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April 6, 2015



**Via Email and FedEx**

Hon. Herbert H. Hilliard, Chairman  
c/o Ms. Sharla Dillon  
Tennessee Regulatory Authority  
502 Deaderick Street, 4<sup>th</sup> Floor  
Nashville, TN 37243

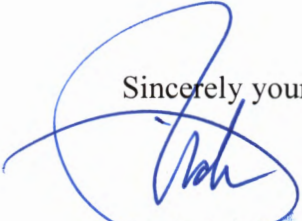
Re: TRA Docket No. 14-00121

Dear Chairman Hilliard:

Enclosed please find an original and five (5) copies each of the Pre-Filed Direct Testimony, on behalf of the City of Chattanooga, of Mr. Nick Wilkinson and Mr. Lee Norris. I would appreciate you having these documents filed electronically and having the extra hard copies of them stamped as "filed" and returned them to me in the enclosed, self-addressed and stamped envelope.

Thank you for your assistance.

With best regards, I am

Sincerely yours,  
  
Frederick L. Hitchcock

FLH:pgh  
Enclosures

cc: Mr. Wade Hinton (w/ encl.)  
Mr. Vance Broemel (w/ encl.)  
Mr. Wayne Irvin (w/ encl.)  
Mr. Melvin Malone (w/ encl.)  
Ms. Valeria Gomez (w/ encl.)

**DIRECT TESTIMONY**

**OF**

**NICK WILKINSON**

**CONCERNING**

**PETITION OF TENNESSEE AMERICAN WATER COMPANY FOR APPROVAL OF  
REVISED RATE TARIFFS PURSUANT TO QUALIFIED INFRASTRUCTURE  
INVESTMENT PROGRAM RIDER, ECONOMIC DEVELOPMENT RIDER, AND  
SAFETY RIDER**

**SPONSORING EXHIBITS OF INTERVENOR CITY OF CHATTANOOGA:**

**CHATTANOOGA EXHIBIT A**

**AND**

**CHATTANOOGA EXHIBIT B**

**Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS:**

A: My name is Nick Wilkinson and my business address is 101 E. 11<sup>th</sup> Street, Chattanooga,  
TN 37402

**Q: BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A: I am employed by the City of Chattanooga as Deputy Administrator, Economic  
Development.

**Q: PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL  
BACKGROUND.**

A: My educational and professional background is as follows:

I received my B.A. Degree from the University of Georgia in 2000;  
Barnett and Company, Chattanooga, Tennessee, Associate Portfolio Manager;  
Chattanooga Neighborhood Enterprise, Chattanooga, Tennessee, Director of  
Development;  
Cincinnati Country Day School, Cincinnati, Ohio, Director of Annual Giving;  
Wachovia Securities, Chattanooga, Tennessee, Financial Advisor;  
McCallie School, Chattanooga, Tennessee, Director of Annual Giving.

**Q: WHAT ARE YOUR DUTIES AS DEPUTY ADMINISTRATOR, ECONOMIC  
DEVELOPMENT?**

A: I oversee the Economic Development office within the Economic and Community  
Development department. This office works with all city departments as well as  
numerous local and state agency partners in order to intentionally create a local economic  
environment that supports the City of Chattanooga's strong manufacturing base, fosters  
technology startup and innovation, and works to strengthen and attract businesses. The

1 main duties of the Deputy Administrator include efforts aimed at growing and supporting  
2 the local economy, creating jobs, recruiting and retaining businesses, supporting small  
3 businesses, cultivating a workforce necessary for the jobs of tomorrow, and ensuring we  
4 have available land to support industrial and commercial development.

5 **Q: WHAT SUBJECTS WILL YOU ADDRESS IN YOUR TESTIMONY?**

6 A: The purposes of my testimony are (i) to describe the agreement between the City of  
7 Chattanooga and TAWC (the “Agreement”) concerning interpretation and application of  
8 certain provisions of the Tennessee statute authorizing the Riders under which Tennessee  
9 American Water Company (“TAWC”) seeks to revise its tariffs in this proceeding and  
10 (ii) to present evidence in the record concerning certain matters that were addressed by  
11 the Agreement.

12 **Q: PLEASE DESCRIBE HOW THE AGREEMENT CAME ABOUT**

13 A: Shortly before it filed its petition in Docket No. 13-00130, TAWC advised the Mayor’s  
14 office that it planned to file the petition. TAWC asked for the opportunity to meet with  
15 Chattanooga representatives to explain its plans to seek approval of alternative regulatory  
16 mechanisms, or “Riders”, that would permit it to receive more frequent rate increases to  
17 permit it to recover certain types of investments and expenses. TAWC explained that the  
18 use of the Riders, as authorized by recently-enacted legislation, would permit TAWC to  
19 delay full rate cases, and TAWC sought Chattanooga’s agreement that it would not  
20 oppose TAWC’s request for the use of certain Riders. The City agreed to meet with  
21 TAWC to hear its position and to explore steps that could be taken to ensure that any use  
22 of Riders was consistent with State law and was in the public interest.

