to meet the professional needs of its own staff members through training, team building, challenging work, recognition and personal and professional growth.

The division consists of an IT Chief and an Information Systems Resource Specialist II.



Tracy Stinson, Chief

Duties of the Information Technology Division:

- ◆ Develop the Information Systems three year plan
- ◆ Develop and maintain the Authority LAN
- ◆ Procure and maintain Authority desktop computer systems
- ◆ Develop new software systems
- ◆ Monitor software license needs
- ◆ Enforce state network acceptable usage policy
- ◆ Provide information resource training to Authority staff and IT staff
- ◆ Develop and administer Authority databases
- ◆ Oversee computer hardware inventory management
- ◆ Provide technical support and training to Authority staff
- ◆ Provide technical advice to Authority leadership

TRA Website

The TRA Website, www.tn.gov/tra, provides cost effective, reliable, and timely access to programs administered by the Authority. During FY 2009 – 2010, the TRA website received 86,549 hits.

Authority information that can be obtained from the website:

- ◆ Appeals and Petitions to the Federal Communications Commission and Federal Trade Commission
- ◆ Assistance program information and forms
 - Captel
 - Lifeline and Link-up
 - Relay Center
 - TDAP
- ◆ Authority conference agendas
- ◆ Authority notices
- ◆ Authority orders
- ◆ Authority press releases
- ◆ Authority rules and regulations
- ◆ Descriptions of the Authority divisions
- ◆ Do Not Call information
 - Do Not Call citizen online registration
- ◆ Do Not Fax information
- ◆ Electronic Dockets
- ◆ Filings made to the Authority
- ◆ Information related to natural gas pipeline safety
- ◆ Regulatory information
- ◆ Special reports



Legal Division

Mission

To provide the Authority with sound and timely legal advice, effective counsel in the deliberative process, and zealous representation before state and federal agencies, reviewing courts and the General Assembly.



*Richard Collier
General Counsel*

It is the responsibility of the Legal Division to provide in-house counsel to the Directors of the Authority. Attorneys from the Division also represent the Authority and the Directors in their official capacities before the Chancery Courts, Tennessee Court of Appeals, Tennessee Supreme Court and in the Federal Courts. The Legal Division represents the Authority before the Federal Communications Commission and the Federal Energy Regulatory Commission. Members of the Legal Division often serve as Hearing Officers in contested cases and prosecutors in enforcement actions before the Authority. Division Attorneys are responsible for bill analysis as requested by the Legislative Fiscal Review Committee. They also draft rules to be promulgated by the Authority and prepare orders reflecting actions of the Directors in specific cases.

Accomplishments

During the past fiscal year, 251 dockets were opened requiring action by the Authority. Members of the Legal Division provided continuing research, advisory memoranda and counsel to the Directors and staff in most of these dockets. The Legal Division also prepared 253 orders reflecting action by the Authority in active dockets including tariff matters, contested cases, mergers, debt issuances, transfers of authority, approvals and revocations of certificates of public convenience and necessity, franchise approvals, arbitrations and show cause actions.

During the 2009 – 2010 fiscal year, pursuant to the Competitive Cable and Video Services Act (the CCVSA) the Legal Division also assisted in the review of the cable franchise applications of BellSouth Telecommunications, Inc. d/b/a ATT of Tennessee; Charter Communications; Knology Inc.; Cable One; Highland Telephone Cooperative, Inc., on behalf of itself and its wholly-owned subsidiaries, Highland Media Corporation and Highland Communications Corporation; and Comcast Cable Communications Management, LLC.

Attorneys from the Legal Division served as Hearing Officers and provided counsel to the Authority in dockets involving: practices and procedures of gas companies relating to asset management; expansion of a telecommunications service provider into service territory of a telephone cooperative; and complaints between competing local exchange telecommunications carriers and incumbent local exchange telecommunications carriers.

The Legal Division provided counsel to the Authority in arbitrations and approval of interconnection agreements pursuant to the federal Telecommunications Act of 1996. The Legal Division initiated several dockets in which wastewater service providers were scrutinized regarding financial security and consumer complaints.

The Legal Division assisted the Consumer Services Division in investigations relating to enforcement of Tennessee's Do Not Call and Do Not Fax statutes, including the initiation of show cause proceedings against non-compliant companies. In one such enforcement action, the Consumer Services Division recovered \$80,000 in civil penalties from a large telecommunications service provider for Do Not Call violations. The Legal Division provided counsel to the Gas Pipeline Safety Division in its investigations and in reviewing applications related to federal safety standards.

During the 2010 session of the General Assembly, members of the Legal Division served as part of the agency's legislative liaison team and assisted the Chairman's office in tracking and providing research relating to legislation involving or of interest to the Authority.

Members of the Legal Division served as Hearing Officers and participated in hearings on applications for certificates of public convenience and necessity and approval of franchise agreements filed by competing local exchange telecommunications carriers, gas companies, water companies and wastewater treatment utilities.

Members of the Legal Division also served as Hearing Officers in a major rate case filed by Chattanooga Gas Company and served as party representatives or advisory counsel in the hearings of rate cases filed by Entergy Arkansas, Inc., Hickory Star Water Company, AEP Appalachian Power, Tennessee Wastewater Systems, Cartwright Creek, LLC and Foothills Water Properties.

