

# BUTLER | SNOW

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## VIA HAND DELIVERY

Hon. James M. Allison, Chairman  
c/o Sharla Dillon  
Tennessee Regulatory Authority  
500 Deaderick Street  
4<sup>th</sup> Floor  
Nashville, TN 37242

**RE: Petition of Tennessee American Water Company, for Approval of a Qualified Infrastructure Investment Program, an Economic Development Investment Rider, a Safety and Environmental Rider and Pass Throughs for Purchased Power, Chemicals, Purchased Water, Wheeling Water Costs, Waste Disposal, and TRA Inspection Fees, TRA Docket No. 13-00130**

Chairman Allison:

With this letter, I enclose Tennessee-American Water Company's Rebuttal Testimony in the above-referenced matter. Please find attached to this letter five (5) paper copies of the Testimony.

We appreciate your filing this testimony. Please let me know if you have any questions.

With best regards, I am

Very truly yours,



Junaid A. Odubeko

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enclosures

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**PETITIONER'S EXHIBIT GMV-1R**

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

**TRA DOCKET NO. 13-00130**

**REBUTTAL TESTIMONY**

**OF**

**GARY M. VERDOUW**

**ON**

**APPLICATION FOR A QUALIFIED INFRASTRUCTURE INVESTMENT PROGRAM,  
ECONOMIC DEVELOPMENT INVESTMENT RIDER, SAFETY AND  
ENVIRONMENTAL COMPLIANCE RIDER, AND PASS THROUGHES FOR  
PURCHASED POWER, CHEMICALS, PURCHASED WATER, WHEELING WATER  
COSTS, WASTE DISPOSAL, AND TENNESSEE REGULATORY AUTHORITY  
INSPECTION FEE**

**SPONSORING PETITIONER'S REBUTTAL EXHIBIT**

**HISTORIC VERSUS FORECASTED CALCULATION – GMV**

**REBUTTAL TESTIMONY  
OF  
GARY M. VERDOUW**

**TRA DOCKET NO. 13-00130**

**BACKGROUND**

**Q. Please state your name and business address.**

A. My name is Gary M. VerDouw and my business address is 727 Craig Road, Saint Louis, Missouri 63141.

**Q. By whom are you employed and in what capacity?**

A. I am employed by American Water Works Service Company ("Service Company") as the Director of Rates for American Water's seven-state Central Division, which includes Tennessee-American Water Company ("Tennessee American" or the "Company"). The Service Company is a subsidiary of American Water Works Company, Inc. ("American Water") that provides support services to American's subsidiaries, including Tennessee American.

**Q. Have you previously provided pre-filed direct testimony in this proceeding?**

A. Yes I have.

**Q. What is the purpose of your rebuttal testimony?**

A. My rebuttal testimony will address a number of areas discussed in the pre-filed testimony of Tennessee Attorney General's Office Consumer Advocate and Protection Division ("CAPD" or "Consumer Advocate Division") Witness William H. Novak relative to this proceeding. My rebuttal testimony is divided into the following sections:

1 I. Inclusion of Accounts Proposed in Capital Recovery Riders

2 II. Forecasted Cost Recovery

3 III. Modification of Capital Recovery Riders and Calculations

4 IV. Modification of Expense Recovery Riders and Calculations

5 In his pre-filed testimony, Mr. Novak referred to Tennessee American's proposed  
6 Qualified Infrastructure Investment Program ("QIIP"), Economic Development  
7 Investment Rider ("EDI"), and Safety and Environmental Compliance Rider ("SEC")  
8 collectively as the "Capital Recovery Riders." For ease of reference only, I will do the  
9 same herein. I will discuss each of these items in further detail in my rebuttal testimony  
10 below.

11 **Q. Are you sponsoring any rebuttal exhibits?**

12 A. Yes I am. I am sponsoring the following rebuttal exhibit:

13 - Petitioner's Rebuttal Exhibit Historic Versus Forecasted Calculation - GMV  
14 Calculation of QIIP, EDI and SEC Riders using historic versus forecasted  
15 calculations

16 I will discuss this exhibit in further detail in my testimony below.

17 **Q. Was the Petitioner's Rebuttal Exhibit listed above prepared by you or under your**  
18 **direction and supervision?**

19 A. Yes.

1 **Q. What were the sources of the data used to prepare the Petitioner's Rebuttal Exhibit**  
2 **listed above?**

3 A. The data used to prepare this exhibit was acquired from the books of account and  
4 business records of Tennessee American, the officers and associates of Tennessee  
5 American with knowledge of the facts based on their job responsibilities and activities,  
6 and other internal sources which I examined in the course of my investigation of the  
7 matters addressed in this testimony. As further discussed below, this exhibit was  
8 prepared in response to Mr. Novak's pre-filed testimony using information from  
9 Tennessee American's Petition and its responses to the data requests in this case.

10 **Q. Do you consider this data to be reliable and of a type that is normally used and**  
11 **relied on in your business for such purposes?**

12 A. Yes.

13 **Q. Does the Petitioner's Rebuttal Exhibit listed above accurately summarize such data**  
14 **and the results of analysis using such data?**

15 A. Yes, it does.

16 **Q. CAPD Witness Novak, on pages 5 and 6 of his pre-filed testimony, expresses his**  
17 **opinion on what serves the "public interest" under House Bill 191. Are you in full**  
18 **agreement with Mr. Novak's opinion?**

19 A. No, I am not in complete agreement here. While it may not be obvious at first glance,  
20 and perhaps not intentional, part of Mr. Novak's recitation of what determinations should  
21 be made by the Authority to determine whether the Company's Petition serves the public  
22 interest could be read not to recognize, at least in some manner, that House Bill 191

1 authorizes “alternative” regulatory mechanisms, possibly including some, as long as they  
2 are found to be consistent with the new statute, that may not have been previously  
3 permitted or explored in Tennessee. Although this is likely not Mr. Novak’s intent, it  
4 bears noting. In the end, the Authority will apply its experience, expertise and  
5 knowledge to determine what serves the public interest pursuant to House Bill 191.

#### **I. INCLUSION OF ACCOUNTS PROPOSED IN CAPITAL RECOVERY RIDERS**

6 **Q. CAPD Witness Novak, on page 8 of his pre-filed testimony, disagrees with**  
7 **Tennessee American’s inclusion of Transportation Equipment in the Economic**  
8 **Development Investment Rider. Are you in agreement with Mr. Novak’s**  
9 **interpretation of the legislation’s intent in this area?**

10 **A.** No, I am not. In support of his position, Mr. Novak has cited the transcript prepared by  
11 the Consumer Advocate Division of the March 13, 2013 hearing in the House Finance,  
12 Ways & Means Committee. Since this transcript does not contain a discussion regarding  
13 the “purchase and/or retrofit” of utility fleet vehicles as included in the Company’s filing  
14 in TRA Docket No. 13-00130, it is Mr. Novak’s opinion that the purchase and/or  
15 retrofitting of utility fleet vehicles “does not seem to be covered by this provision.” Mr.  
16 Novak’s limited and narrow interpretation of House Bill 191 is simply not supported by  
17 the plain and express language of the statute. The statute plainly refers to “infrastructure  
18 and equipment associated with alternative motor vehicle transportation fuel.” It is true  
19 that the statute neither outlines what constitutes “infrastructure and equipment” nor  
20 elaborates on the words “associated with” as set forth in the legislation. But, this is  
21 nonetheless the approach applied by the Tennessee General Assembly. While Mr. Novak

1 may not favor this approach, he cannot here either re-write the statute or superimpose an  
2 interpretation over the will of the Legislature. Applying the plain words of the statute,  
3 new alternative fuel vehicles and retrofitted alternative fuel vehicles are clearly  
4 “associated” with alternative motor vehicle transportation fuel. It would seem to me that  
5 if the Tennessee General Assembly intended this provision to only apply to investments  
6 related to fueling stations for vehicles powered by alternative fuels, it would have easily  
7 limited this provision to that effect.