1   **Q:   WAS AN AGREEMENT ULTIMATELY REACHED?**

2   A:   Yes. As a result of the meetings between TAWC and City representatives, Chattanooga  
3       agreed that it would not seek to intervene in Docket No. 13-00130, if TAWC would agree  
4       to the manner in which it would apply key provisions of Tenn. Code Ann. § 65-5-103(d)  
5       and would agree to take steps to fulfill its obligation to show that any rate increases  
6       resulting from application of the Riders were in the public interest. The City of  
7       Chattanooga presented a proposed letter agreement to TAWC, dated November 6, 2013,  
8       setting forth the agreements of the parties. This proposed letter agreement was attached  
9       as Exhibit A to Chattanooga's petition to intervene in this docket and is appended as to  
10      my testimony as Chattanooga Exhibit A. TAWC responded by presenting a slightly  
11      different version of the letter agreement, dated November 25, 2013. The November 25,  
12      2013 letter agreement was attached as Exhibit B to Chattanooga's Petition to Intervene in  
13      this docket and is appended to my testimony as Chattanooga Exhibit B. The November  
14      25, 2013 letter agreement constitutes the agreement between TAWC and the City of  
15      Chattanooga concerning the manner in which TAWC would apply key provisions of  
16      Tenn. Code Ann. § 65-5-103(d) and steps it would take to fulfill its obligation under the  
17      statute to show than any rate increases resulting from application of the Riders were in  
18      the public interest.

19   **Q:   DID TAWC RECOGNIZE THAT ENTERING INTO AND COMPLYING WITH**  
20       **THE AGREEMENT WITH THE CITY WAS IMPORTANT TO**  
21       **DEMONSTRATING THAT ITS PROPOSED RIDERS WERE IN THE PUBLIC**  
22       **INTEREST?**

1 A: Yes. The City and TAWC recognized that it is the responsibility of the Authority to  
2 determine whether TAWC's proposed tariff revisions are in the public interest. TAWC  
3 recognized that the Agreement and TAWC's compliance with it were important to  
4 determine whether the public interest was being served. For example, in the Agreement  
5 prepared by TAWC and signed by its President, TAWC stated:

- 6 • "It is beneficial to both the consumers and the Company for the Company to learn  
7 of and discuss the City's feedback, input and observations." *See* Agreement at p.2
- 8 • "To help ensure that any Company expenses related to the promotion of economic  
9 development serve the public interest, the Company, as requested by the City,  
10 City, will coordinate with the City, which has central responsibility for planning  
11 and promoting the community's economic development". *See* Agreement at p. 2.
- 12 • "The above-outlined, good faith approach will aid and support the City's efforts to  
13 monitor and evaluate any TRA-approved alternative regulatory methods, as  
14 proposed in TAWC's Petition, on an ongoing basis and properly position the City  
15 to act in the best interests of consumers. Moreover, it will provide the City with  
16 relevant information to support its efforts to ensure that the Company remains  
17 within the framework of any TRA-approved alternative regulatory methods and  
18 that the consumer and community benefits contemplated under such methods are  
19 realized." *See* Agreement at p. 3.

20 The City of Chattanooga believes that TAWC's failure to comply with its voluntary  
21 agreement with the City is highly relevant to the Authority's evaluation of whether  
22 TAWC's proposed revised tariff is in the public interest

1 **Q: DID THE AGREEMENT BETWEEN TAWC AND CHATTANOOGA ADDRESS**  
2 **THE QUALIFIED INFRASTRUCTURE INVESTMENT PROGRAM, OR “QIIP,”**  
3 **RIDER?**

4 A: Yes.

5 **Q: WHAT WAS TAWC’S AGREEMENT AS TO THE QIIP RIDER?**

6 A: TAWC agreed to provide by January 1 of each year a “detailed infrastructure  
7 investments/improvement plan for the upcoming year, including the nature and locations  
8 of planned infrastructure improvements, and how such investments will benefit  
9 customers within the Company’s current service territory.” TAWC also agreed to  
10 provide quarterly reports regarding the implementation of its plan and to discuss with the  
11 City both the annual plan and quarterly reports.

12 **Q: WHY DID THE CITY DESIRE THE ANNUAL PLAN, THE QUARTERLY**  
13 **REPORTS, AND THE OPPORTUNITY FOR CONSULTATION?**

14 A: There were three (3) reasons.

15 First, evidence in prior TAWC rate cases showed that TAWC was repeatedly  
16 requesting recovery for the same capital expenditures in successive rate cases. After  
17 discussing this concern with TAWC, it was agreed that the TAWC’s provision of the  
18 annual plan and quarterly reports would permit the City to monitor whether TAWC was  
19 spending rate dollars it was provided for the purposes TAWC specified or was seeking  
20 double recovery. The annual plan could be compared to past TAWC rate increase  
21 requests and would assist in the evaluation of future TAWC rate requests.

22 Second, evidence in prior TAWC rate cases showed that TAWC was making  
23 investments that provided little or no benefit to its existing customers in pursuit of a

1 strategy that its parent publicly referred to as “additions and tuck-ins.” This strategy was  
2 designed to effectively expand TAWC’s service area by entering into wholesale  
3 agreements with surrounding water utilities, taking over operational control of utilities  
4 under operating agreements, and acquiring other utilities. After discussion with TAWC,  
5 it was agreed that the annual plan would describe the “nature and locations of planned  
6 infrastructure improvements, and how such investments will benefit customers within the  
7 Company’s current service territory.” This location and benefit information was  
8 designed to permit the City to identify any circumstances in which existing customers  
9 were to pay for investments that were principally for the benefit of TAWC’s expansion  
10 goals.