Significant case activity for the 2009-2010 fiscal year included:



Legal Division (cont.)

TRA

- ◆ Docket to Evaluate Chattanooga Gas Company's Gas Purchases and Related Sharing Incentives (Docket No. 07-00224).
- ◆ Application of Memphis Light Gas and Water a Division of the City of Memphis for a Waiver with Respect to 49 CFR Part 192.7, Appendix B, and ASTM D 2513 (Docket No. 08-00124)
- ◆ Rulemaking to Add ADAD Registration Requirements to "Do Not Call" Rules (Docket No. 08-00186).
- ◆ Petition Of Tennessee Wastewater Systems, Inc. for Approval to Amend Its Rates and Charges (Docket No. 08-0202).
- ◆ Petition of Tennessee Water Service, Inc. to Change and Increase Certain Rates and Charges (Docket No. 09-00017).
- ◆ Show Cause Proceeding Against Healthcare Advantage LLC/The Select Group/Chris Wiggins for alleged violations of the Tennessee Unsolicited Facsimiles ("Do Not Fax") Law, Tenn. Code Ann. § 65-4-501 et seq. (Docket No. 09-00036).
- ◆ Petition of Lynwood Utility Corporation to Change and Increase Rates and Charges (Docket No. 09-00034).
- ◆ Petition of Cartwright Creek, LLC to Change and Increase Rates and Charges (Docket No. 09-00056).
- ◆ Staff Investigation of TRI-M Communications, Inc. for Alleged Violation of Tenn. Code Ann. 65-4-201 and Tenn. Comp. R. & Regs. 1220-4-2-.57(2) (Docket No. 09-00061).
- ◆ Tennessee American Water Company's Request for Proposal for a Management Audit (Docket No. 09-00086).
- ◆ Joint Petition of Cartwright Creek LLC and Waterbridge Development for Approval of Special Contract (Docket No. 09-00173)
- ◆ Petition of Chattanooga Gas Company for a General Rate Increase, Implementation of the EnergySmart Conservation Programs and Implementation of a Revenue Decoupling Mechanism (Docket No. 09-00183)
- ◆ Staff Investigation of Corporations for Character for Alleged Violation of Tenn. Code Ann. Section 65-4-401 et seq. and Tenn. Comp. R. & Regs. 1220-4-11 (Docket No. 09-00200)
- ◆ Application of Entergy Arkansas, Inc. to Increase Rates for Retail Electric Service (Docket No. 10-00001)
- ◆ BellSouth Telecommunications, Inc. d/b/a AT&T Southeast d/b/a AT&T Tennessee Complaint and Petition for Relief vs. Budget Prepay, Inc. d/b/a Budget Phone fka Budget Phone, Inc. (Docket No. 10-00004)
- ◆ BellSouth Telecommunications, Inc. d/b/a AT&T Southeast d/b/a AT&T Tennessee Complaint and Petition for Relief vs. Tennessee Telephone Service, Inc. d/b/a Freedom Communications USA, LLC (Docket No.10-00005)
- ◆ BellSouth Telecommunications, Inc. d/b/a AT&T Southeast d/b/a AT&T Tennessee Complaint and Petition for Relief vs. Image Access, Inc. d/b/a New Phone (Docket No. 10-00006)
- ◆ BellSouth Telecommunications, Inc. d/b/a AT&T Southeast d/b/a AT&T Tennessee Complaint and Petition for Relief vs. dPi Teleconnect, LLC (Docket No. 10-00007)
- ◆ BellSouth Telecommunications, Inc. d/b/a AT&T Southeast d/b/a AT&T Tennessee Complaint and Petition for Relief vs. BLC Management, LLC d/b/a Angles Communications Solutions (Docket No. 10-00008)
- ◆ Complaint By Walden's Ridge Utility District against Tennessee American Water Company (Docket No. 10-00014)
- ◆ Complaint of BellSouth d/b/a AT&T Tennessee v. Sprint Spectrum, L.P. d/b/a Sprint PCS, and Nextel South Corp. (Docket No. 10-00026)
- ◆ Petition of Hickory Star Water Company, L.L.C. for Expedited Relief for a Pass-Through Increase of Its Water Expense (Docket No. 10-00029)
- ◆ Petition of Kingsport Power Company d/b/a AEP Appalachian Power for Permission to Recover Increased Inspection Fees (Docket No. 10-00037)
- ◆ Petition for Arbitration of Interconnection Agreement Between BellSouth d/b/a AT&T Tennessee and Sprint Spectrum L.P., Nextel South Corp., and NPCR, Inc. d/b/a Nextel Partners (Docket No.10-00042)
- ◆ Petition for Arbitration of Interconnection Agreement Between BellSouth d/b/a AT&T Tennessee and Sprint Communications Company, L.P. (Docket No.10-00043)
- ◆ Request of Chattanooga Gas Company for Approval of an RFP for an Asset Management Agreement and a Gas Purchase and Sales Agreement (Docket No. 10-00049)
- ◆ Tariff Filing by United Telephone Southeast LLC, d/b/a



Legal Division (cont.)