8 **Q. What does House Bill 191 provide regarding alternative motor vehicle**  
9 **transportation?**

10 A. House Bill 191 amended Tennessee Code Annotated, Section 65-5-103 by adding the  
11 following language as a new subsection:

12 **65-5-103(d)(3)(A):**  
13

14 ...Expansion of economic development infrastructure may include, but is not  
15 limited to, the following:

16 (i) *Infrastructure and equipment associated with alternative motor vehicle*  
17 *transportation fuel*; (Emphasis added)

18 **Q. As contrasted to Mr. Novak’s interpretation of the above-quoted language, what is**  
19 **Tennessee American’s interpretation of the language regarding alternative motor**  
20 **vehicle transportation fuel?**

21 A. Based upon the plain language of the statute, Tennessee American interprets this  
22 provision to include the retrofit or addition of vehicles that operate on alternative motor  
23 vehicle transportation fuel, such as compressed natural gas, propane, or electricity. The  
24 statute is not ambiguous, and Tennessee American’s interpretation is not a stretched or

1 novel construction. Rather, the statute plainly refers to “infrastructure and equipment  
2 associated with alternative motor vehicle transportation fuel.” New alternative fuel  
3 vehicles and retrofitted alternative fuel vehicles are clearly “associated” with alternative  
4 motor vehicle transportation fuel.

5 **Q. On page 9 of his pre-filed testimony, Mr. Novak also cites the Company’s response**  
6 **to CAPD Data Request Item 10 in support of his position. Do you believe the**  
7 **Company’s response to this data request further supports his position?**

8 A. No, I do not. Mr. Novak cites the Company response to CAPD Data Request Item 10 in  
9 support of his position; however, I do not understand how the Company’s response to  
10 CAPD Data Request Item 10 accomplishes that. I have included the Company’s response  
11 to CAPD Data Request Item 10 below:

12 **Question:**

13  
14 10. Refer to VerDouw Direct Testimony, page 24, lines 14-16 which reads  
15 “Infrastructure can be expanded or enhanced as needed and alternative vehicle  
16 transportation fuel infrastructure can grow, all while mitigating the impact of large  
17 rate increases as part of the economic development growth.” Please explain the  
18 rationale for the Company’s reference to “alternative vehicle transportation fuel  
19 infrastructure.”

20 **Response:**

21  
22 The Company’s reference to “alternative vehicle transportation fuel infrastructure”  
23 refers to House Bill 191, which amends Tennessee Code Annotated, Section  
24 Title 65, Chapter 2, by adding the following language in Section 65-5-103: (3) (A)  
25 (i): “Infrastructure and equipment associated with alternative motor vehicle  
26 transportation fuel.” The Company’s intends to purchase and/or retrofit vehicles  
27 that would use alternative fuels such as natural gas, electricity, or propane.

28 The Company’s response to CAPD Data Request Item 10 clearly shows that the  
29 Company believes that investment in and retrofit of vehicles that would use alternative  
30 fuels such as natural gas, electricity, or propane is allowed in House Bill 191.



1   **Q.    Does Witness Novak’s interpretation of this provision appear to be consistent with**  
2       **the State of Tennessee’s overall public policy with respect to alternative fuels?**

3    A.    No, it does not.  Infrastructure and equipment expenditures that only add alternative  
4       vehicle fueling stations do little overall good, and have very limited impact, if there are  
5       not increasing numbers of alternative fuel vehicles deployed to make use of those fueling  
6       stations.  For this reason, among others, the Company included, in its EDI Rider, planned  
7       investments in the purchase and retrofit of utility vehicles to operate on alternative motor  
8       vehicle transportation fuel.

9   **Q.    Despite Mr. Novak’s attempt to use the partial legislative history of a provision in**  
10       **the statute, is the provision at issue here ambiguous?**

11   A.    No, it is not.  In fact, the position propounded by Mr. Novak cannot be gleaned from the  
12       plain language of the statute.

13   **Q.    Without conceding that it is appropriate for Witness Novak to rely upon the**  
14       **legislative transcript attached to his testimony under the particular circumstances**  
15       **presented, is his application of the transcript dispositive?**

16   A.    No, it is not.  In fact, as relied upon by Mr. Novak, the transcript primarily only addresses  
17       a single inquiry – whether the provision supported cross-subsidization.  The discussion  
18       set forth in the transcript does not, as apparently implied by Mr. Novak, exclude, or for  
19       that matter include, any particular infrastructure or equipment associated with alternative  
20       motor vehicle transportation fuel.  Rather, the discussion merely addresses the limited  
21       question that was raised – whether the provision supported cross-subsidization.  Contrary  
22       to Mr. Novak’s position, there is simply no language in either the statutory provision at

1 issue or in the transcript attached to Mr. Novak's testimony that excludes, or  
2 demonstrates an intent to exclude, new or retrofitted infrastructure or equipment from  
3 Tenn. Code Ann. Section 65-5-103(d)(3)(A)(i). Finally, it is likely that the then-pending  
4 legislation was discussed in other legislative sessions, in addition to the session captured  
5 by Mr. Novak. Again, it seems to me that if the Tennessee General Assembly intended  
6 this provision to only apply to investments related to fueling stations for vehicles  
7 powered by alternative fuels, it could have specifically and expressly limited this  
8 provision to that effect. Therefore, asking the Tennessee Regulatory Authority ("TRA"  
9 or "Authority") to accept Mr. Novak's position here is tantamount to requesting the  
10 Authority to supersede the will of the General Assembly.

11 **Q. CAPD Witness Novak, on page 8 of his pre-filed testimony, also disagrees with**  
12 **Tennessee American's inclusion of Computer and Peripheral Equipment (SCADA)**  
13 **in the Safety and Environmental Compliance ("SEC") Rider. Do you agree with**  
14 **Mr. Novak?**

15 **A.** No, I do not. Mr. Novak argues that the legislation authorizing the Company's proposed  
16 Capital Recovery Riders is specifically targeted at capital additions to utility plant  
17 infrastructure. As such, Mr. Novak contends that computer and peripheral equipment  
18 that is specific to the Company's Supervisory Control and Data Acquisition ("SCADA")  
19 system should not be included in the SEC Rider.

20 The SCADA system is an intricate part of the operation of both the treatment plant and  
21 distribution system. The SCADA system is composed not only of computers, but consists  
22 of equipment such as Remote Terminal Units ("RTU's"), radios, telemetry, monitoring

1 stations, and more. In the plant process, this system is responsible for filter operation  
2 (backwash, level control, flow control, monitoring), high and low service pump/motor  
3 operation (start and stop pumps and motors), starting and stopping motors in the  
4 distribution system, collecting data necessary for required state (Tennessee Department  
5 of Environment and Conservation, or "TDEC"), federal (United States Environmental  
6 Protection Agency, or "USEPA"), and regulatory (TRA) reporting, tracks chemical usage  
7 and inventory. Additionally, the system provides the Company water plant operators a  
8 first-hand look at what is going on with the system, thus better equipping them with the  
9 necessary information to make informed decisions regarding treatment and/or customer  
10 demand.