11 Third, evidence in prior TAWC rate cases raised concerns about TAWC’s  
12 investment priorities. For example, maintenance and replacement of valves had been  
13 neglected, resulting in large percentages of inoperable valves. Aging mains had resulted  
14 in a number of very large main breaks and water outages. And, TAWC has experienced  
15 very high unaccounted for water percentages. After discussion with TAWC, it was  
16 agreed that the annual investment plan and quarterly reports would provide timely  
17 information on TAWC’s investment priorities and the consultation opportunities would  
18 permit the City to express any concerns about those priorities.

19 **Q: WAS THE INFORMATION THAT TAWC AGREED TO PROVIDE**  
20 **IMPORTANT TO TAWC’S ESTABLISHMENT THAT ITS INVESTMENTS**  
21 **WERE IN THE PUBLIC INTEREST?**

22 **A:** Yes. The City and TAWC recognized that it is the Authority’s responsibility to  
23 determine whether TAWC’s proposals for tariff revisions to recover infrastructure



1 investments were in the public interest. However, the results of the disclosure and  
2 consultation process would permit the City of Chattanooga to reach conclusions  
3 concerning the extent to which TAWC's past and proposed infrastructure investments  
4 were consistent with the interests of the citizens of Chattanooga. The City believed that  
5 this would be important information that the Authority would wish to consider in  
6 evaluating whether permitting recovery for proposed TAWC investments would be in the  
7 public interest.

8 **Q: DID TAWC FULFILL ITS AGREEMENT TO PROVIDE ITS ANNUAL**  
9 **INFRASTRUCTURE INVESTMENTS/IMPROVEMENT PLAN?**

10 A: No. TAWC did not provide an infrastructure investments/improvement plan for 2014.

11 **Q: DID TAWC FULFILL ITS AGREEMENT TO PROVIDE QUARTERLY**  
12 **REPORTS OUTLINING PROGRESS ON TAWC'S ANNUAL**  
13 **INFRASTRUCTURE INVESTMENTS/IMPROVEMENT PLAN?**

14 A: No. Just as it did not provide an annual infrastructure investments/improvement plan,  
15 TAWC did not provide any quarterly reports outlining progress on the absent plan.

16 **Q: DID TAWC PROVIDE ANY REPORTS TO THE CITY IN 2014?**

17 A: TAWC provided the City copies of two (2) reports, which apparently were prepared for  
18 submission to the Authority. The reports did not include TAWC's annual infrastructure  
19 investments/improvement plan and did not outline progress on that plan. The reports did  
20 not permit the evaluations that the City and TAWC had discussed.

21 **Q: DID THE AGREEMENT BETWEEN TAWC AND CHATTANOOGA ADDRESS**  
22 **THE ECONOMIC DEVELOPMENT INVESTMENT RIDER, OR "EDI RIDER"?**

23 A: Yes.

1 **Q: WHAT WAS TAWC’S AGREEMENT AS TO THE EDI RIDER?**

2 A: TAWC agreed that it would provide advance notice to the City of all “proposed  
3 expenditures related to economic development efforts under the Rider.” TAWC agreed  
4 to “provide the City with such advance notice on a reasonable timeframe, so that the City  
5 and the Company will have an opportunity to review and discuss the same.”

6 **Q: DID THE AGREEMENT EXPLAIN THE PURPOSE OF THIS ADVANCE**  
7 **NOTICE?**

8 A: Yes. TAWC agreed that the advance notice would be provided “[t]o help ensure that  
9 any Company expenses related to the promotion of economic development serve the  
10 public interest, the Company, as requested by the City, will coordinate with the City,  
11 which has central responsibility for planning and promoting the community's economic  
12 development.” TAWC acknowledged that the coordination “will support the City’s  
13 efforts to ensure that the Company’s investments under this proposed mechanism have  
14 the intended economic benefit within the Company’s current service area.”

15 **Q: HAS TAWC PROVIDED ADVANCE NOTICE AND CONSULTED WITH THE**  
16 **CITY AS TO ANY ECONOMIC DEVELOPMENT EXPENDITURES SINCE THE**  
17 **AGREEMENT?**

18 A: Yes, as to one project. TAWC coordinated with the City concerning the extension of  
19 mains to serve a new Coca-Cola bottling distribution facility. TAWC’s investment  
20 supported the successful efforts to locate the new facility in Chattanooga.

21 **Q: DOES THE CITY AGREE THAT TAWC’S INVESTMENT IN THE EXTENSION**  
22 **OF MAINS FOR THE COCA-COLA BOTTLING DISTRIBUTION FACILITY IS**  
23 **A PROPER EXPENDITURE UNDER THE EDI RIDER?**

1 A: Yes. The City believes that this project-specific investment is the type of expenditure  
2 that should be recoverable under the EDI Rider.

3 **Q: DID TAWC GIVE THE CITY ADVANCE NOTICE OF OR COORDINATE**  
4 **WITH THE CITY CONCERNING ANY OTHER EXPENDITURE UNDER THE**  
5 **EDI RIDER?**

6 A: No.

7 **Q: SPECIFICALLY, DID TAWC GIVE THE CITY ADVANCE NOTICE OF OR**  
8 **COORDINATE WITH THE CITY CONCERNING EXPENDITURES FOR**  
9 **METERS, SERVICES, VALVES, OR HYDRANTS THAT IT ASSERTS WERE**  
10 **ECONOMIC DEVELOPMENT INVESTMENTS?**

11 A: No.

12 **Q: DO EXPENDITURES BY TAWC FOR METERS, SERVICES AND LATERALS,**  
13 **VALVES, OR HYDRANTS PROMOTE ECONOMIC DEVELOPMENT?**

14 A: No. Unless they are related to specific economic development efforts, such as the  
15 successful effort to obtain location of the Coca-Cola bottling distribution facility in  
16 Chattanooga, these are routine expenditures that TAWC is required to make to serve new  
17 and existing customers.