Centurylink to Withdraw Certain Tariffs Pursuant to Operating Under Market Regulation (Docket No. 10-00055)

- ◆ Petition of Knology, Inc. and Knology of Knoxville, Inc. to Establish Terms and Conditions of Public, Educational and Governmental Channel Access with Comcast Cable (Docket No. 10-00059)
- ◆ Petition for Declaratory Ruling and Nunc Pro Tunc Designation of Nexus Communications as an Eligible Telecommunications Carrier to Offer Wireless Service in Tennessee (Docket No. 10-00083)
- ◆ Second Amendment to Contract for Provision of Tennessee Relay Services (Docket No. 10-00087)
- ◆ Petition of Condo Villas of Gatlinburg Association, Inc. d/b/a Foothills Water Properties for Emergency Relief for Water Rates (Docket No. 10-00107)
- ◆ BellSouth Telecommunication, Inc. d/b/a AT&T Tennessee Petition to Extend Market Regulation to Rate Groups 1 and 2 (Docket No. 10-00108)
- ◆ Joint Petition of PPL Corporation, E.On AG, E.On Us Investments Corp., E.On U.S LLC and Kentucky Utilities Company for Approval of a Transfer of Control of Kentucky Utilities Company (Docket No. 10-00118)
- ◆ Petition of Kentucky Utilities Company for an Order Authorizing the Restructure and Refinancing of Unsecured Debt, the Assumption of Obligations and for Amendment of Existing Financing Authority (Docket No. 10-00119)
- ◆ Staff Investigation of Express Connection, LLC for Alleged Violation of Tenn. Comp. R.& Regs. 1220-4-2-.13(3) (Docket No. 10-00134)

Other Courts

- ◆ Petition for Review filed by *BellSouth Telecommunications, Inc. d/b/a AT&T Tennessee* in the U.S. District Court related to decisions in TRA Docket No. 04-00381, *BellSouth Telecommunications, Inc. d/b/a AT&T Tennessee v. Tennessee Regulatory Authority*, Case No. 3:08-00059.
- ◆ *City of Chattanooga v. TRA. Tennessee Court of Appeals, Petition for Review of the TRA's decision in Tennessee American Water Company to Change and Increase Certain Rates and Charges so as to Permit It to Earn a Fair and Adequate Rate of Return on Its Property Used and Useful in Furnishing Water Service to Its Customers*, TRA Docket No. 06-00290.

- ◆ *Tennessee American Water Company v. TRA. Tennessee Court of Appeals, Petition for Review of the TRA's decision in Tennessee American Water Company to Change and Increase Certain Rates and Charges so as to Permit It to Earn a Fair and Adequate Rate of Return on Its Property Used and Useful in Furnishing Water Service to Its Customers*, TRA Docket No. 08-00039.

Other notable docket activity during 2009-2010 fiscal year included:

Cable Franchise

Application of Comcast Cable Communications Management, LLC, on Behalf of Its Affiliates Operating Cable Systems in Tennessee for a State-Issued Certificate of Franchise Authority (Docket No. 09-00137)

Application of Electric Power Board of Chattanooga for a State-Issued Certificate of Franchise Authority (Docket No. 10-00044)

BellSouth d/b/a AT&T Tennessee's Seventh Amendment to Certificate of Franchise Authority (Docket No. 10-00082)

Application of Twin Lakes Communications, Inc. for a State-Issued Certificate of Franchise Authority (Docket No. 10-00129)

Market Regulation

PNG Telecommunications, Inc. d/b/a PowerNet Global Communications' Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00095)

Pay-Tel Communications, Inc.'s Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00100)

Global Tel*Link Corporation's Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00116)

Network Communications International Corp. Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00119)

Volunteer First Services, LLC d/b/a Volfirst Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00131)

Ben Lomand Communications, LLC d/b/a BLC Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00132)



Legal Division (cont.)

Network Telephone Corporation d/b/a Cavalier Business Communications Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00133)

United Telephone Southeast LLC d/b/a Embarq Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00134)

Inmate Calling Solutions, LLC d/b/a ICSolutions Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00135)

Sprint Communication Company, L.P. Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00136)

SBC Long Distance, LLC d/b/a AT&T Long Distance Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00152)

BellSouth Long Distance, Inc. d/b/a AT&T Long Distance Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00154)

BellSouth Telecommunications, Inc. d/b/a AT&T Tennessee Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00155)

AT&T Communications of the South Central States, Inc. Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00156)

TCG MidSouth, Inc. Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00157)

MCImetro Access Transmission Services LLC d/b/a Verizon Access Transmission Services and MCI Communications Services, Inc. d/b/a Verizon Business Services Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00163)

Custom Teleconnect, Inc.'s Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00164)

Twin Lakes Communications, Inc.'s Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00169)

Knology of Tennessee, Inc.'s Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00170)

Notification of YMax Communications Corp. of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00181)

Broadview Networks, Inc Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00191)

Public Communications Services, Inc. Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 09-00195)

Notification of Working Assets Funding Service, Inc. d/b/a Credo Long Distance of Intent to Operate Pursuant to Market Regulation (Docket No. 10-00013)

LMK Communications LLC's Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 10-00018)

Qwest Communications Company, LLC's Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 10-00020)

Combined Public Communications, Inc. Notification of Intent to Operate Pursuant to Market Regulation (Docket No. 10-00075)



Utilities Division

Mission

To provide the Directors of the TRA with detailed analyses, financial recommendations and technical assistance needed to make informed decisions on issues related to the development of competitive markets and the preservation of just and reasonable rates for utility services in Tennessee.



