

BUTLER | SNOW

April 19, 2013

**VIA ELECTRONICALLY**

Hon. James Allison, Chairman  
c/o Sharla Dillon  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

**RE: Joint Petition of Tennessee-American Water Company, the City of Whitwell, Tennessee, and the Town of Powells Crossroads, Tennessee, for Approval of a Purchase Agreement and a Water Franchise Agreement and for the Issuance of a Certificate of Convenience and Necessity, TRA Docket No. 12-00157**

Dear Chairman Allison:

Pursuant to the Procedural Schedule in the above-captioned matter, enclosed is the *Pre-filed Rebuttal Testimony of Daniel P. Bickerton*. The required hard copies will follow.

If you have any questions or require additional information, please let me know.

Very truly yours,

BUTLER, SNOW, O'MARA, STEVENS &  
CANNADA, PLLC

  
Melvin J. Malone

clw  
Attachment  
cc: Parties of Record

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

**JOINT PETITION OF )  
TENNESSEE-AMERICAN WATER )  
COMPANY, THE CITY OF )  
WHITWELL, TENNESSEE, AND THE )  
TOWN OF POWELLS CROSSROADS, )  
TENNESSEE, FOR APPROVAL OF A )  
PURCHASE AGREEMENT AND A )  
WATER FRANCHISE AGREEMENT )  
AND FOR THE ISSUANCE OF A )  
CERTIFICATE OF CONVENIENCE )  
AND NECESSITY )  
)**

**DOCKET NO. 12-00157**

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**REBUTTAL TESTIMONY OF  
DANIEL P. BICKERTON**

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1   **Q:     Please state your name, place of employment and title.**

2   A.     My name is Daniel P. Bickerton, and I am the Director of Business Development for  
3           American Water Works Service Company, Inc., providing business development related  
4           services to American Water Works Company, Inc.'s Central Division subsidiaries  
5           including Tennessee-American Water Company ("TAWC").

6   **Q.     Are you the same Daniel P. Bickerton that submitted Direct Testimony in this**  
7           **matter on December 27, 2012?**

8   A.     Yes.

9   **Q.     What is the purpose of TAWC's Rebuttal Testimony?**

10          The purpose of my rebuttal testimony is to respond to the pre-filed testimony of William  
11          H. Novak submitted by the Consumer Advocate and Protection Division of the Tennessee  
12          Attorney General's Office ("CAPD").

13   **Q:     On page 3 of his pre-filed testimony, Mr. Novak describes in part the relief that**  
14           **TAWC is asking from the Authority. Can you please respond with TAWC's**  
15           **perspective?**

16 A: The parties are requesting a number of things in the Joint Petition. Specific to Mr.  
17 Novak's description, TAWC is seeking two things. First, concerning the purchase price,  
18 TAWC is requesting that the valuation of Whitwell's water system assets be based upon  
19 the historical original cost. As such, the purchase price, which will be equal to the rate  
20 base value of the Whitwell water utility assets in service as of the date of closing, is based  
21 upon the historical original cost as presented in the Joint Petition and my Direct  
22 Testimony. Approval as requested would permit TAWC to recover the full amount of the  
23 purchase price of the Whitwell assets subsequent to closing.

24 Second, with respect to the acquisition and transaction costs, TAWC is requesting future  
25 recovery of various expenses necessary to conduct due diligence and facilitate the closing  
26 of this transaction. TAWC is proposing that these expenses be deferred until closing and  
27 upon closing be accounted for as a regulatory asset. In the next rate case, the Authority  
28 will decide whether such expenses should be amortized over the remaining life of the  
29 Whitwell assets and thus recovered.