18 **Q: DID ANY OF TAWC'S 2014 EXPENDITURES FOR METERS, SERVICES AND**  
19 **LATERALS, VALVES, OR HYDRANTS PROMOTE ECONOMIC**  
20 **DEVELOPMENT?**

21 A: No.

1   **Q:   DID TAWC GIVE THE CITY ADVANCE OF NOTICE OF ITS INTENT TO**  
2       **PURCHASE ALTERNATIVE FUEL VEHICLES AS AN ECONOMIC**  
3       **DEVELOPMENT EXPENDITURE?**

4   A:   No, even though TAWC agreed to provide the City “advance notice to the City ***of all***  
5       ***proposed expenditures*** related to economic development efforts under the Rider”  
6       (emphasis supplied).

7   **Q:   DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

8   A:   Yes.

**STATE OF TENNESSEE:**

**COUNTY OF HAMILTON:**

Before me, the undersigned notary public, duly commissioned in and for the State and County aforesaid, personally came and appeared Nick Wilkinson, being by me first duly sworn, deposed and said that:

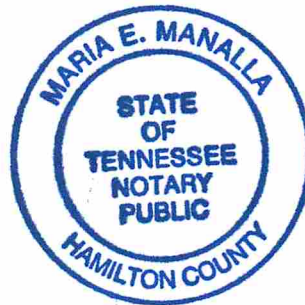
He is appearing as a witness on behalf of the City of Chattanooga before the Tennessee Regulatory Authority, and, if present before the Authority and duly sworn, his testimony would be as set forth in this pre-filed testimony in this matter.



Nick Wilkinson

Sworn to and subscribed before me  
this 6th day of April, 2015.

  
Notary Public



My Commission Expires: 5/27/18



Wade A. Hinton  
City Attorney

Phillip A. Noblett  
Deputy City Attorney

**City of Chattanooga**  
Office of the City Attorney

Kenneth O. Fritz  
Valerie L. Malueg  
Keith J. Reisman  
Melinda Foster  
Assistants

November 6, 2013

**BY HAND DELIVERY**

Mr. Deron Allen  
Tennessee American Water Company  
1101 Broad Street  
Chattanooga, TN 37402

Dear Mr. Allen:

This letter is in response to Tennessee American Water Company's recently filed petition referenced hereinabove and a follow-up to our discussions regarding this petition. As you mentioned in our discussions and as reflected in the petition, Tennessee American Water Company (the "Company") is requesting a rate increase pursuant to Tenn. Code Ann. § 65-5-103, as amended by Chapter 245 of the Tennessee Public Acts of 2013 (the "Statute").

To qualify for the new, alternative rate recovery mechanisms, the Company's request must meet certain conditions outlined in the Statute. Those conditions apply to all mechanisms related to the recovery of (1) operational expenses, capital costs or both related to safety requirements, facility reliability, or weather-related natural disasters; (2) operational expenses, capital costs or both related to the expansion of infrastructure for the purpose of economic development; (3) expenses associated with efforts to promote economic development in the utility's service area; and (4) operational expenses, capital costs or both related to non-discretionary expenses and other approved programs.

Among the most important of the conditions set forth in the Statute is the requirement that the Tennessee Regulatory Authority ("TRA") find that proposed alternative rate recovery mechanisms and/or the costs recovered through the mechanisms are in the public interest.

Because the large majority of the Company's customers and sales are located within the City of Chattanooga ("City"), the City has an important perspective on the potential impact of the Company's proposals on the public interest. The goal of this letter is to outline a process that would allow the City to help ensure that the Company's expenses and costs recovered in alternative rate mechanisms, as outlined in the petition, meet the intent of the Statute and protect the public interest. With this in mind, it is the position of the City that it would be to the benefit of both the City and the Company if the parties could adopt a platform for sharing and review of information regarding the Company's expenses and costs sought to be recovered in the

alternative mechanisms and a methodology for accountability. Let me make it clear that the City has no desire to dictate how the Company operates; however, it does have a vested interest to make sure the citizens of Chattanooga have a fundamental understanding of how the rate increases sought will benefit the City and its residents. Further, it is an essential component of the Statute that any such rate increase be in the best interest of the public. We believe a platform of shared information would ensure transparency and avoid a need for the City to intervene in the Company's present rate case.