11 The SCADA system provides real-time information to the operator on water quality  
12 during the stages of the treatment process. This information includes the monitoring of  
13 turbidity, pH, chlorine residual, fluoride and streaming current. SCADA allows the  
14 operator to make immediate changes to the treatment process to ensure we maintain our  
15 stringent water quality standards.

16 The SCADA system provides the operator critical information about the status of the  
17 distribution system. SCADA provides water quality information such as chlorine  
18 residual and pH at various water tanks in the distribution system. It also provides critical  
19 information about the system status and demand at remote booster stations and water  
20 tanks. At the booster stations, SCADA provides system pressures (suction and discharge)  
21 and at the tanks it provides water levels. These metrics can change in an instant as  
22 demands suddenly increase or decrease from customer usage, firefighting demands or a

1 main break. The real time data that SCADA provides allows the plant operator to make  
2 immediate changes to flows in the system and ensure a stable and reliable availability of  
3 water to our customers.

4 The Company's SCADA system provides real time monitoring and alarms to many  
5 treatment and demand driven conditions and provides critical information allowing for  
6 immediate decision making and response by the plant operator. This real time  
7 information is critical to maintaining a stable and reliable supply that meets our stringent  
8 water quality standards.

9 It should be highlighted here that the computer and peripheral equipment included in this  
10 filing are specific to the SCADA system only and not relative to general computer  
11 equipment used elsewhere within the Company. General computer equipment is not  
12 included in, nor a part of, the SEC Rider. Because of this, and because of the reasons  
13 stated above for the need and operation of the Company's SCADA system, it is the  
14 Company's position that the computer and peripheral equipment included in the SEC  
15 Rider is appropriate and should remain a part of the SEC Rider investments.

## **II. FORECASTED COST RECOVERY**

16 **Q. CAPD Witness Novak, on pages 9-11 of his pre-filed testimony, opines that the cost**  
17 **recovery methodology used in the Capital Recovery Riders should be of a historic**  
18 **nature, rather than at a forecasted level as recommended by the Company. Do you**  
19 **agree with Mr. Novak's approach?**

1 A. No, I do not. Using a historic cost recovery methodology would be a big step back from  
2 the Authority's current use of a future, forecasted test year in the calculation of a revenue  
3 requirement for utilities that file a full-blown rate case. In passing House Bill 191, I do  
4 not believe it was the intent of the Tennessee General Assembly to take a regulatory step  
5 backward when calculating revenue requirements for any proposed alternative rate  
6 methodologies under the new legislation.

7 House Bill 191 amended Tennessee Code Annotated, Section 65-5-103 by adding, in  
8 part, the following language as a new subsection:

9 **65-5-103(d):**

10  
11 The authority is authorized to implement alternative regulatory methods to  
12 allow for public utility rate reviews and cost recovery *in lieu of a general*  
13 *rate case proceeding* before the utility.... (Emphasis added)

14 As explained further below, Mr. Novak's proposal to use actual investment costs for the  
15 Capital Recovery Riders would essentially undermine the very purpose and intent of  
16 House Bill 191.

17 House Bill 191 directs the TRA to consider various alternative regulatory mechanisms,  
18 including pass-throughs for such items as the TRA inspection fees, purchased power  
19 expense and purchased chemical expense; surcharges for safety requirements imposed by  
20 the state or federal government, reliability of public utility plant in service, or weather  
21 related natural disasters; and recovery of operational expenses, capital costs, or both  
22 related to the expansion of infrastructure for the purpose of economic development. The  
23 development and allowance of these alternative regulatory mechanisms will allow

1 Tennessee American to continue to invest in Tennessee to ensure safe, reliable service for  
2 our approximately 73,000 customers, while permitting Tennessee American the ability to  
3 recover prudent expenses and infrastructure investments *without incurring the expense*  
4 *of a full-blown rate case.*

5 If, however, Tennessee American is forced to file its Capital Recovery Riders using a  
6 historic recovery of investments made, as proposed by Mr. Novak, the regulatory lag  
7 realized in the later recovery of those actual investments may show that the Company  
8 would be better off to instead file for a full-blown rate case, thus defeating the purpose of  
9 House Bill 191.

10 **Q. Mr. VerDouw, you mention above that, in passing House Bill 191, you do not believe**  
11 **it was the intent of the Tennessee General Assembly to take a regulatory step**  
12 **backward when calculating revenue requirements for any proposed alternative rate**  
13 **methodologies under the new legislation. What do you mean by a “regulatory step**  
14 **backward”?**

15 **A.** Here is what I mean. Mr. Novak has proposed the application of a historic cost recovery  
16 methodology under the new statute. In Tennessee, in conducting full-blown general rate  
17 cases, irrespective of the new statute, the Authority, for some time, has applied a future,  
18 forecasted approach to recover both expenses and capital investments in the rate case.  
19 For instance, in Tennessee American’s most recent rate case, docketed as TRA Docket  
20 No. 2012-00049, Tennessee American filed the case on June 1, 2012. In this case,  
21 Tennessee American used a base year of the twelve months ending December 31, 2011,  
22 and a future, forecasted test year, or “attrition year,” that represents the twelve month

1 period of December 1, 2012 through November 30, 2013. Thus, the end of the attrition  
2 year carried the rate increase out a full 18 months from the filing date. The forecasted  
3 attrition year, the twelve month period ending November 30, 2013, was the basis for the  
4 revenue requirement approved by the Authority on October 15, 2012. Thus, the case  
5 approved by the Authority on October 15, 2012 reflected a future forecasted attrition year  
6 that began on December 1, 2012 and ended on November 30, 2013. This is a standard  
7 approach to general rate cases long applied by Tennessee and many other states.

8 A reason that Mr. Novak's approach would be a step backward is that his approach  
9 eliminates the use of a forecast attrition year all together, which is completely  
10 inconsistent with the methodology applied by the TRA in rate cases. Therefore,  
11 accepting Mr. Novak's preferred approach in implementing House Bill 191, a historic  
12 cost recovery methodology, would indeed be a regulatory step backward in Tennessee.

13 **Q. Mr. VerDouw, in light of Mr. Novak's proposed application of a historic cost**  
14 **recovery methodology, can you explain why Tennessee American might be better off**  
15 **to instead file for a full-blown rate case if capital recovery is based on actuals?**

16 A. Yes I can. Please see the enclosed Petitioner's Rebuttal Exhibit Historic Versus  
17 Forecasted Calculation – GMV. The Exhibit shows what the results would be if the  
18 Company's current filing were calculated and put in place as proposed versus the  
19 Company's current filing being put in place using historic, actual investments.

20 The Company's currently filed case requests a revenue requirement that would generate  
21 additional annual revenue of \$518,512 (after making adjustments to correct the pre-tax  
22 rate of return and the inclusion of forfeited discount rate in the calculation of revenue

1 taxes), or an increase of 1.10%. The filing is based on a thirteen month average of  
2 planned 2014 capital investments relative to the proposed QIIP, SEC, and EDI Riders,  
3 and includes an appropriate level of depreciation and property tax relative to the  
4 investments made. If an assumption is made that the entire filing was approved and made  
5 effective in February, 2014, that annual revenue requirement would go into effect at that  
6 time.