David Foster, Chief

The Utilities Division encompasses review of investor owned electric, gas, telecommunications, water, and wastewater service utilities operating within the state. Each utility segment has unique characteristics and distinctive federal and state mandates for review. The division is comprised of sixteen individuals with diversified experience and background. The Staff's credentials and background consist of Certified Public Accountants, paralegal, engineers, accountants and business managers. The staff has over 200 years of combined experience in the utility industry.

Electric

The Authority regulates three electric utilities in Tennessee: Kingsport Power Company d/b/a AEP Appalachian Power, Entergy Arkansas, Inc. and Kentucky Utilities Company. Kingsport Power is rate of return regulated and tariffs containing rates, terms and conditions are filed with the Authority. The other two other utilities, Entergy Arkansas, Inc. and Kentucky Utilities Company, have a very small presence in Tennessee and the Authority follows actions taken by the respective states.

Kingsport Power Company, through its parent company American Electric Power, is a member of PJM. PJM is a regional transmission organization (RTO) that is responsible for operating the wholesale electric market and managing the long-term regional electric transmission planning process in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. The Authority, through its membership in the Organization of PJM States, Inc. (OPSI), interacts with PJM, its Board of Managers, and its Market Monitor to ensure that Tennessee consumers are served by an efficient, effective, and reliable wholesale energy market. The Division assists the Authority in

consideration of RTO issues such as market monitor independence and capacity market revisions.

In November 2009, the Authority was awarded a grant in the amount of \$908,408. This grant was part of a stimulus package funded by the United State Federal Government through the Department of Energy and is commonly known as The American Reconstruction and Recovery Act of 2009 (ARRA). A hearing on the merits was conducted April 12, 2010 through April 13, 2010 and was later reconvened and concluded on April 26, 2010.

The grant money is being used to fund two employees to perform research for and educate the Authority on electric issues (e.g. smart metering and smart grid technology) and work on Authority dockets generated from ARRA related electric activities.

Gas

The gas industry in Tennessee is comprised of five natural gas companies, one methane gas provider and one intrastate pipeline providing transportation service to industrial customers in Kingsport, Tennessee. Annual revenues of these companies range from \$90 to \$269 million. While the overall regulation of each company is rate of return, the volatility of the gas commodity costs necessitates a flow through mechanism to ensure a company's return on investment remains relatively constant. The mechanism, referred to as Purchased Gas Adjustment (PGA), is designed to provide immediate rate reaction to changes in gas prices. Subsequently, an Actual Cost Adjustment (ACA), audit is conducted to ensure that companies have collected only the actual cost of gas from ratepayers. The Division also conducts annual Weather Normalization Audits (WNAs) which is the mechanism that is in place to reduce the impact abnormal temperature has on customers' bills and on the gas utilities' operations. In periods of colder than normal weather, customers receive a credit on their bills, while in periods of warmer than normal weather, customers are billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return. Incentive Plan Audits (IPAs) are conducted to ensure that utilities are prudent in their gas purchasing practices and that ratepayers are compensated appropriately for the companies' off system use of gas assets paid for by the ratepayers. The results of all audits are summarized in the Division audit reports and filed annually with the Authority.

In August 2009 the Authority completed its investigation of Chattanooga Gas Company's asset management and



Utilities Division (cont.)

capacity release issues. The Division provided the necessary analysis to the Directors on numerous issues including the Company's gas purchasing activities and the appropriate sharing incentives relative to those purchases. The Authority determined that the Company subscribes to an appropriate level and mix of storage, peaking and transportation capacity. The Authority, however, also recognized that changes in customer mix, weather and usage patterns occur and therefore ordered a triennial review of capacity planning beginning in 2012 to be conducted by an independent consultant.

On November 16, 2009, Chattanooga Gas Company filed a petition to increase its overall rates by approximately \$2.6 million. Several parties were granted intervention, including the Consumer Advocate Division of the Attorney General's Office and the Chattanooga Manufacturers' Association. A hearing was conducted on April 12 -13, 2010. Upon its review and analysis of all evidence presented in the case, Utilities' staff prepared and submitted its recommendation to the Directors. The matter was deliberated at a regularly scheduled Authority Conference held on May 24, 2010. The Authority approved an increase of \$60,068 and approved an Alignment and Usage Adjustment (AUA) revenue mechanism for residential and small commercial customers. The mechanism, aimed at stabilizing Company revenues in an effort to minimize the effects of extreme volumetric changes, was approved on a three-year experimental basis. The Authority also approved two components of an EnergySmart Program proposed by the Company. One component was a program to provide free programmable thermostats to Chattanooga gas customers and the other was approved funding for various education and outreach programs.

Telecommunications

The TRA regulates the rates and service quality of investor owned telecommunications providers in Tennessee (not Municipalities, Cable, Internet or Wireless providers). There are 18 incumbent local exchange companies (ILECs), 129 facility based competitive local exchange carriers (CLECs), 226 resellers of local and long distance service, 6 long distance facility providers, 117 pay telephone providers and 8,025 pay telephones (COCOTs) within the state.

The telecommunications industry has dramatically changed since passage of the 1995 and 1996 State and Federal Telecom Acts. For the three largest ILECs within the state, BellSouth Telecommunications, Inc. d/b/a AT&T Tennessee (AT&T), Citizens Telecommunications Company of Tennessee d/b/a Frontier Communications of Tennessee LLC

(Citizens of TN) and Embarq Corporation, oversight has evolved from rate of return regulation to price cap regulation in an effort to nurture competitive markets. The smaller ILECs, consisting of 15 rural incumbent telephone companies, have generally experienced limited landline competition and remain in rate of return oversight. All ILECs are required to have on file with the Authority tariffs representing the terms, conditions and rates for services offered within the state.

