

**BEFORE
THE TENNESSEE REGULATORY AUTHORITY**

PETITION OF TENNESSEE-)
AMERICAN WATER COMPANY)
REGARDING THE 2015 INVESTMENT)
AND RELATED EXPENSES UNDER)
THE QUALIFIED INFRASTRUCTURE)
INVESTMENT PROGRAM RIDER,)
THE ECONOMIC DEVELOPMENT)
RIDER, AND THE SAFETY AND)
ENVIRONMENTAL COMPLIANCE)
RIDER)

Docket No. 14-00121

**DIRECT TESTIMONY
of
WILLIAM H. NOVAK**

**ON BEHALF OF
THE CONSUMER ADVOCATE AND PROTECTION DIVISION
OF THE
TENNESSEE ATTORNEY GENERAL'S OFFICE**

January 2, 2015

IN THE TENNESSEE REGULATORY AUTHORITY
AT NASHVILLE, TENNESSEE

IN RE:

PETITION OF TENNESSEE-AMERICAN
WATER COMPANY REGARDING THE
2015 INVESTMENT AND RELATED
EXPENSES UNDER THE QUALIFIED
INFRASTRUCTURE INVESTMENT
PROGRAM RIDER, THE ECONOMIC
DEVELOPMENT INVESTMENT RIDER,
AND THE SAFETY AND ENVIRONMENTAL
COMPLIANCE RIDER

Docket No. 14-00121

AFFIDAVIT

I, William H. Novak, CPA, on behalf of the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.


WILLIAM H. NOVAK

Sworn to and subscribed before me
this 17th day of Dec., 2014.


NOTARY PUBLIC

My commission expires: July 6, 2015

ATTACHMENTS

Attachment WHN-1

William H. Novak Vitae

1 **Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**
2 **OCCUPATION FOR THE RECORD.**

3 **A1.** My name is William H. Novak. My business address is 19 Morning Arbor Place,
4 The Woodlands, TX, 77381. I am the President of WHN Consulting, a utility
5 consulting and expert witness services company.¹
6

7 **Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND**
8 **PROFESSIONAL EXPERIENCE.**

9 **A2.** A detailed description of my educational and professional background is provided
10 in Attachment WHN-1 to my testimony. Briefly, I have both a Bachelors degree
11 in Business Administration with a major in Accounting, and a Masters degree in
12 Business Administration from Middle Tennessee State University. I am a
13 Certified Management Accountant, and am also licensed to practice as a Certified
14 Public Accountant.
15

16 My work experience has centered on regulated utilities for over 30 years. Before
17 establishing WHN Consulting, I was Chief of the Energy & Water Division of the
18 Tennessee Regulatory Authority where I had either presented testimony or
19 advised the Authority on a host of regulatory issues for over 19 years. In
20 addition, I was previously the Director of Rates & Regulatory Analysis for two
21 years with Atlanta Gas Light Company, a natural gas distribution utility with
22 operations in Georgia and Tennessee. I also served for two years as the Vice
23 President of Regulatory Compliance for Sequent Energy Management, a natural

¹ State of Tennessee, Registered Accounting Firm ID 3682.

1 gas trading and optimization entity in Texas, where I was responsible for ensuring
2 the firm's compliance with state and federal regulatory requirements.

3
4 In 2004, I established WHN Consulting as a utility consulting and expert witness
5 services company. Since 2004 WHN Consulting has provided testimony or
6 consulting services to state public utility commissions and state consumer
7 advocates in at least ten state jurisdictions as shown in Attachment WHN-1.

8
9 **Q3. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

10 **A3.** I am testifying on behalf of the Consumer Advocate & Protection Division
11 ("CAPD" or "the Consumer Advocate") of the Tennessee Attorney General's
12 Office.

13
14 **Q4. HAVE YOU PRESENTED TESTIMONY IN ANY PREVIOUS CASES**
15 **CONCERNING TENNESSEE-AMERICAN WATER COMPANY?**

16 **A4.** Yes. I presented testimony in Dockets U-86-7402, U-87-7534, 89-15388, 91-
17 05224, 93-06946, 10-00189, 12-00149, 12-00157 and 13-00130 concerning
18 Tennessee-American Water Company ("TAWC" or "the Company") as well as
19 testimony concerning TAWC in other generic tariff and rulemaking matters. In
20 addition, I previously advised the TRA on issues in other TAWC dockets where I
21 did not present testimony.

1 ***Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS***
2 ***PROCEEDING?***

3 ***A5.*** My testimony will address the calculations supporting the Company's tariff filing
4 that requests authority to implement the following surcharges in its capital
5 recovery tariff riders.