7 From there, an assumption was made that the investments included in this proceeding  
8 were all made as planned in 2014. With that, a true-up (reconciliation) to actual 2014  
9 activity would be done in early 2015. For purposes of this schedule, the true-up  
10 adjustment is assumed to be placed into rates on February 1, 2015.

11 With his historic cost recovery methodology, CAPD Witness Novak is proposing that the  
12 investments be made, paid for, and placed into service before a filing can even be made  
13 to recover those investments. In other words, the investments planned for 2014 would  
14 have to be completed prior to even filing for recovery of those investments. Assuming  
15 the filing was made after the 2014 calendar year was closed out, the filing would be  
16 made, at the earliest, on February 1, 2015. Given the 120 day period that the TRA is  
17 given to review the filing and approve a rate order, an assumption can be made that the  
18 Order for this filing would be received on or about June 1, 2015, or approximately 16  
19 months later than an Order would be received in the Company's current filing using a  
20 forecasted cost recovery methodology.

21 As shown on Petitioner's Rebuttal Exhibit Historic Versus Forecasted Calculation –  
22 GMV, the current case as filed by Tennessee American on October 4, 2013, using an



1 assumption that rates would be placed into effect on February 1, 2014, and again  
2 assuming that the additional true-up reconciliation would be placed into effect on  
3 February 1, 2015, would generate total revenue for Tennessee American in the amount of  
4 \$1,035,250 by the time June 1, 2015 would arrive.

5 If this case were to be filed under the historic filing assumption used by CAPD Witness  
6 Novak, the calculation of the revenue requirement (assuming the same capital spend level  
7 used in the Company's current filing) would generate an annual revenue of \$1,550,214.  
8 However, that revenue requirement would not begin until June 1, 2015. By that time, the  
9 revenue requirement under the forecasted assumptions used by Tennessee American  
10 would have generated \$1,035,250, and would generate an additional \$1,550,214 over the  
11 period of June 1, 2015 through May 31, 2016, as would the historic assumed filing  
12 proposed by CAPD Witness Novak.

13 As shown on Line 13 of page 1 of 4 of Petitioner's Rebuttal Exhibit Historic Versus  
14 Forecasted Calculation – GMV, the loss of the \$1,035,250 that would not be collected  
15 between February 1, 2014 and May 31, 2015 if the case were filed using historic levels of  
16 expenditures would effectively reduce earned return on equity ("ROE") for Tennessee  
17 American by 1.03%. The lost recovery on the investments as they are made, as well as  
18 the lost recovery of depreciation expense on those investments, would never be made up.

19 The loss of the ability to earn the Company's authorized return on equity over that period  
20 of time may be a factor in determining whether or not Tennessee American needs to  
21 consider filing a full-blown rate case in order to compensate for that lost ROE.

1 **Q. Would anything else happen between the 16 month period of time from when the**  
2 **proposed future look filing would be received versus Mr. Novak's proposed historic**  
3 **recovery of the riders?**

4 A. Yes. Under the current filing methodology proposed by Tennessee American, an  
5 additional filing would be made for planned 2015 investments. Assuming the filing was  
6 approved by the TRA, that filing and approved revenue requirement would go into place  
7 in either January or February of 2015. Thus, an additional revenue requirement would  
8 be put into effect four or five months before the first historic filing was ever approved,  
9 thus making the regulatory lag that would occur under the historic filing look even worse.

10 **Q. Let's get back to your comment above that Tennessee American might be better off**  
11 **to instead file for a full-blown rate case if capital recovery is based on historic cost**  
12 **recovery methodology. How so?**

13 A. As shown in the testimony above and on the attached exhibit, the regulatory lag the  
14 Company would experience under a filing that assumes recovery of historically incurred  
15 capital expenses does inhibit the Company's ability to earn its authorized return on  
16 equity. More importantly in this context, however, recovering these investments on a  
17 historic basis would actually be a step back from the pre-House Bill 191 regulatory  
18 environment in Tennessee that allows for a forward looking test year.

19 The Company's current filing in TRA Docket No. 13-00130 seeks recovery of  
20 approximately 50% of the planned capital expenditures for 2014. No return on the  
21 remaining 50% of the investments made and not included in TRA Docket No. 13-00130  
22 will be received until Tennessee American files a full-blown rate case proceeding. If the

1 historic recovery of investments, as supported by CAPD Witness Novak, is approved by  
2 the TRA, no recovery of the investments included in TRA Docket No. 13-00130 would  
3 occur until June, 2015, at the earliest. Given that, the Company would have to look very  
4 hard at whether or not Tennessee American would be better off to file a full-blown rate  
5 proceeding that would take the into account a future test year that would be 15 to 18  
6 months beyond a historic investment recovery that would start on June 1, 2015, as  
7 opposed to filing under an alternative regulatory mechanism based upon a historic cost  
8 recovery methodology.

9 Given that one of the primary purposes of the legislation is to provide utilities with  
10 alternative mechanisms that would extend the time between rate case filings, the use of a  
11 historic test year, as proposed by CAPD Witness Novak, would undermine the statute and  
12 thus the General Assembly's intent. The use of historic recovery of investments in a case  
13 like this truly would be a step back for the Tennessee regulatory environment and a  
14 retreat from the intent of the new legislation.

15 **Q. CAPD Witness Novak, on page 10 of his pre-filed testimony, states that the**  
16 **administration of the Capital Recovery Riders would be much easier using a historic**  
17 **recovery versus a forecasted recovery as proposed by Tennessee American. Do you**  
18 **agree?**

19 **A.** No, I do not. I have been involved in a number of filings for states that have alternative  
20 rate mechanisms, including filings in Illinois, Indiana, Ohio, and Missouri. Mr. Novak  
21 represents that the reconciliation would be much easier with a historic filing. A

1 reconciliation would need to be completed regardless of whether or not the filing is based  
2 on historic (actual) capital investment or forecasted (future) investment.

3 Historic alternative rate mechanism filings would require all of the detail information up  
4 front to show what was spent and how it was spent. Thus, the review process would take  
5 more time up front on a historic filing, as the detail information is reviewed for the actual  
6 investments made. However, with a historic filing, a reconciliation would still need to be  
7 completed after twelve months of revenue requirement have been collected to ensure that  
8 the revenue requirement authorized has been collected. At the completion of the  
9 reconciliation, an adjustment would be made to either add to or decrease the next filing  
10 amount to account for any over- or under-collection.

11 Forecasted (future) rate mechanism filings, such as this filing docketed as TRA Docket  
12 No. 13-00130, will require a more detailed reconciliation after the forecasted test year has  
13 been completed. Wherein the detailed review of a historic look filing would be done up  
14 front, the detailed review for a forecasted test year would be done once the test year is  
15 completed. At that time, detailed data for the investments made during the test year  
16 would be submitted and reconciled to the forecasted spend. As a result of the  
17 reconciliation, an adjustment (up or down) would be made to the surcharge. An  
18 additional reconciliation of the revenue requirement authorized versus the revenue  
19 requirement collected would also be made. I do not agree with Mr. Novak that the  
20 administration of the Capital Recovery Riders would be "much easier" under a historic  
21 recovery method. The reconciliation would be a part of the process using either

1 methodology, and I do not anticipate either reconciliation methodology to cause any  
2 issues in completing.

3 Assuming for the sake of discussion, however, that the forecasted rate methodology  
4 entails some administrative nuances not required under the historic approach, the  
5 Authority should consider whether any such distinctions outweigh the efficiencies and  
6 streamlining captured by lengthening the time between full blown rates cases and  
7 reducing rate shock, particularly in light of the safeguards provided in an annual review  
8 process and true-up and the purpose of the legislation.