30 **Q: On page 3 of his pre-filed testimony, Mr. Novak also summarizes TAWC's request.**  
31 **Please respond to Mr. Novak's summary.**

32 A: On page 3, lines 15-18, of his pre-filed testimony, Mr. Novak states that "[i]n essence,  
33 TAWC is asking the TRA to approve the regulatory treatment of the estimated \$1.6  
34 million acquisition outside of a formal rate case and before the complete costs of the  
35 Whitwell system is known and measurable." There is nothing wrong with TAWC  
36 seeking regulatory guidance from the Authority prior to consummating the acquisition,  
37 particularly since there does not appear to be a great deal of precedent.

38 **Q: On page 4 of his pre-filed testimony, Mr. Novak states that TAWC's request for the**  
39 **Authority to approve the regulatory treatment of the acquisition price will**  
40 **ultimately bind the Authority in future rate proceedings. Do you agree with this**  
41 **statement?**

42 A: No. Even if the Authority grants the regulatory treatment that TAWC is seeking with  
43 respect to the purchase price, the Authority has the ability, in appropriate circumstances,  
44 to reconsider its regulatory determinations in a future rate proceeding.

45 **Q: Beginning on page 3, Mr. Novak takes issue with TAWC's determination that**  
46 **historical cost is an appropriate determination of fair market value of the Whitwell**  
47 **assets. What is your response to Mr. Novak's comments?**

48 A: First, I disagree with Mr. Novak. The historical original cost is the proper determination  
49 of the fair value measurement of Whitwell's water system assets. Since there is no active  
50 market for Tennessee municipal water systems, it is appropriate to value Whitwell's  
51 assets based on what TAWC is willing to pay and on what Whitwell is willing to accept.  
52 Whitwell has a clear interest in bargaining for and receiving fair value for its water  
53 system assets, and there is no reason to conclude that Whitwell did not protect its interest  
54 here.

55 **Q. Does Mr. Novak testify that historical cost never represent the fair market value of**  
56 **acquired assets?**

57 A. No, he did not.

58 **Q. Are you aware of any state commissions outside of Tennessee that accept historical**  
59 **original cost as the basis of the acquired assets?**

60 A. Yes, including Virginia, West Virginia, Missouri, Pennsylvania and New York.

61 **Q. On page 4 of his pre-filed testimony, Mr. Novak, in challenging TAWC's use of the**  
62 **historical original cost, refers to TAWC's acquisition of the Suck Creek Utility**  
63 **District. In this context, please explain the distinction between the Suck Creek**  
64 **acquisition and the Whitwell acquisition with respect to historical cost.**

65 A. It is my understanding that we used historical original cost to record the Suck Creek  
66 acquisition. The disparity between the number cited by Mr. Novak, \$960,443, and the  
67 purchase price of \$153,269, is due to his failure to recognize contributed property and  
68 other regulatory adjustments.

69 **Q: On page 4 of his pre-filed testimony, Mr. Novak discusses the impact the Joint**  
70 **Petition will have, if approved as requested, on TAWC rates. Can you please**  
71 **respond to Mr. Novak's discussion on potential rate impact?**

72 A: TAWC has proposed to adopt the current rates and charges of the Whitwell water system.  
73 Although TAWC plans to continue its evaluation of the Whitwell water system to  
74 determine the need for capital improvements, any proposed, future increase in the  
75 Whitwell rates will be subject to the required justification and support and the  
76 Authority's scrutiny, oversight and review in a future rate proceeding.

77 **Q. Do you have a further comment on Mr. Novak's discussion on potential rate**  
78 **impact?**

79 A. Yes. Mr. Novak only applies one determinate, rate base (purchase price plus capital  
80 improvements), in concluding that rates will certainly increase if the Joint Petition is  
81 approved as requested. There are hosts of factors that impact rates. Therefore, to rely  
82 upon a single factor can be misleading. For instance, a growing customer base can have a  
83 downward pressure on rates due to economies of scale, and a larger customer base over  
84 which to spread fixed costs can also mitigate the impact of increased costs.