With this in mind, the City would submit the following as both an initial proposal and request for more information related to the cost recovery programs outlined in the Company's petition:

➤ OPERATIONAL EXPENSES, CAPITAL COSTS OR BOTH RELATED TO OTHER PROGRAMS THAT ARE FOUND TO BE IN THE PUBLIC INTEREST

The Company has requested the TRA to approve a "Qualified Infrastructure Investment Program" pursuant to Tenn. Code Ann. § 65-5-103(d)(5), as an "other program" that is in the public interest. In the Company's previous rate cases and at other times, the City has requested details on the Company's capital expenditures and infrastructure improvement plans, but has not been provided meaningful access to this information. The Company's last Comprehensive Planning Study was completed in 2000 and, therefore, the City and its residents do have a current understanding of the Company's infrastructure needs. In each of the recent rate cases, the Company has requested and the TRA has approved higher rates to fund capital programs that the Company has not implemented. Furthermore, the City believes that many of the capital expenditures that have been made in recent years have financed improvements that have been intended to support expansion of the Company's service area, with minimal benefits to City residents.

The City proposes that the Company provide an annual plan by an agreed date prior to the start of each year detailing the Company's infrastructure investments planned for the current year, the nature and locations of planned infrastructure improvements, and how such investments will directly benefit customers within the Company's current service territory. The City also proposes that the Company provide quarterly reports to the City describing progress on the Company's annual infrastructure improvement plan and any changes to the annual plan. The City should have an opportunity to review and comment to the Company and the TRA on the annual plan and quarterly reports, and the Company should express a willingness to consider and report back to the City and the TRA on changes it has made to the plan to give effect to any concerns voiced by the City or the reasons it has declined to do so.

➤ EXPENSES ASSOCIATED WITH THE EXPANSION OF INFRASTRUCTURE FOR THE PURPOSE OF ECONOMIC DEVELOPMENT AND EFFORTS TO PROMOTE ECONOMIC DEVELOPMENT

The Company has requested the TRA to approve an "Economic Development Investment Rider" pursuant to Tenn. Code Ann. §§ 65-5-103(d)(3) and (d)(4). To help ensure that any Company expenses related to the promotion of economic development serve the public interest, the City believes that any expenditure of funds recovered under the Company's proposed rider should be coordinated with the City which has central responsibility for planning and promoting the community's economic development. To this end, the City believes that it would be appropriate for the Company to provide advance notice to the City's mayor of all proposed expenditures related to economic development efforts for review and approval. The City believes such information sharing is consistent with the public interest requirements under the Statute and will help ensure that the Company's investments have a direct economic benefit within the Company's current service area.

➤ INVESTMENTS RELATED TO SAFETY REQUIREMENTS, FACILITY RELIABILITY, OR WEATHER DISASTERS

The Company has requested a "Safety and Environmental Compliance Rider" pursuant to Tenn. Code Ann. § 65-5-103(d)(2), which provides that the TRA may authorize a mechanism to recover operational expenses, capital costs or both related to safety requirements imposed by the state or federal government. We note, first, that the Statute does not authorize recovery of environmental compliance requirements. The City is concerned that the broad request by the Company to recover safety and environmental expenses could lead to the improper classification of environmental compliance expenses as "safety requirements". To ensure that the statutory requirements are met and that the public interest is served, the City proposes that the Company should not recover costs and expenses relating to environmental compliance under this Rider and should demonstrate in reports submitted to the City and the TRA each quarter that funds raised by this Rider are being spent only on recovery of safety requirements.

➤ CHANGES IN ESSENTIAL, NON-DISCRETIONARY EXPENSES, SUCH AS FUEL AND POWER AND CHEMICAL EXPENSES

Finally, the Company has requested "Pass-Throughs for Purchased Power, Chemicals, Purchased Water, Wheeling Water Costs, Waste Disposal, and TRA Inspection Fee" pursuant to Tenn. Code Ann. § 65-5-103(d)(5)(B), which allows a public utility to request a mechanism to permit a more timely adjustment of rates resulting from changes in essential, non-discretionary expenses. The City would like to discuss further the specific elements sought to be included in this Rider, including "wheeling water costs". This Rider should, of course, take into account both



increases and decreases and provide an opportunity for adjustment upward and downward. The City requests that the Company provide detailed information to the City on a quarterly basis of any increase or decrease to each type of non-discretionary expense that the TRA may approve for inclusion in this Rider.

We respectfully request that the Company respond to these requests not later than Friday, November 8, 2013, and ask for a follow up meeting to discuss process on Friday, November 15, 2013, with the time to be determined at a later date. Certainly, it is our hope that we can build on the momentum of goodwill extended by the Company and partner to ensure that we work together in a way that avoids any hardship for our citizens. We also believe that the mechanisms described in this letter can be beneficial to the Company to better understand the City's needs – specifically, in the areas of economic development and infrastructure.

If you need clarification on the proposal or request, please feel free to contact me or Rick Hitchcock at your first convenience.

Best regards,

A handwritten signature in black ink, appearing to read 'W. Hinton', with a stylized flourish at the end.

WADE A. HINTON  
*City Attorney*

WAH/mms



TENNESSEE  
AMERICAN WATER

## CHATTANOOGA EXHIBIT B

Tennessee American Water  
1101 Broad Street  
Chattanooga, TN 37402  
amwater.com

November 25, 2013

### **BY HAND DELIVERY**

Wade A. Hinton, City Attorney  
100 E. 11<sup>th</sup> Street, Suite 200  
Chattanooga, TN 37402

Dear Mr. Hinton:

I am writing in response to your November 6, 2013, letter (the "Letter"). I appreciate the Letter and the discussions that we have had both before and after November 6<sup>th</sup> with respect to Tennessee-American Water Company's ("TAWC" or "Company") recent petition with the Tennessee Regulatory Authority ("TRA" or "Authority") pursuant to Tenn. Code Ann. § 65-5-103 (the "Petition") and its potential impact on consumers. I understand and value the concerns of the City of Chattanooga (the "City").