9 **Q. CAPD Witness Novak, again on page 10 of his pre-filed testimony, recommends that**  
10 **a refund with interest be made when the future look forecast is not achieved. Do**  
11 **you agree that a provision for refund with interest is necessary?**

12 A. If a refund with interest is included, then a refund with interest should go both ways – in  
13 other words, if more capital investment is made than recovered, or if the authorized  
14 revenue requirement is not fully recovered, then the Company should be eligible to obtain  
15 a refund with interest on the unrecovered amount.

16 I would anticipate that any refund, either to the consumer or the Company, would be very  
17 de minimis in nature and may in fact cost more to administer than the interest refunded.  
18 Given that, consistent with the Company's Petition, I would not recommend that a refund  
19 with interest be a part of the calculation in the reconciliation processes.

1     **III.   MODIFICATION OF CAPITAL RECOVERY RIDERS AND CALCULATIONS**

2     **Q.    CAPD Witness Novak, on page 11 of his pre-filed testimony, recommends that**  
3         **accumulated deferred income taxes (“ADIT”) be accounted for as a component of**  
4         **the revenue requirement for each Capital Recovery Rider. What are your thoughts**  
5         **on this?**

6     **A.**    In preparing the revenue requirement calculation for each of the Capital Recovery Riders  
7         included in TRA Docket No. 13-00130, Tennessee American attempted to follow the  
8         procedures for revenue requirement calculation used in other states that have such capital  
9         recovery riders. In addition, the Company responded to CAPD Data Request Item 6,  
10        wherein the Company was asked to calculate the effect of ADIT on the revenue  
11        requirement. The resulting calculation showed that the impact of ADIT on the  
12        Company’s proposed revenue requirement in this case is \$1,358 – a de minimis amount  
13        that does not even move the surcharge percentage that is to be applied to the customer bill  
14        for each alternative rate mechanism.

15        It is for these reasons that I would not recommend the calculation of ADIT be included in  
16        the revenue requirement for the Capital Recovery Riders recommended in the Company’s  
17        filing.

18     **Q.    As evidenced on page 13 of his pre-filed testimony, CAPD Witness Novak does not**  
19         **agree that the Company’s proposed calculation of net plant additions includes an**  
20         **adjustment for plant retirements. Does the Company’s filing include an adjustment**  
21         **for plant retirements?**

1 A. Yes it does. The Company took a look at actual retirements by asset account for the  
2 calendar years of 2011 and 2012 and used a two year average of retirements by plant  
3 account to adjust for retirements in the revenue requirement calculation. It would be very  
4 hard to estimate retirements by projects, as each replacement project would have different  
5 retirement amounts, if any, upon completion. The Company concluded that a two year  
6 average of actual retirements would be a good base of retirements to use for this filing.  
7 Mr. Novak may have looked at some investment accounts and found that no retirements  
8 were included, as there were no actual retirements for those particular accounts, in  
9 concluding that no retirements were included in the filing. The Company did forecast  
10 retirements by using the two year average of actual retirements. Actual retirements for  
11 each project will be reflected in the final reconciliation done for this case.

12 **Q. CAPD Witness Novak, on pages 13 and 14 of his pre-filed testimony, recommends**  
13 **that accumulated depreciation be accounted for as a component of the net plant**  
14 **additions in the revenue requirement for each Capital Recovery Rider. Do you**  
15 **agree that this is necessary?**

16 A. Once again, in preparing the revenue requirement calculation for each of the Capital  
17 Recovery Riders included in TRA Docket No. 13-00130, Tennessee American attempted  
18 to follow the procedures for revenue requirement calculation used in other states that  
19 have such capital recovery riders. A quick calculation of the effects of including  
20 accumulated depreciation on the overall revenue requirement shows that the overall  
21 effect is less than one tenth of one percent in the total. In other words, the effect on the  
22 final revenue requirement is de minimis.

1 It is for these reasons that I would not recommend the calculation of accumulated  
2 depreciation be included in the revenue requirement for the Capital Recovery Riders  
3 recommended in the Company's filing.

4 **Q. Mr. Novak, on page 15 of his pre-filed testimony, disagrees with the Company's**  
5 **proposed calculation of the pre-tax rate of return. Do you agree with Mr. Novak's**  
6 **recommended calculation?**

7 A. I agree with Mr. Novak's use of a 9.4544% pre-tax rate of return. It was Tennessee  
8 American's intent to use the authorized rate of return from the Company's most recent  
9 rate case docketed as TRA Docket No. 12-00049. Tennessee American agrees with Mr.  
10 Novak's calculation and recommends its use in this case.

11 **Q. Mr. Novak, on page 18 of his pre-filed testimony, states that the Company omitted**  
12 **the incremental forfeited discount rate of -0.866% in the calculation of revenue**  
13 **taxes. Do you agree with Mr. Novak in this regard?**

14 A. Yes. I would agree that the Company should have included the incremental forfeited  
15 discount rate in its calculation of revenue taxes. The omission of the incremental  
16 forfeited discount rate of -0.866% in the Company's calculation of revenue taxes was a  
17 complete oversight on my part, and I apologize for the omission. I agree with Mr.  
18 Novak's inclusion of the forfeited discount rate of -0.866%, which drops the total  
19 Revenue Tax Rate to 3.616%. Tennessee American agrees with Mr. Novak's calculation  
20 and recommends its use in this case.



1    **Q.    Mr. Novak, on pages 18 through 20 of his pre-filed testimony, makes four additional**  
2       **recommendations to consider regarding the Capital Recovery Riders. What are**  
3       **those recommendations?**

4    A.   Mr. Novak makes four additional recommendations or modifications to the Capital  
5       Recovery Riders. The first recommendation is that the Capital Recovery Riders be  
6       suspended in any year when the Company is over-earning its authorized rate of return.  
7       The second recommendation is a “sunset” clause of five years, at which time the TRA  
8       can re-evaluate the need for the Capital Recovery Riders and decide if they should be  
9       made permanent. The third recommendation pertains to the clarification as to the exact  
10      dates that the Company plans to use regarding the filing and implementation of rates.  
11      Finally, Mr. Novak recommends that the Company file exhibits and supporting  
12      workpapers along with its annual tariff filing that fully support the rate charges through  
13      the Capital Recovery Riders.

14      I will address each of Mr. Novak’s recommendations in the following question and  
15      answers provided below.

16   **Q.    Mr. Novak’s first recommendation is that the Capital Recovery Riders be**  
17       **suspended in any year when the Company is over-earning its authorized rate of**  
18       **return. Do you agree with Mr. Novak’s recommendation?**

19   A.   While I understand in principal Mr. Novak’s recommendation to suspend the riders in  
20       any year when the Company is earning above its authorized rate of return, there are at  
21       times extenuating circumstances that can cause a utility to earn above its authorized rate  
22       of return that have nothing to do with day-to-day operation of the business. For instance,

1 if an extraordinary accounting entry made were the reason the Company is earning above  
2 its authorized rate of return, then I would certainly disagree with any planned suspension  
3 resulting from the entry. An extremely hot summer could result in a utility earning above  
4 its authorized rate of return. This could be followed up by an unusually wet and cool  
5 summer, which could result in an under-earning situation. I suppose that accounting for  
6 one-off accounting entries and applying a two year average of earned return on equity  
7 might in some sense lessen any unintended consequences of Mr. Novak's approach.