Rider	Current Surcharge	Proposed Surcharge
Qualified Infrastructure Investment Program ("QIIP") Rider	0.79%	2.13%
Economic Development Investment ("EDI") Rider	0.18%	0.61%
Safety & Environmental Compliance ("SEC") Rider	0.11%	3.95%
Total Surcharge	1.08%	6.69%

6
7 ***Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF***
8 ***YOUR TESTIMONY?***

9 ***A6.*** I have reviewed the Company's Petition filed on October 29, 2014, along with the
10 accompanying tariff schedules ("original petition"). I have also reviewed the
11 Company's testimony (original and supplemental) and exhibits supporting their
12 filing. Finally, I have reviewed the Company's responses to the informal data
13 requests submitted by the Consumer Advocate in this case.
14

15 ***Q7. PLEASE EXPLAIN THE RELIEF THAT TAWC IS ASKING FROM THE***
16 ***TRA THROUGH ITS PETITION.***

17 ***A7.*** The Company is asking the TRA to implement the new capital recovery rider
18 surcharges for 2015 (shown above) that are based on the Company's 2015 budget.
19 The overall structure for these capital tariff riders was approved by the TRA in
20 Docket 13-00130. The revenue received from these capital recovery rider
21 surcharges will then be trued-up to actual costs in a subsequent filing. However,

1 even though the budget numbers supporting the current tariff filing are eventually
2 trued-up to actual costs, the current filing is very important since it establishes the
3 current monthly surcharge to customers.
4

5 ***Q8. DID YOU REVIEW THE CALCULATIONS SUPPORTING THE***
6 ***PROPOSED SURCHARGES IN THE COMPANY'S TARIFF FILING?***

7 ***A8.*** Yes. I reviewed the Company's filing. I also prepared data requests for
8 supplemental supporting information that was not contained in the filing. In
9 addition, I have had continuing discussions with the Company regarding the
10 filing. The purpose of my review was to determine whether or not the Company
11 had a reasonable and logical basis to support its proposed tariff surcharges. My
12 review **did not** include more extensive procedures that would typically be
13 included in an audit of TAWC's books and records since, as I mentioned above,
14 these tariffs will be eventually trued-up to the actual costs incurred in a
15 subsequent filing.
16

17 ***Q9. WHAT WERE THE RESULTS OF YOUR REVIEW?***

18 ***A9.*** Overall, I found that the calculations supporting the Company's tariff filing
19 appeared to be reasonable and logical. The Company's calculations are tied to
20 their 2015 capital budget with reasonable assumptions and estimates for
21 deployment and depreciation.
22

Q10. DID YOUR REVIEW FIND ANY AREAS OF CONCERN WITH THE COMPANY'S PROPOSED TARIFF FILING?

A10. Yes. The Company's original petition included \$233,000 in expenses for recovery within the EDI and SEC capital riders of its tariff filing. While the EDI and SEC capital riders do contain a provision that allows for the recovery of certain capital related operational expenses, my review of these expenses indicates that these particular expenses are not specifically related to the Company's capital investment. I therefore recommended that they be excluded from the EDI and SEC surcharge calculations.

Q11. WHAT EXPENSES DID THE COMPANY INCLUDE IN ITS PROPOSED EDI AND SEC SURCHARGES IN ITS ORIGINAL PETITION?

A11. The Company included the following expenses totaling \$233,000 within the EDI and SEC surcharges. These expenses are described more fully on pages 14 – 16 of Company witness Bridwell's direct testimony.²

Tariff Rider	Expense	Amount
EDI	Chamber of Commerce Fees	\$40,000
EDI	Southeast Tennessee Innovation Hub Contribution	5,000
SEC	Chemical Expenses	44,000
SEC	Electricity Expenses	24,000
SEC	Hauling Expenses	120,000
	Total	\$233,000

Q12. PLEASE DESCRIBE THE EXPENSES THAT THE COMPANY IS PROPOSING TO RECOVER.

² See also the Company's response to CAPD data requests #40 - #42 and #48 - #50.

1 **A12.** In the EDI Rider, the Company is proposing to recovery its Chamber of
2 Commerce Fees along with its budgeted contribution to the Southeast Tennessee
3 Innovation Hub. Both of these discretionary items totaling \$45,000 appear to be
4 more closely associated with charitable contributions instead of capital
5 deployment. As a result, it is unlikely that they would have been approved for
6 recovery if they had been presented in the Company's last rate case. However, in
7 any case, it appears that these two discretionary expenses are completely
8 unrelated to the Company's capital investments in Tennessee. I therefore
9 recommend that they be excluded from the proposed EDI Rider surcharge.