As we have discussed, the TRA will carefully review and analyze the Petition and conduct a public hearing on the same before determining whether to approve it. Moreover, the Attorney General's Office will participate in the hearing to represent the interests of Tennessee consumers. Nonetheless, I respect the City's proactive diligence in evaluating the Petition and its potential impact.

Understanding the City's concerns, and fully persuaded of the many substantive benefits of both the alternative regulatory methods recently established by the Tennessee General Assembly and the proposed mechanisms set forth in TAWC's Petition, TAWC, as set forth below, is pleased to adopt the four-pronged approach outlined in the Letter to address the City's concerns.

\* \* \* \* \*

### ➤ OPERATIONAL EXPENSES, CAPITAL COSTS OR BOTH RELATED TO OTHER PROGRAMS THAT ARE FOUND TO BE IN THE PUBLIC INTEREST

The Company has requested the TRA to approve a "Qualified Infrastructure Investment Program" pursuant to Tenn. Code Ann. § 65-5-103(d)(5). As requested by the City, and prior to January 1 each year (unless a different date is more reasonable and practicable depending upon the actual effective date of any such alternative regulatory method)

TAWC will provide, on an annual basis, a detailed infrastructure investments/improvement plan for the upcoming year, including the nature and locations of planned infrastructure improvements, and how such investments will benefit customers within the Company's current service territory. The Company will provide the City with this annual plan on a reasonable timeframe, so that the City and the Company will have an opportunity to review and discuss the same. As further requested by the City, the Company will provide quarterly reports to the City outlining the progress on the Company's annual infrastructure investments/improvement plan, including any changes to the plan. As previously discussed, this information will lay the groundwork for the Company and the City to jointly review and discuss both the annual plan and the quarterly reports. It is beneficial to both the consumers and the Company for the Company to learn of and discuss the City's feedback, input and observations.

➤ EXPENSES ASSOCIATED WITH THE EXPANSION OF INFRASTRUCTURE FOR THE PURPOSE OF ECONOMIC DEVELOPMENT AND EFFORTS TO PROMOTE ECONOMIC DEVELOPMENT

The Company has requested the TRA to approve an "Economic Development Investment Rider" pursuant to Tenn. Code Ann. §§ 65-5-103(d)(3) and (d)(4). To help ensure that any Company expenses related to the promotion of economic development serve the public interest, the Company, as requested by the City, will coordinate with the City, which has central responsibility for planning and promoting the community's economic development. In doing so, and as requested by the City, the Company will provide advance notice to the City of all proposed expenditures related to economic development efforts under the Rider. The Company will provide the City with such advance notice on a reasonable timeframe, so that the City and the Company will have an opportunity to review and discuss the same. This coordination will support the City's efforts to ensure that the Company's investments under this proposed mechanism have the intended economic benefit within the Company's current service area.

➤ INVESTMENTS RELATED TO SAFETY REQUIREMENTS, FACILITY RELIABILITY, OR WEATHER DISASTERS

The Company has requested a "Safety and Environmental Compliance Rider" pursuant to Tenn. Code Ann. § 65-5-103(d)(2), which provides, in part, that the TRA may authorize a mechanism to recover operational expenses, capital costs or both related to safety requirements imposed by the state or federal government, efforts to ensure the reliability of the public utility plant in service and weather-related natural disasters. As the statute does not expressly use the language "environmental compliance," the City is concerned that the use of this term under this proposed alternative regulatory method to recover safety and environmental expenses could lead to the improper classification of some "non-safety" environmental compliance expenses as "safety requirements." Recognizing this concern, the Company will provide quarterly reports to the City sufficiently demonstrating that any environmental compliance sought by the Company under this Rider, should it be approved by the TRA, are being spent only on recovery of safety requirements consistent with the statute.

➤ **CHANGES IN ESSENTIAL, NON-DISCRETIONARY EXPENSES, SUCH AS FUEL AND POWER AND CHEMICAL EXPENSES**

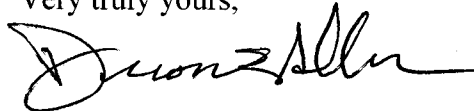
The Company has requested "Pass-Throughs for Purchased Power, Chemicals, Purchased Water, Wheeling Water Costs, Waste Disposal, and TRA Inspection Fee" pursuant to Tenn. Code Ann. § 65-5-103(d)(5)(B), which, in general, allows a public utility to request a mechanism to permit a more timely adjustment of rates resulting from changes in essential, non-discretionary expenses. As we have previously discussed, the Purchased Water and Wheeling Water Costs are, for the most part, not applicable to the City. Moreover, as proposed in the Petition, this Rider contemplates pass-throughs for both increases and decreases of such expenses. Finally, as requested by the City, the Company will provide detailed information to the City on a quarterly basis of any increase or decrease with respect to each type of non-discretionary expense, consistent with the proposed Rider as approved by the TRA. This will provide the opportunity for the City and Company to discuss the application of this Rider on a continuing, going forward basis.