8 Notwithstanding the foregoing, the legislation itself contains appropriate safeguards with  
9 substantially the same impact as that contemplated by Mr. Novak. For instance, under  
10 the statute, the Authority may terminate an approved plan or modify an approved plan.  
11 Certainly, either of these approaches could apply in the context of an earning above the  
12 authorized rate of return scenario. Unlike an automatic suspension, the process set forth  
13 in the statute permits the Authority to explore, and the public utility to explain, any  
14 aberrations or anomalies. In an earning above its authorized rate of return context, it is  
15 likely that the Authority would act speedily, so the public interest is already captured  
16 within the statute. Therefore, the Company opposes Mr. Novak's proposal here and does  
17 not recommend its adoption by the Authority.

18 **Q. Mr. Novak's second recommendation is that the Capital Recovery Riders be given a**  
19 **finite life of no more than five years. What are your thoughts on this?**

20 **A.** I disagree with Mr. Novak on his second recommendation. House Bill 191 does not  
21 include a "sunset clause" or give a finite life of five years to the legislation. I do not

1 believe it was the intent of House Bill 191 to virtually “sunset” the legislation in five  
2 years. As such, statute does not support this second recommendation.

3 Moreover, as outlined above, the legislation contains provisions for terminations and  
4 modifications. Thus, any perceived public interest protection gains by the proposed  
5 sunset clause are already captured by the Authority’s flexibility to terminate and modify.

6 **Q. Mr. Novak’s third recommendation is that the Company makes a tariff filing with**  
7 **the TRA for each of the Capital Recovery Riders by March 1 based on actual results**  
8 **achieved in the preceding calendar year. Do you agree with Mr. Novak’s**  
9 **recommendation?**

10 A. I do not agree with Mr. Novak’s third recommendation. First of all, Mr. Novak’s  
11 recommendation is based upon his recommendation that the filings be based on actual  
12 results achieved in the preceding calendar year. As I have stated earlier in my rebuttal  
13 testimony, I disagree with Mr. Novak’s recommendation that a historic, actual period of  
14 time be used in the calculation of the Capital Recovery Riders allowed in House Bill 191.  
15 If Tennessee American is forced to file its Capital Recovery Riders using a historic  
16 recovery of investments made, the regulatory lag realized in the later recovery of those  
17 actual investments may show that the Company would be better off to instead file for a  
18 full-blown rate case, thus defeating the purpose of House Bill 191.

19 **Q. Any further response to Mr. Novak’s proposed filing schedule for the Capital**  
20 **Recovery Riders?**

21 A. Tennessee American’s intent is to file for its Capital Recovery Riders so that the  
22 approved tariffs would go into effect on January 1 of each year. In order to accomplish

1 this, Tennessee American would file its Capital Recovery Riders prior to September 1 of  
2 each year. Filing prior to September 1 and implementing rates as of January 1 would  
3 match the rate recovery to the proposed test year that the investments would be made.

4 After the test year has been completed, and the reconciliation to compare investments  
5 made versus forecast, and revenue collected versus authorized will need to be completed.  
6 It is Tennessee American's intent to file the reconciliation no later than 60 days after the  
7 end of the test year, or by March 1 of each year. Tennessee American would then  
8 recommend that the review period by the TRA of the reconciliation be completed within  
9 90 days of submission, or by June 1 of that year. Tennessee American would further  
10 recommend that the difference found in the reconciliation (either over or under) be  
11 applied to the current surcharge and collected over a seven month period, so the  
12 reconciliation amount is recovered by the end of that year. That way, reconciliations for  
13 investments made and revenue requirements recovered would stay on the same calendar  
14 year schedule.

15 **Q. Any additional comment or response to Mr. Novak's proposed filing schedule in the**  
16 **future for the PCOP Rider?**

17 A. Tennessee American's intent is to file for its PCOP Rider so that the approved tariff  
18 would go into effect either 60 or 90 days after the end of the attrition year, or 60 to 90  
19 days every twelve months thereafter. It would be Tennessee American's intent to file  
20 actual PCOP expenses, as well as sales in hundred gallons, within 30 days after the end of  
21 the attrition year (or every twelve months thereafter). The review of the PCOP expenses,

1 as well as what was collected versus authorized, would be pretty straight forward, and  
2 should be accomplished within 30 to 60 days upon receipt from the Company.

3 **Q. Mr. Novak's fourth recommendation is that the Company file exhibits and**  
4 **supporting workpapers that fully support the rate charges through the Capital**  
5 **Recovery Riders. In addition, the Company should also be required to file**  
6 **testimony that fully describes the purpose of the forecasted plant. Do you agree**  
7 **with Mr. Novak's recommendation?**

8 A. I have no problem with Mr. Novak's fourth recommendation. Tennessee American's  
9 filing in TRA Docket No. 13-00130 is comprehensive and very well supported and  
10 documented. This was by design. Tennessee American, in its filing, attempted to  
11 provide very comprehensive testimony and detailed exhibits that fully support the filing  
12 in its entirety. Company representatives would be happy to meet with TRA and CAPD  
13 Staff upon the completion of this case to explore and consider additional ways to improve  
14 upon such support and documentation. Tennessee American desires for its filings under  
15 the new statute to be user-friendly and as easy to understand as possible.

16 **IV. MODIFICATION OF EXPENSE RECOVERY RIDERS AND CALCULATIONS**

17 **Q. Mr. Novak details the Company's proposed Production Costs and Other Pass-**  
18 **Throughs, or "PCOP," in pages 20 through 25 of his pre-filed testimony. Mr.**  
19 **Novak discusses issues he has with the proposed PCOP on pages 24 and 25 of his**  
20 **pre-filed testimony. What are your thoughts on Mr. Novak's concerns with the**  
21 **PCOP?**

1 A. I will address each of Mr. Novak's concerns individually below.

2 **Q. Mr. Novak's first issue with the PCOP is a concern that the Company would be**  
3 **double recovering TRA Inspection Fees by recognizing TRA Inspection Fees**  
4 **captured in the Capital Recovery Rider revenue calculation, and again recognizing**  
5 **TRA Inspection Fees captured in the PCOP. Do you share Mr. Novak's concern**  
6 **regarding double recovery of the TRA Inspection Fees?**

7 A. No, I do not. As the initial filing of this case was being prepared, the issue of double  
8 recovery of TRA Inspection Fees was not contemplated. It was never the intent of  
9 Tennessee American to double recover anything, including Inspection Fees. However,  
10 based on the Company's initial preparation of the filing, I can see where double recovery  
11 of TRA Inspection Fees could be assumed.

12 The TRA addressed this in their Data Request Item 13 to Tennessee American. The full  
13 data request and the Company's response are included below:

14 **Question:**

15  
16 13. If TAWC grosses up investment amounts in QIIP and EDIP for inspection  
17 fees, how does the Company ensure that a double recovery does not  
18 occur when recovering the inspection fees in the PCOP? Please explain.

19 **Response:**

20  
21 It is not Tennessee American's intention for double recovery of the inspection  
22 fees related to any of the proposed investment in QIIP, SEC and EDI.  
23 Tennessee American would propose that the PCOP calculation include an  
24 adjustment for the additional gross up amount on the QIIP, EDI or SEC  
25 investment. Tennessee American will include the adjustment in the PCOP  
26 calculation.

27 Upon filing of the final tariffs for the PCOP, Tennessee American will be sure to make an  
28 adjustment for TRA Inspection Fees included in the Capital Recovery Riders.