10
11 The Chemical, Electricity and Hauling expenses included in the SEC Rider in the
12 original petition are associated with a new sludge press investment project that is
13 estimated to go into service in May 2015. However, these incremental operating
14 expenses are more appropriate for recovery through the Company's PCOP Rider
15 than through the SEC Rider.

16
17 ***Q13. HAVE YOU DISCUSSED YOUR CONCERNS ABOUT THE RECOVERY***
18 ***OF THESE EXPENSES WITH THE COMPANY?***

19 **A13.** Yes. Through our discussions, the Company has removed the \$188,000 in
20 expenses that were included in the original petition as the proposed SEC Rider
21 surcharge. As a result, the Company has reduced its proposed SEC Rider
22 surcharge from 3.95% to 3.54% as shown in their supplemental filing on
23 December 29th.

1
2 However, the Company has said that it does not intend to adjust its proposed EDI
3 Rider surcharge to remove the \$45,000 in discretionary expenses that are
4 completely unrelated to their capital investment in Tennessee. I believe that
5 including these particular expenses within the EDI Rider surcharge violates both
6 the intent and spirit of the settlement agreement that was approved by the TRA in
7 Docket 13-00130 establishing these capital recovery riders. I therefore
8 recommend that these proposed expenses be rejected by the TRA and excluded
9 from the Company's proposed EDI surcharge.
10

11 ***Q14. DOES THIS COMPLETE YOUR TESTIMONY?***

12 ***A14.*** Yes it does. However, I reserve the right to incorporate any new data that may
13 subsequently become available.

ATTACHMENT WHN-1

William H. Novak Vitae

William H. Novak

19 Morning Arbor Place
The Woodlands, TX 77381

Phone: 713-298-1760

Email: halnovak@whnconsulting.com

Areas of Specialization

Over twenty-five years of experience in regulatory affairs and forecasting of financial information in the rate setting process for electric, gas, water and wastewater utilities. Presented testimony and analysis for state commissions on regulatory issues in four states and has presented testimony before the FERC on electric issues.

Relevant Experience**WHN Consulting – September 2004 to Present**

In 2004, established WHN Consulting to provide utility consulting and expert testimony for energy and water utilities. Complete needs consultant to provide the regulatory and financial expertise that enabled a number of small gas and water utilities to obtain their Certificate of Public Convenience and Necessity (CCN) that included forecasting the utility investment and income. Also provided the complete analysis and testimony for utility rate cases including revenues, operating expenses, taxes, rate base, rate of return and rate design for utilities in Tennessee. Assisted American Water Works Company in preparing rate cases in Ohio and Iowa. Provided commercial and industrial tariff analysis and testimony for an industrial intervenor group in a large gas utility rate case. Industry spokesman for water utilities dealing with utility commission rulemaking. Consultant for the North Carolina and Illinois Public Utility Commissions in carrying out their oversight functions of Duke Energy and Peoples Gas Light and Coke Company through focused management audits. Also provide continual utility accounting services and preparation of utility commission annual reports for water and gas utilities.

Sequent Energy Management – February 2001 to July 2003

Vice-President of Regulatory Compliance for approximately two years with Sequent Energy Management, a gas trading and optimization affiliate of AGL Resources. In that capacity, directed the duties of the regulatory compliance department, and reviewed and analyzed all regulatory filings and controls to ensure compliance with federal and state regulatory guidelines. Engaged and oversaw the work of a number of regulatory consultants and attorneys in various states where Sequent has operations. Identified asset management opportunities and regulatory issues for Sequent in various states. Presented regulatory proposals and testimony to eliminate wholesale gas rate fluctuations through hedging of all wholesale gas purchases for utilities. Also prepared testimony to allow gas marketers to compete with utilities for the transportation of wholesale gas to industrial users.

Atlanta Gas Light Company – April 1999 to February 2001

Director of Rates and Regulatory Analysis for approximately two years with AGL Resources, a public utility holding company serving approximately 1.9 million customers in Georgia, Tennessee, and Virginia. In that capacity, was instrumental in leading Atlanta Gas Light Company through the most complete and comprehensive gas deregulation process in the country that involved terminating the utility's traditional gas recovery mechanism and instead allowing all 1.5 million AGL Resources customers in Georgia to choose their own gas marketer. Also responsible for all gas deregulation filings, as well as preparing and defending gas cost recovery and rate filings. Initiated a weather normalization adjustment in Virginia to track adjustments to company's revenues based on departures from normal weather. Analyzed the regulatory impacts of potential acquisition targets.