\* \* \* \* \*

The above-outlined, good faith approach will aid and support the City's efforts to monitor and evaluate any TRA-approved alternative regulatory methods, as proposed in TAWC's Petition, on an ongoing basis and properly position the City to act in the best interests of consumers. Moreover, it will provide the City with relevant information to support its efforts to ensure that the Company remains within the framework of any TRA-approved alternative regulatory methods and that the consumer and community benefits contemplated under such methods are realized.

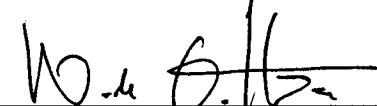
I appreciate the City's engagement on these important issues and very much look forward to continuing our efforts to work together for the good of the Greater Chattanooga community.

Very truly yours,



Deron Allen, President  
Tennessee-American Water Company

**RECEIVED AND ACKNOWLEDGED:**

By:   
Wade A. Hinton, City Attorney  
Chattanooga, Tennessee

Date: 11/25/2013

DIRECT TESTIMONY

OF

DONALD LEE NORRIS

CONCERNING

PETITION OF TENNESSEE AMERICAN WATER COMPANY FOR APPROVAL OF  
REVISED RATE TARIFFS PURSUANT TO QUALIFIED INFRASTRUCTURE  
INVESTMENT PROGRAM RIDER, ECONOMIC DEVELOPMENT RIDER, AND  
SAFETY RIDER



1   **Q:   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS:**

2   A:   My name is Donald Lee Norris and my business address is 1250 Market Street,  
3       Chattanooga, TN 37402.

4   **Q:   BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5   A:   I am employed by the City of Chattanooga as Administrator of Public Works.

6   **Q:   PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL**  
7       **BACKGROUND.**

8   A:   My educational and professional background is as follows:

9       Educational Background:

10      Agricultural Science Degree, Abraham Baldwin College, Tifton, GA (1980);

11      B.S. Economics, University of Georgia, Athens, GA (1982);

12      Master of Science Construction Management, Texas A&M, College Station, TX (1990);

13      U.S. Army Corps of Engineers, Germany (1996);

14      Director of Public Works Certification, U.S. Army Corps of Engineers, Ft. Belvoir, VA  
15      (1997);

16      Organizational Management, U.S. Army Command & Staff College, Ft. Leavenworth,  
17      KS (1998).

18      Professional Background:

19      Director of Public Works, U.S. Army, Hohenfels, Germany (1995-1996);

20      Director of Base Operations, U.S. Army, Hohenfels, Germany (1996-1997);

21      Chief, Facilities and Construction Branch, U.S. Army, Ft. McPherson, GA (1998-2000);

22      Assistant City Manager/Chief of Staff, U.S. Army, Ft. McPherson, GA (2000-2002);

23      Director of City Wide Services, City of Chattanooga, TN (2002-2005);



1 Deputy Administrator of Public Works, City of Chattanooga, TN (2005-2012);

2 Administrator of Public Works, City of Chattanooga, TN (2012-Present).

3 **Q: WHAT ARE YOUR DUTIES AS ADMINISTRATOR OF PUBLIC WORKS?**

4 A: I lead the personnel and operations of four (4) divisions within the Public Works  
5 Department with a budget in excess of \$100 Million Dollars. I have established the  
6 mission, vision and goals of the Public Works Department to successfully provide  
7 efficient, fast, and cost effective services to the residents of the City of Chattanooga.

8 **Q: WHAT SUBJECTS WILL YOU ADDRESS IN YOUR TESTIMONY?**

9 A: The purpose of my testimony is to explain that TAWC's Process Wastewater  
10 Improvement Project ("Wastewater Project") is not required by safety requirements  
11 imposed by the state or federal government. Instead, as explained more fully below, the  
12 Wastewater Project has been chosen by TAWC as an alternative to treating its  
13 wastewater discharge to comply with wastewater standards established by the City of  
14 Chattanooga.

15 **Q: PLEASE EXPLAIN THE SOURCE OF THE STANDARDS APPLICABLE TO**  
16 **TAWC'S WASTEWATER DISCHARGES.**

17 A: TAWC has always generated wastewater in the course of its water treatment process.  
18 Instead of seeking a State permit to treat and discharge that wastewater to the Tennessee  
19 River or one of its tributaries, TAWC has discharged that wastewater into the City's  
20 sanitary sewer system for treatment by the City's publicly operated treatment works  
21 ("POTW"). The City of Chattanooga has the authority to establish standards for  
22 industrial wastewater discharges into its POTW, and it applies those standards through  
23 permits issued to dischargers such as TAWC. The City has issued permits to TAWC that



1 gave special permission to TAWC to discharge wastewater that exceeded the applicable  
2 City standards. In 2013, the City advised TAWC that it would have to begin complying  
3 with the City's wastewater discharge standards in 2015. The City has subsequently  
4 extended the deadline for TAWC's compliance with the City's standards.

5 **Q: WHAT OPTIONS DOES TAWC HAVE TO COMPLY WITH THE CITY**  
6 **WASTEWATER DISCHARGE STANDARDS?**

7 A: TAWC could treat its wastewater to reduce the pollutants in the wastewater to levels that  
8 do not exceed the City standards. Instead, it has chosen the option of removing waste  
9 materials from its wastewater discharge. Under this option, TAWC will dewater all or a  
10 significant portion of waste sludge materials to produce a solid waste that will be  
11 disposed in a landfill.