1 Q. Mr. Novak also addresses the omission of the incremental forfeited discount rate of -  
2 0.866% in its gross-up calculation for revenue taxes. Do you agree with Mr. Novak  
3 that the incremental forfeited discount rate should be made a part of the gross-up  
4 calculation for revenue taxes?

5 A. Yes, I do agree with Mr. Novak that the Forfeited Discount Rate should have been  
6 included as part of the gross-up calculation for revenue taxes. As I discussed earlier in  
7 my rebuttal testimony, it was not the intent to exclude the Forfeited Discount Rate in any  
8 of the gross-up calculations. Tennessee American will ensure that the Forfeited Discount  
9 Rate will be included in the gross-up calculation when the first PCOP tariff is filed.

10 Q. On page 24 of his pre-filed testimony, Mr. Novak states that the Company has  
11 omitted any recognition of the TRA's Water Loss Policy by not including an  
12 adjustment that caps water losses at 15%. Do you agree that an adjustment should  
13 be made to reflect a water loss level of 15%?

14 A. Tennessee American recognizes that there are a lot of factors that need to be looked at  
15 when determining water loss and whether or not the use of a 15% water loss cap is  
16 appropriate. However, Tennessee American does not have a problem with adjusting for a  
17 15% water loss cap as per previous TRA direction. The TRA addressed this in their Data  
18 Request Item 48 to Tennessee American. The full data request and the Company's  
19 response are included below:

20 **Question:**

21  
22 48. During recent rate cases, the TRA has capped water loss at 15% in  
23 calculating Fuel and Power and Chemicals expense. Do the proposed  
24 calculations incorporate a 15% water loss (as previously ordered by the  
25 TRA) in the calculations that are based upon water volumes? If not,

1 please explain. If so, please identify where this appears in the  
2 calculations.

3 **Response:**

4  
5 The expenses in the settlement agreement on which the base production costs  
6 and other pass-throughs are calculated include an adjustment to no more than  
7 15% water loss. The calculation for the PCOP did not specifically include an  
8 adjustment for no more than 15% water loss as the attrition year period is not  
9 completed. However, Tennessee American would expect to make that  
10 adjustment based on previous TRA Orders if water loss exceeds 15% during the  
11 actual attrition year and each period going forward.

12 As the Company has stated in response to TRA Data Request Item 48, Tennessee  
13 American will ensure that an adjustment has been made to reflect no more than 15%  
14 water loss upon the filing of the PCOP tariff.

15 **Q. On page 25 of his pre-filed testimony, Mr. Novak also has a list of modifications that**  
16 **he recommends for both the Expense Recovery Rider and the Capital Recovery**  
17 **Riders; namely, the provision for suspension of the Rider when the Company is**  
18 **over-earning its authorized return; a tariff life of no more than five years; review of**  
19 **the tariff upon the petition of any interested party; general ledger support (with**  
20 **associated journal entries) accompanying the annual tariff filing; and tariff filing**  
21 **and implementation dates of March 1<sup>st</sup> and April 1<sup>st</sup>. What are your thoughts on**  
22 **this?**

23 **A.** I have addressed Mr. Novak's modifications he is proposing above relative to both the  
24 Capital Recovery Riders and the Expense Recovery Rider in my earlier testimony when I  
25 discussed Mr. Novak's same proposed modifications relative to the Capital Recovery  
26 Riders. I would refer you back to that section of my testimony for my thoughts and  
27 recommendations for each of Mr. Novak's proposed modifications. My thoughts would  
28 be the same for both the Capital Recovery Riders and the Expense Recovery Rider.



1     **Q.     Mr. Novak, on pages 25 and 26 of his pre-filed testimony, expresses concern on the**  
2           **cost impact for the TRA to continually audit and monitor the costs and rate**  
3           **calculations contained in the annual filings for these Riders. Do you share Mr.**  
4           **Novak's concern?**

5     **A.**     I do not. Both the Capital Recovery Riders and the Expense Recovery Rider as proposed  
6           by the Company are of a much narrower scope than the review and audit that would need  
7           to be done for a full-blown rate case. An audit of the Riders will require the review of  
8           specific asset and expense accounts, looking at specific projects and costs associated with  
9           those projects. A full-blown rate case would require the review and audit of all income  
10          statement and balance sheet accounts.

11          I have personal experience in filing alternative regulatory filings, such as this, in Illinois,  
12          Indiana, Ohio, and Missouri. The information provided by the Company here to assist  
13          the TRA in its review is comprehensive, and Tennessee American will do whatever it can  
14          to provide additional detail as requested. My experience has shown that the burden of  
15          regulatory review is much less than with the filing of a full-blown rate case.

16          Tennessee American would be happy to meet with TRA and CAPD Staff to discuss  
17          whether the information the Company is providing in support of its Capital Recovery  
18          Riders and its Expense Recovery Rider meets the needs of the review being performed,  
19          with an aim to make the administrative review efficient, streamlined and user-friendly.

1   **Q.   On pages 25 and 26 of his pre-filed testimony, Mr. Novak expresses additional**  
2       **concern with respect to the Expense Recovery Rider and goes on to state that “it**  
3       **may well be that the regulatory costs incurred by the Company, the TRA, and other**  
4       **interested parties including the CAPD would outweigh the Rider’s benefits as it**  
5       **would contribute little to enhance the Company’s opportunity to earn its authorized**  
6       **rate of return between rate case filings.” Do you share Mr. Novak’s concern?**

7   **A.**   Again, I do not. Of all the Capital Recovery Riders and the Expense Recovery Rider, the  
8       Expense Recovery Rider would require the least amount of preparation on the  
9       Company’s end, and would be by far the easiest to audit and review on the regulatory  
10      end. Even though Mr. Novak states that the PCOP would “contribute little to enhance the  
11      Company’s opportunity to earn its authorized rate of return between rate case filings[,]”  
12      the Company has shown, in its response to CAPD Data Request Item 14, that productions  
13      costs can be very volatile in nature from one year to the other. The swing in these costs  
14      from year to year can be in the hundreds of thousands of dollars. In my opinion, the  
15      PCOP has the ability to materially contribute to enhance the Company’s opportunity to  
16      earn its authorized rate of return between rate case filings.

17      For the reasons stated above, I do not share Mr. Novak’s concern regarding the  
18      administrative burden of preparing and auditing the Company’s proposed PCOP as  
19      proposed by the Company. I believe the Capital Recovery Riders and the Expense  
20      Recovery Riders, as proposed by the Company, will definitely extend the time between  
21      the filing of full-blown rate cases. I see the additional regulatory review burden that the  
22      proposed Riders would put on the TRA and the CAPD as much less than the regulatory  
23      review burden that a full-blown rate case would place on all parties.