In 1997, the FCC issued an order implementing a federal universal service support system for telecommunications. The system is designed to meet the requirements of the Telecommunications Act, maintain affordable basic residential rates, ensure affordable basic service continues to be available to all users and bring the benefits of competition to as many consumers as possible. Criteria were established that a provider must achieve to be designated and maintain Eligible Telecommunications Carrier (ETC) status and receive support. The Authority has approved ETC designation for 33 providers. This total represents both the companies regulated by the Authority and the Telephone Cooperatives which are not regulated by the Authority. Further, the Authority accepts annually a self-certification from these providers in order to maintain support and reports those results to the FCC. In March 2005, the FCC issued a subsequent order adopting more stringent requirements for ETC designation and annual certification filed with the FCC to be effective October 6, 2006. The Authority reviewed the FCC requirements and initiated a rulemaking to consider adoption of ETC requirements for those companies self-certifying with the Authority. Draft rules have been adopted by the Authority and submitted to the Attorney General prior to going to the Secretary of State for approval.

During the 2009 Legislative session, House Bill 2117 regarding Universal Service was heard before the House Utilities and Banking Subcommittee of the Commerce Committee. The Subcommittee requested the TRA to investigate this matter and provide a report including recommendations to the General Assembly for the 2010 legislative session. Specifically, the proposed bill authorized the establishment of a Tennessee Rural Affordability Fund which would allow companies to withdraw funds to recover switched access rate reductions. Docket 09-00096 was opened during the June 29, 2009 Authority Conference for the purpose of receiving information and comments from interested parties related to this legislation. The Division completed its report in December 2009 and it was sent to the House Utilities and Banking Subcommittee of the Commerce Committee.



Utilities Division (cont.)

Senate Bill 1954 enacting the Market Regulation Act became law on May 21, 2009. This law allows price regulated certificated providers of local exchange or intrastate long distance telephone service to elect Market Regulation at its sole discretion. Market Regulation exempts the provider from jurisdiction regarding retail pricing and retail operations except as defined in the Act. The largest two local incumbent telephone companies in Tennessee, BellSouth Telecommunications, Inc. d/b/a AT&T Tennessee and Embarq Communications, Inc. d/b/a CenturyLink Communications, Inc. both elected market regulation along with numerous competitive telephone providers. The Authority, however, retains limited jurisdiction over these companies including, but not limited to, exercising jurisdiction with respect to Lifeline and Link-up programs, the Tennessee Relay Service Center and the Telecommunications Devices Access Program (TDAP), universal service funding, intrastate switched access service, responding to specific customer complaints regarding residential telephone service and disputes between certificated carriers.

◆ Telecommunications Statistics In Tennessee

- It is estimated that 73.2% of Tennessee households now have Internet access (national average: 74.9%).
- As of June 30, 2010, depending on the source, 45% (FCC) to 54% (Connected TN Report) of Tennessee households had high-speed (broadband) Internet access.
- As of June 30, 2010, Tennessee had 382 companies providing local telecommunications services in Tennessee including 27 incumbent providers (18 investor owned and 9 telephone co-operatives), 129 competitive local exchange carriers (CLECs) and 226 resellers of local telephone services. Note: Incumbent providers are those companies providing local telecommunications services prior to passage of the Telecommunications Act of 1995 on June 6, 1995 while CLECs are those companies who began offering facilities-based local telecommunications subsequent to June 6, 1995.
- As of June 30, 2010, 2.96 million regulated wired telephone lines were in service in Tennessee with approximately 791,000, or 26.7%, of those lines being provided by CLECs.
- As of June 30, 2010, CLECs were providing service in 91 of Tennessee's 95 counties; 50% of the CLEC lines are in the state's five largest metropolitan areas. Of

the 91 counties served by CLECs, 13 counties have 15 or fewer access lines served by CLECs.

- Approximately 75% of the lines provided by CLECs in Tennessee are business lines while 25% are residential lines (as of June 2010).
- Three municipal electric utilities are providing telecommunications in Tennessee: Chattanooga Electric Power Board; Jackson Energy Authority; and Bristol Tennessee Essential Services.
- Penalty payments are made to the TRA by BellSouth after three months of continued non-compliance with the standards and benchmarks that were adopted to monitor BellSouth's wholesale operations. These payments amounted to \$45,075 for the twelve months ended June 30, 2010.
- To conserve telephone numbers and reduce the need to add area codes, Tennessee has ordered that telephone numbers be assigned to carriers in 1,000 number blocks instead of the 10,000 number blocks previously permitted by the FCC. Tennessee presently has six (6) area codes and has not needed to add an area code since September 2001.

Wastewater

There are 10 wastewater utilities with over 128 wastewater systems located across Tennessee. Tariffs containing all rates, terms and conditions of service are on file with the Authority. There were seven new requests for wastewater sites filed during the year ended June 30, 2010.