12 **Q: ARE THERE DIFFERENT METHODS THAT TAWC COULD USE TO**  
13 **REMOVE WASTE MATERIALS FROM ITS WASTEWATER DISCHARGE**  
14 **AND PREPARE THEM FOR LANDFILL DISPOSAL?**

15 A: Yes. As TAWC acknowledges in testimony presented in support of its petition, there are  
16 different approaches that would involve different costs and different levels of risk.

17 **Q: DOES THE CITY OPPOSE TAWC'S REMOVAL OF WASTE MATERIALS**  
18 **FROM TAWC'S WASTEWATER DISCHARGE AND LANDFILL DISPOSAL OF**  
19 **THAT WASTE?**

20 A: No, if that is a more cost-effective means of ensuring that TAWC's wastewater discharge  
21 meets the City's wastewater discharge standards. The Authority should have the  
22 opportunity to evaluate the reasonableness of the approach that TAWC has chosen and  
23 the prudence of its expenditures to implement that approach. TAWC has not submitted



1 sufficient information in this proceeding to evaluate the reasonableness of the approach  
2 and TAWC's prudence in implementing it.

3 **Q: ARE THE CITY WASTEWATER DISCHARGE STANDARDS MANDATED BY**  
4 **SAFETY STANDARDS IMPOSED UPON TAWC BY THE STATE OR FEDERAL**  
5 **GOVERNMENT?**

6 A: No. The City wastewater discharge standards are established by the City to permit it to  
7 efficiently operate its POTW in compliance with the discharge permit issued by the State  
8 of Tennessee to the City. That State permit governs the quality of the discharge to the  
9 Tennessee River of treated wastewater from the City's POTW, applying standards that  
10 take into account the quality and other characteristics of the receiving water, including  
11 the water's ability to support fish, waterfowl, and other aquatic species as well as human  
12 use for recreation, for commercial uses, and as a source of drinking water.

13 **Q: DID TAWC ACKNOWLEDGE IN ITS AGREEMENT WITH THE CITY THAT**  
14 **ENVIRONMENTAL COMPLIANCE EXPENDITURES THAT WERE NOT**  
15 **MANDATED BY SAFETY REQUIREMENTS IMPOSED BY THE STATE OR**  
16 **FEDERAL GOVERNMENT WERE NOT RECOVERABLE UNDER THE RIDER**  
17 **AUTHORIZED BY TENN. CODE ANN. § 65-5-103(d)(2)(A)(i)?**

18 A: Yes. In the letter agreement dated November 25, 2013, appended to the pre-filed  
19 testimony of Mr. Wilkinson as Chattanooga Exhibit B, TAWC acknowledged that the  
20 statute did not address recovery for environmental expenses that were not safety  
21 requirements imposed by the state or federal government and stated that it would not seek  
22 recovery of expenses that were not safety requirements:



1 As the statute does not expressly use the language "environmental  
2 compliance," the City is concerned that the use of this term under this  
3 proposed alternative regulatory method to recover safety and  
4 environmental expenses could lead to the improper classification of some  
5 "non-safety" environmental compliance expenses as "safety  
6 requirements." Recognizing this concern, the Company will provide  
7 quarterly reports to the City sufficiently demonstrating that any  
8 environmental compliance sought by the Company under this Rider,  
9 should it be approved by the TRA, are being spent only on recovery of  
10 safety requirements consistent with the statute. □

11 See Chattanooga Exhibit B at p. 2.

12 **Q: DID TAWC PROVIDE THE PROMISED QUARTERLY REPORTS TO**  
13 **THE CITY DEMONSTRATING THAT ANY ENVIRONMENTAL**  
14 **COMPLIANCE EXPENDITURES WERE ONLY BEING SPENT ON**  
15 **RECOVERY OF SAFETY REQUIREMENTS CONSISTENT WITH THE**  
16 **STATUTE?**

17 A: No. No such reports were submitted to the City.

18 **Q: WHY DOES THE CITY OPPOSE TAWC'S RECOVERY OF EXPENDITURES**  
19 **FOR ITS WASTEWATER PROJECT IN THIS PROCEEDING?**

20 A: The Wastewater Project is not mandated by "safety requirements imposed by the state or  
21 federal government" and, as TAWC has acknowledged, the Project's cost is not properly  
22 recoverable under the Rider authorized by Tenn. Code Ann. § 65-5-103(d)(2)(A)(i).  
23 Even if it was determined that an expenditure may be recovered under the statute, the  
24 Authority is to determine whether recovery is in the public interest. Because the present  
25 proceeding does not afford an adequate opportunity to review TAWC's approach to  
26 compliance with the City's wastewater standards, the City believes that the Authority  
27 should find that it is not in the public interest to permit recovery under a Rider of costs  
28 associated with TAWC's Wastewater Project.



1 Q: DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A: Yes.

STATE OF TENNESSEE:


COUNTY OF HAMILTON:

Before me, the undersigned notary public, duly commissioned in and for the State and County aforesaid, personally came and appeared **Lee Norris**, being by me first duly sworn, deposed and said that:

He is appearing as a witness on behalf of the City of Chattanooga before the Tennessee Regulatory Authority, and, if present before the Authority and duly sworn, his testimony would be as set forth in this pre-filed testimony in this matter.

  
\_\_\_\_\_  
**Lee Norris**

Sworn to and subscribed before me  
this 6th day of April, 2015.

  
\_\_\_\_\_  
Notary Public

My Commission Expires:

5/27/18