85 **Q: In his pre-filed testimony, Mr. Novak determined that if the TRA approves the**  
86 **Whitwell acquisition at historical cost value it would have a dilutive effect that**  
87 **would have to be paid for by TAWC customers at some point. Do you have any**  
88 **issues with Mr. Novak's statement?**

89 A: Yes, several in fact. First, Mr. Novak's average rate base comparison does not take into  
90 consideration several factors, such as that Whitwell's rates are generally higher (except  
91 for TAWC's Suck Creek rate schedule) than TAWC's rates and therefore should support

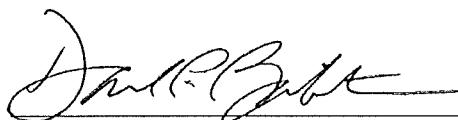
92 a higher average rate base. Second, Mr. Novak's calculation of the Whitwell Rate Base  
93 per Customer includes TAWC's estimated capital expenditures for the years 1 through 5,  
94 yet the Current TAWC Rate Base per Customer does not include any allowance for  
95 similar capital expenditures. Third, a comparison of the Whitwell Rate Base per  
96 Customer exclusive of the five years of capital improvements (purchase price only)  
97 results in a much lower average rate base value than the Current TAWC Rate Base per  
98 Customer. Assuming the above adjustments, and applying Mr. Novak's "dilutive  
99 impact" methodology for illustrative purposes, the resulting comparison would reveal the  
100 very opposite conclusion than he is asserting – an accretive acquisition as shown in  
101 Exhibit I.

102 **Q: How do you react to Mr. Novak's recommendation that the Authority should**  
103 **approve the acquisition at this time, but defer the decision for the accounting and**  
104 **regulatory treatment until a later proceeding when capital expenditures are known**  
105 **and measurable?**

106 **A:** First, as shown directly above in my rebuttal testimony, Mr. Novak's conclusion of a  
107 dilutive effect is not persuasive. As his recommendation is based upon his flawed  
108 dilutive effect, his recommendation is without merit. Next, the Authority has the  
109 discretion to grant and approve the Joint Petition as filed. Finally, if the Authority grants  
110 the regulatory treatment that TAWC is seeking with respect to the purchase price, the  
111 Authority has the ability, in appropriate circumstances, to reconsider its regulatory  
112 determinations in a future rate proceeding.

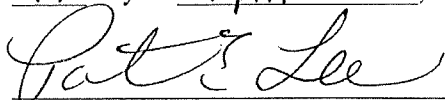
113 **Q: Does this conclude your rebuttal testimony?**

114 **A:** Yes.



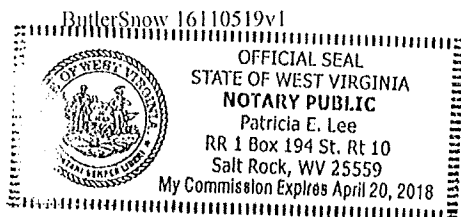
Daniel P. Bickerton  
Director for Business Development  
American Water Service Company, Inc.

Sworn to and subscribed before me this  
19 day of April, 2013



Notary Public

My Commission Expires: April 20, 2018



	<u>Amount</u>	
TAWC Current Rate Base (TRA Docket 12-00049)	\$132,015,472 /1	
Current TAWC Customers	<u>74,514 /1</u>	
TAWC Rate Base per Customer	<u><u>\$1,772</u></u>	
 Whitwell Acquisition Price	 \$1,618,557 /1	
Whitwell Customers	<u>2,754 /1</u>	
Whitwell Rate Base per Customer	<u><u>\$588</u></u>	
 Acquisition Adjustment Calculation		
Existing TAWC Rate Base per Customer	\$1,772	
Whitwell Rate Base per Customer	<u>588</u>	
Difference	<u>\$1,184</u>	
 Whitwell Customers	 <u>\$2,754</u>	
Rate Base Acquisition Adjustment	<u><u>\$3,260,669</u></u>	Accretive

/1 - CAPD Exhibit Schedule 1



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