1     **Q.     Does this conclude your prepared rebuttal testimony?**

2     **A.     Yes it does.**

3

4

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Tennessee American Water Company  
 Qualified Infrastructure Investment Program Rider (QIIP)  
 Economic Development Investment Rider (EDI)  
 Safety and Environmental Compliance Rider (SEC)  
 Comparison of Revenue Requirement Received and Reduction in Earned Return on Equity ("ROE")  
 Using Current TAWC Filing and Assuming True-Up in February 2015  
 As Compared to CAPD Assumed Historic Filing on 2/1/2015 with Order Received 6/1/2015

Line Number	Rate Mechanism	Case As Filed by TAWC on 10/4/2013 with True-Up in February 2015			Using CAPD Assumed Historic Filing - Case Filed on 2/1/2015; Order Rec'd on 6/1/2015
		As filed on 10/4/2013; Assume that Order is Received on 2/1/2014	February-May 2015 True-up Addition to Revenue Requirement	Total Revenue Requirement Received 2/1/2014 - 6/1/2015	
1					
2	QIIP	\$ 378,149	\$ 353,649	\$ 731,798	\$ 1,060,948
3					
4	EDI	85,785	63,714	149,499	191,142
5					
6	SEC	54,578	99,375	153,953	298,125
7					
8	Total	<u>\$ 518,512</u>	<u>\$ 516,738</u>	<u>\$ 1,035,250</u>	<u>\$ 1,550,214</u>
9					
10					
11	2014 Average Equity:			<u>\$ 58,636,000</u>	
12					
13	Reduction in ROE based on Historic vs. Forecasted Riders:			<u>1.03%</u>	

**Tennessee American Water Company  
Qualified Infrastructure Investment Program (QIIP) Rider  
Calculation of QIIP Revenue Requirement  
As Filed by TAWC and as Proposed by the CAPD in Their Direct Testimony Dated December 20, 2013**

Line Number	Description	As Filed by TAWC On October 4, 2013 - Assumes Forecasted 2014 Test Year	CAPD Historic Filing Proposal - Assumes Filing on February 1, 2015 for 2014 Actual Test Year
1	Additions Subject to QIIP:	\$ 2,514,170	\$ 5,122,304
2	Plus: Cost of Removal less Salvage	97,710	97,710
3	Less: Contributions in Aid to Construction (CIAC)	-	-
4	Net Investment Supplied QIIP Additions:	<u>2,611,881</u>	<u>5,220,014</u>
5			
6	Pre-Tax Rate of Return:	9.46%	9.46%
7	Pre-Tax Return on Additions:	<u>\$ 247,164</u>	<u>\$ 493,974</u>
8			
9	Depreciation Expense on QIIP Additions:	84,448	164,136
10			
11	Property and Franchise Taxes Associated with QIIP:	\$ 32,862	\$ 364,475
12			
13	QIIP Revenues:	<u>\$ 364,475</u>	<u>\$ 1,022,584</u>
14			
15	Revenue Taxes	3.62%	3.62%
16	Total QIIP Revenues with Revenue Taxes	<u>\$ 378,149</u>	<u>\$ 1,060,948</u>
17			
18	Volumetric and Metered Revenue as Per Docket No. 12-00049	<u>\$ 47,073,724</u>	<u>\$ 47,073,724</u>
19			
20	QIIP Percentage to Apply to Bill:	<u>0.80%</u>	<u>2.25%</u>
21			
22	Projected Date of Receipt of Rate Order from TRA:	<u>2/1/2014</u>	<u>6/1/2015</u>
23			
24	Delay of Receipt of Revenue Requirement (in Months):	<u>0</u>	<u>16</u>

**Tennessee American Water Company  
Economic Development Investment (EDI)  
Calculation of EDI Revenue Requirement**

**As Filed by TAWC and as Proposed by the CAPD in Their Direct Testimony Dated December 20, 2013**

<b>Line Number</b>	<b>Description</b>	<b>As Filed by TAWC On October 4, 2013 - Assumes Forecasted 2014 Test Year</b>	<b>CAPD Historic Filing Proposal - Assumes Filing on February 1, 2015 for 2014 Actual Test Year</b>
1	Additions Subject to EDI:	\$ 604,569	\$ 1,252,951
2	Plus: Cost of Removal less Salvage	-	-
3	Less: Contributions in Aid to Construction (CIAC)	53,204	53,204
4	Net Investment Supplied EDI Additions:	<u>\$ 551,366</u>	<u>\$ 1,199,748</u>
5			
6	Pre-Tax Rate of Return:	9.46%	9.46%
7	Pre-Tax Return on Additions:	<u>\$ 52,176</u>	<u>\$ 113,533</u>
8			
9	Depreciation Expense on EDI Additions:	22,339	53,769
10			
11	Property and Franchise Taxes Associated with EDI:	<u>8,168</u>	<u>16,928</u>
12			
13	EDI Revenues:	<u>\$ 82,683</u>	<u>\$ 184,230</u>
14			
15	Revenue Taxes	3.62%	3.62%
16	Total EDI Revenues with Revenue Taxes	<u><u>\$ 85,785</u></u>	<u><u>\$ 191,142</u></u>
17			
18	Volumetric and Metered Revenue as Per Docket No. 12-00049	<u><u>\$ 47,073,724</u></u>	<u><u>\$ 47,073,724</u></u>
19			
20	EDI Percentage to Apply to Bill:	<u><u>0.18%</u></u>	<u><u>0.41%</u></u>
21			
22	Projected Date of Receipt of Rate Order from TRA:	<u><u>2/1/2014</u></u>	<u><u>6/1/2015</u></u>
23			
24	Delay of Receipt of Revenue Requirement (in Months):	<u><u>0</u></u>	<u><u>16</u></u>

**Tennessee American Water Company  
Safety and Environmental Compliance (SEC) Rider  
Calculation of SEC Revenue Requirement**

**As Filed by TAWC and as Proposed by the CAPD in Their Direct Testimony Dated December 20, 2013**

<b>Line Number</b>	<b>Description</b>	<b>As Filed by TAWC On October 4, 2013 - Assumes Forecasted 2014 Test Year</b>	<b>CAPD Historic Filing Proposal - Assumes Filing on February 1, 2015 for 2014 Actual Test Year</b>
1	Additions Subject to SEC:	\$ 270,289	\$ 1,113,404
2	Plus: Cost of Removal less Salvage	-	-
3	Less: Contributions in Aid to Construction (CIAC)	-	-
4	Net Investment Supplied SEC Additions:	<u>\$ 270,289</u>	<u>\$ 1,113,404</u>
5			
6	Pre-Tax Rate of Return:	9.46%	9.46%
7	Pre-Tax Return on Additions:	<u>\$ 25,578</u>	<u>\$ 105,362</u>
8			
9	Depreciation Expense on SEC Additions:	23,375	166,939
10			
11	Property and Franchise Taxes Associated with SEC:	<u>3,652</u>	<u>15,043</u>
12			
13	SEC Revenues:	<u>\$ 52,604</u>	<u>\$ 287,345</u>
14			
15	Revenue Taxes	3.62%	3.62%
16	Total EDI Revenues with Revenue Taxes	<u>\$ 54,578</u>	<u>\$ 298,125</u>
17			
18	Volumetric and Metered Revenue as Per Docket No. 12-00049	<u>\$ 47,073,724</u>	<u>\$ 47,073,724</u>
19			
20	SEC Percentage to Apply to Bill:	<u>0.12%</u>	<u>0.63%</u>
21			
22	Projected Date of Receipt of Rate Order from TRA:	<u>2/1/2014</u>	<u>6/1/2015</u>
23			
24	Delay of Receipt of Revenue Requirement (in Months):	<u>0</u>	<u>16</u>

STATE OF MISSOURI       )  
                                      )  
COUNTY OF SAINT LOUIS   )

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

He is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, his testimony would set forth in the annexed transcript.

Gary M. VerDouw  
Gary M. VerDouw

Sworn to and subscribed before me  
this 26<sup>th</sup> day of December, 2013.

Mollie L. Ogden  
Notary Public

My Commission Expires: August 2, 2016