The Division annually reviews all wastewater companies to ensure compliance with TRA Rules which requires the posting of a financial security by a public utility providing wastewater service to ensure continued proper operation and maintenance. To comply, all wastewater companies must provide evidence of the required financial security and file tariffs to recover the costs of providing this security. The Division reviews the filings and notifies the Directors of any discrepancies or non compliance.

The Division continues to work with the Tennessee Department of Environment and Conservation (TDEC) coordinating efforts to ensure there is a plan for ongoing operation and maintenance of wastewater systems, and working with the industry to devise measures to accomplish the goals of continued operations and safe and healthy wastewater systems for the public.

On March 5, 2009, Lynwood Utility Corporation filed a



Utilities Division (cont.)

petition to increase its rates by \$185,440, or 33.82%. The Utilities Division Staff gathered evidence via data requests, conducted its investigation based upon all evidence (discovery and testimony) in the record and presented its advisory analysis to the Directors. Subsequent to a public hearing held on August 21, 2009, the Authority made its final ruling at the regularly scheduled Authority Conference held on September 21, 2009, wherein the Authority denied the Company's original rate request and instead granted an increase of \$125,618.

On April 28, 2009, Cartwright Creek, LLC filed a petition to increase its rates by \$220,405, or 75%. The Utilities Division Staff gathered evidence via data requests, conducted its investigation based upon all evidence (discovery and testimony) in the record and presented its advisory analysis to the Directors. Staff also analyzed a proposed settlement agreement between Cartwright Creek, LLC and Consumer Advocate's Office of the Attorney General. Subsequent to a public hearing held on November 30, 2009, the Authority made its final ruling at the regularly scheduled Authority Conference held on December 14, 2009, wherein the Authority approved the aforementioned settlement agreement which resulted in a total rate increase of \$98,054.

Water

The Authority regulates seven (7) water utilities in Tennessee. The utilities are rate of return regulated and have on file tariffs containing all rates, terms and conditions of service.

Five of the regulated water utilities in Tennessee have fewer than 300 customers. Substantial accounting and legal costs are incurred when any company determines a need to file for a rate increase. In order to minimize rate case expense and the corresponding recovery from ratepayers for these smaller companies, the Authority considers the segregation of Utilities Division Staff to assist in the preparation and settlement of the matter.

On January 30, 2009, Tennessee Water Service, Inc. filed a petition to increase revenues \$150,902. The Utilities Division Staff gathered evidence via data requests, conducted its investigation based upon all evidence (discovery and testimony) in the record and presented its advisory analysis to the Directors. Staff also analyzed a proposed settlement agreement between Tennessee Water Service, Inc. and Consumer Advocate's Office of the Attorney General. A public hearing was held on August 24, 2009, wherein the Authority approved the aforementioned settlement agreement which resulted in a total rate increase of \$127,687.

Activities

The Division continues to participate in various training opportunities including reading trade and industry journals and government reports to stay current on governmental and industry trends in the electric, gas, telecommunications, water and wastewater industries. We also meet regularly with industry representatives to encourage the sharing of ideas on how to improve customer service and operating efficiencies.

Analysis - Industry and Filings

◆ **Tariff Review (291)**

- Reviewed 219 tariff filings by telecommunications companies to introduce new services or to revise the rates, terms and conditions of existing services.
- Reviewed 35 tariff filings by electric, gas, water and wastewater companies to introduce new services or to revise the rates, terms and conditions of existing services.
- Reviewed 25 PGA filings and 12 Fuel Clause Adjustments.

◆ **Annual Report Reviews (44)**

- Reviewed 44 annual reports. The Division Staff reviews these annual reports to ensure the completeness of their financial data.

◆ **Gas and Wastewater Audits (16)**

There are four (4) types of audits performed by the Division. These audits are: Compliance audits, Actual Cost Adjustment (ACA) audits, Weather Normalization Adjustments (WNA) audits and Performance Incentive Plan (IPA) audits.

- 1) **Compliance Audits** - Escrow (6) - Compliance audits are performed to monitor utilities' compliance with applicable laws, orders, and policies of the Authority, as well as utility accounting operations to ensure compliance with the Uniform System of Accounts (USOA) prescribed by the National Association of Regulatory Utility Commissioners (NARUC) and the Federal Energy Regulatory Commission (FERC). The Division schedules and conducts these audits as resources permit.
- 2) **ACA Audits (5)** - TRA Rule 1220-4-7-.02 permits a gas utility to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers.



Utilities Division (cont.)

The Purchased Gas Adjustment (PGA) Rule, which was adopted July 1, 1992, is the mechanism used to accomplish this recovery and consists of three major components:

- Actual Cost Adjustment (ACA)
- Gas Charge Adjustment (GCA)
- Refund Adjustment (RA)

The ACA is the difference between the revenue billed customers by means of the GCA and actual costs paid to suppliers as reflected in the Deferred Gas Cost account. The rule requires the utility to submit a filing each year detailing the transactions in the Deferred Gas Cost Account. The TRA Staff audits this filing to determine that the utility is following all the rules, regulations, and directives adopted by the Authority. This allows the Authority to adjust for over or under collected gas costs.