Tennessee Regulatory Authority – Aug. 1982 to Apr 1999; Jul 2003 to Sep 2004

Employed by the Tennessee Regulatory Authority (formerly the Tennessee Public Service Commission) for approximately 19 years, culminating as Chief of the Energy and Water Division. Responsible for directing the division's compliance and rate setting process for all gas, electric, and water utilities. Either presented analysis and testimony or advised the Commissioners/Directors on policy setting issues, including utility rate cases, electric and gas deregulation, gas cost recovery, weather normalization recovery, and various accounting related issues. Responsible for leading and supervising the purchased gas adjustment (PGA) and gas cost recovery calculation for all gas utilities. Responsible for overseeing the work of all energy and water consultants hired by the TRA for management audits of gas, electric and water utilities. Implemented a weather normalization process for water utilities that was adopted by the Commission and adopted by American Water Works Company in regulatory proceedings outside of Tennessee.

Education

B.A, Accounting, Middle Tennessee State University, 1981
MBA, Middle Tennessee State University, 1997

Professional

Certified Public Accountant (CPA), Tennessee Certificate # 7388
Certified Management Accountant (CMA), Certificate # 7880
Former Vice-Chairman of National Association of Regulatory Utility Commission's Subcommittee on Natural Gas

WHN CONSULTING
Witness & Advisory History for William H. Novak, CPA
Selected Cases

State	Company/Sponsor	Year	Assignment	Docket
Louisiana	CenterPoint Energy/Louisiana PSC	2011	Audit of PGA Filings from 2002 - 2008 of CenterPoint Arkla	S-32534
	CenterPoint Energy/Louisiana PSC	2011	Audit of PGA Filings from 2002 - 2008 of CenterPoint Entex	S-32537
Tennessee	Louisiana Electric Utilities/Louisiana PSC	2012	Technical Consultant for Impact of Net Meter Subsidy on other Electric Customers	R-31417
	Aqua Utilities	2006	Rate Case Audit - Revenue, Expenses, Rate Base and Rate Design	06-00187
	Atmos Energy Corporation/Atmos Intervention Group	2006	Rate design for Industrial Intervenor Group	05-00258
	Atmos Energy Corporation/Atmos Intervention Group	2007	Rate design for Industrial Intervenor Group	07-00105
	Bristol TN Essential Services	2009	Audit of Cost Allocation Manual	05-00251
	Chattanooga Manufacturers Association	2009	Spokesperson for Industrial Natural Gas Users before the Tennessee State Legislature	HB-1349
	Tennessee-American Water Company/Tennessee AG	2011	Rate Case Audit - Weather Normalization Adjustments	10-00189
	Piedmont Natural Gas Company/Tennessee AG	2011	Rate Case Audit - Revenue, Class Cost of Service Study & Rate Design	11-00144
	Lynwood Wastewater Utility/Tennessee AG	2012	Rate Case Audit - Revenue, Class Cost of Service Study & Rate Design	11-00198
	Tennessee-American Water Company/Tennessee AG	2012	Rate Case Audit - Revenues, Rate Base, Class Cost of Service Study and Rate Design	12-00049
Alabama	Atmos Energy Corporation/Tennessee AG	2012	Rate Case Audit - Revenues, Rate Base and Rate Design	12-00064
	Jefferson County (Birmingham) Wastewater/Alabama AG	In Process	Bankruptcy Filing - Allowable Costs and Rate Design	2009-2318
	Peoples & North Shore Gas Cos./Illinois Commerce Comm.	2007	Management Audit of Gas Purchasing Practices	06-0556
	Southwestern Public Service Co./New Mexico PRC	2010	Financial Audit of Fuel Costs for 2009 and 2010	09-00351-UT
	National Grid/New York PSC	2011	Audit of Affiliate Relationships and Transactions	10-M-0451
	Ohio-American Water Company/Ohio Consumers' Counsel	2010	Rate Case Audit - Class Cost of Service and Rate Design	09-0391-WS-AIR
	Vectren Energy Delivery of Ohio/Ohio Consumers' Counsel	2008	Rate Case Audit - Class Cost of Service and Rate Design	07-1080-GA-AIR
	Duke Energy-Ohio/Public Utilities Commission of Ohio	2009	Focused Management Audit of Fuel & Purchased Power (FPP Riders)	07-0723-EL-UNC
	Center Point Energy/Texas AG	2009	Rate Case Audit - Class Cost of Service and Rate Design	GUD 9902
	Aqua Utilities/PSS Legal Fund	2011	Rate Case Audit - Class Cost of Service and Rate Design	W-218, Sub-319
Washington DC	Washington Gas Light Co./Public Service Comm of DC	2011	Audit of Tariff Rider for Infrastructure Replacement Costs	1027

NOTE: Click on Docket Number to view testimony/report for each case where available.