Each year, the Staff conducts ACA audits on the five gas distribution utilities under rate jurisdiction of the TRA: Atmos Energy Corporation, Chattanooga Gas Company, Piedmont Natural Gas Company, Counce Natural Gas and Gasco Distribution Systems. During the 2009 fiscal year, the Staff reviewed gas invoices for these utilities totaling approximately \$343.3 million. The Staff also reviewed all adjustments made to the Deferred Gas Cost accounts, the underlying supporting documentation, the calculation of gas cost recoveries and compliance with PGA filings, including ongoing Refund Adjustments, and the calculation of interest on account balances. The Staff recalculated sample bills for each month of the audit period to assure that the correct tariff rates and gas cost adjustments were being passed on to the customers. Audit results and recommendations are detailed in an audit report on each utility.

- 3) WNA Audits (3)** - In setting rates, the Authority uses a normalized level of revenues and expenses for a test year to eliminate unusual fluctuations. One part of normalizing revenues in the test year is the adjustment of sales volumes to reflect "normal" weather, which is calculated based on the previous thirty years' weather data. Since "normal" weather rarely occurs, the customer bills can fluctuate dramatically daily due to temperature changes from month to month, and gas companies' revenues likewise fluctuate, causing them to earn more or less than their authorized rate of return. In recognition of this fact, the TRA has approved a WNA Rider, to be applied to residential and commercial customer bills during the winter months.

The TRA Staff conducts audits each year of the WNA Rider as it is applied to the 3 major gas companies: Atmos Energy Corporation, Chattanooga Gas Company, and Piedmont Natural Gas Company. In order to meet the objectives of the audit, the Staff compares the following on a daily basis:

- a) The company's actual heating degree days to National Oceanic and Atmospheric Administration (NOAA) actual heating degree days;
- b) The company's normal heating degree days to the normal heating degree days calculated in the last rate case; and
- c) The company's calculations of the WNA factors to the Staff's calculations.

The Staff also audits a sample of customer bills during the WNA period to verify that the WNA factor has been correctly applied to the bills. Results of the audits and any recommendations are detailed in the annual audit report for each company.

During the 2010 fiscal year, WNA related revenues for the three gas utilities amounted to \$7,566,605 WNA revenues refunded.

- 4) IPA Audits (2)** - The Performance Incentive Plan mechanism was approved by the TRA and is designed to provide incentives to gas utilities in a manner that will produce rewards for customers and shareholders while improving the gas procurement process. All savings benefit the consumers to various degrees. The Incentive Plan replaces the after-the-fact reasonableness or prudence reviews of gas purchasing activities formerly required by the Purchased Gas Adjustment Rule. The Staff audits these filings in a manner similar to the audits conducted for the ACA filings. During Fiscal Year 2009, incentive audits were conducted on two gas utilities.

◆ **Certification of Competitive Carriers**

- Analyzed and approved the application of 13 companies requesting designation as facilities-based competitive local exchange carriers. The Division also reviewed 12 resellers of local and long distance service during the fiscal year.
- Analyzed and approved five applications for wastewater companies seeking designation for new systems to provide services within the state.



Utilities Division (cont.)

- ◆ **Pay Telephone Certification**
 - Registered two payphone providers.
- ◆ **Telecommunication Interconnection Complaints**
 - Resolved numerous interconnection disputes between competing carriers and incumbent providers. In most cases, the Authority was asked to interpret the language and requirements of the interconnection agreement signed by the parties.

Customers Serviced By and Total Revenues of Electric, Gas, Water, Wastewater Utilities within Tennessee During 2010 Fiscal Year

	Residential	Commercial	Industrial	Other	Total	Total Revenues	Annual Avg. Bill Residential	Residential Revenues
Gas Utilities:								
Atmos Energy, Inc.	112,876	15,224	467	488	129,055	161,461,582	1,360	153,549,947
Chattanooga Gas	53,704	8,169	251		62,124	90,449,406	804	43,188,919
Counce Natural Gas	101	60	1		162	55,974	174	17,551
Gasco Distribution Systems	430	121	8		559	609,838	512	220,283
Piedmont Natural Gas	148,000	16,751	186		164,937	199,437,262	775	114,650,903
Electric Utilities:								
Entergy Arkansas, Inc.	10	4	3		17	17,385	630	6,295
Kentucky Utilities Company	5				5	2,660	560	2,802
Kingsport Power Co.	41,236	5,630	177	152	47,195	144,908,009	1,317	54,307,391
Water/Wastewater Utilities:								
Antioch Water (W)	244				244	66,748	274	66,748
Aqua Green Utility, Inc. (S)	70				70	6,718	95	6,637
Aqua Utilities (W)	350				350	99,076	244	85,501
Aqua Utilities (S)	288				288	70,891	209	60,241
Cartwright Creek (S)	495	34			529	245,936	385	190,441
Cumberland Basin Wastewater, LLC (S) ¹								
Foothills Water Properties (W)	94				94	55,814	594	55,814
Greenville Sewage, LLC(S) ²	2				2	8,859	4,430	8,859
HC Sewage Company (S) ²								
Hickory Star (W)	124	2.00			126	66,644	537	66,644
Hickory Star (S)	49	4.00			53	20,542	222	10,902
IRM Utility, Inc.(S)	62				62	47,038	540	33,497
King's Chapel Capacity(S)	53				53	28,861	545	28,861
Lynnwood Utilities (S)	829	7.00			836	497,158	559	463,784
Newport Resort Water System (W)	48				48	23,264	485	23,264
Shiloh Falls Utilities (S)	199	14			213	56,456	204	40,534
Tennessee American Water Co. (W)	64,255	8,253	156	768	73,432	37,301,261	241	15,493,702
Tennessee Wastewater Systems, Inc. (S)	1,875	125			2,000	1,382,271	499	934,847
Tennessee Water Service, Inc. (W)	569	4			573	228,241	383	218,185

W = Water / S = Wastewater (Sewer)

¹ Company filed a request for a Certificate of Convenience and Necessity (CCN) in March 2007. The Company has not begun servicing customers yet.

² CCN transferred from HC to Greenville on 4/14/09.



Utilities Division (cont.)

Telecommunications Service Providers

1. 1-800 RECONEX d/b/a U.S. TEL
2. Access Fiber Group, Inc.
3. Access Point
4. ACN Communication Services
5. Advantage Cellular
6. Aeneas Communications
7. Alec, Inc.
8. American Fiber Network
9. American Fiber Systems
10. AT&T Comm. of the So. Central States
11. Baldwin County Internet/DSSI Service, LLC
12. Balsam West FiberNet
13. Bandwidth.com CLEC, LLC
14. BCN Telecom
15. BellSouth Long Distance
16. Ben Lomand Communications
17. Big River Telephone
18. Birch Communications, Inc.
19. Birch Telecom
20. BLC Management d/b/a Angles Comm.
21. Bristol Tennessee Essential Services
22. Broadview Networks, Inc.
23. Broadvox-CLEC, LLC
24. Broadwing Communications, LLC
25. Budget Pre-Pay, Inc.
26. Bullseye Telecom
27. Business Telecom
28. CenturyTel Acquisition, LLC
29. CenturyTel Fiber Company
30. CenturyTel Solutions
31. Charter FiberLink-Tennessee
32. Cincinnati Bell Any Distance, Inc.
33. Comcast Phone of Tennessee
34. CommPartners
35. Covista
36. Cypress Communications Operating Co.
37. Deltacom Communications, Inc.
38. Dialtone & More
39. DIECA Communications
40. DPI Teleconnect, LLC
41. DSLnet Communications
42. DukeNet Communications, LLC
43. Electric Power Board of Chattanooga
44. ENA Services, LLC
45. EnTelegent Solutions, Inc.
46. ETC Communications, LLC
47. EveryCall Communications, Inc.
48. Four Star Marketing, LLC
49. Frontier Communications of America
50. Frontier Communications of TN/Vol
51. Georgia Public Web, Inc.
52. Global Connection Inc. of Tennessee
53. Global Crossing Local Services
54. Global NAPs Gulf
55. GoAmerica Relay Services Corp
56. Granite Telecommunications
57. Hamilton Relay
58. Hypercube Telecom, LLC
59. IBFA Acquisition Company
60. Image Access d/b/a NewPhone
61. Intrado Communications
62. Jackson Energy Authority
63. Kentucky Data Link, Inc.
64. Knology of Tennessee
65. Knoxville Data Link, Inc.
66. Level 3 Communications
67. Lifeconnex Telecom, LLC
68. Lightyear Network Solutions
69. LMK Communications, LLC
70. LoadPoint Telecommunications
71. Madison River Communications
72. Matrix Telecom, Inc.
73. MCC Telephony of the South, LLC
74. MCI Communications Services, Inc.
75. MCImetro Access Transmission Svs.
76. McLeod USA Telecomm Services
77. Memphis Networx
78. Metropolitan Telecommunications
79. Midwestern Telecom, Inc.
80. Momentum Telecom
81. MountaiNet Telephone Company
82. Navigator Telecommunications
83. Network Telephone Corp.
84. Neutral Tandem-Tennessee, LLC
85. New Edge Network
86. Nextlink Wireless, Inc.
87. Nexus Communications, Inc.
88. Norlight, Inc.
89. NOS Communications
90. NOW Communications, Inc.
91. OneTone Telecom Inc.
92. OnWav, Inc.
93. Pac-West Telecom, Inc.
94. Peace Communications
95. Peerless Network of TN, LLC
96. PNG Telecommunications, Inc.
97. Quality Telephone
98. Qwest Communications Corp.
99. RTC Solutions
100. SBC Long Distance, Inc.
101. Sprint Communications Company
102. Syniverse Technologies, Inc.
103. Talk America
104. TCG MidSouth
105. TEC of Jackson, Inc.
106. TelCove Operations
107. Tele Circuit Network Corp.
108. Telecommunications Systems, Inc.
109. Telepak Networks
110. Telescan, Inc.
111. Tele-Sys, Inc.
112. Tennessee Independent Telecommunications Group, LLC
113. Tennessee Telephone Service d/b/a Freedom Comm.
114. The Other Phone Company, d/b/a Access One Comm.
115. Touchone Communications, Inc.
116. TransNational Communications
117. TW Telecom of TN, LLC
118. Twin Lakes Communications, Inc.
119. UCN
120. US Carrier Telecom, LLC
121. US LEC of Tennessee
122. Vo2 Networx
123. Volunteer First Services
124. Wholesale Carrier Services, Inc.
125. Wiltel Communications, LLC.
126. Windstream NuVox, Inc.
127. Worldspice Communications, Inc.
128. XO Tennessee
129. YMax Communications



Tennessee Regulatory Authority, Authorization No. 316275,
50 copies, January 2011. This public document was
promulgated at a cost of \$15.00 per copy.