

**IN THE TENNESSEE REGULATORY AUTHORITY
AT NASHVILLE, TENNESSEE**

IN RE:

PETITION OF TENNESSEE
WASTEWATER SYSTEMS, INC. FOR
APPROVAL OF CAPITAL
IMPROVEMENT SURCHARGES
AND FINANCING ARRANGEMENTS

DOCKET NO. 14-00136

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. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS***
15 ***PROCEEDING?***

16 ***A4.*** My testimony will address Tennessee Wastewater Systems, Inc. ("TWSI" or "the
17 Company's") proposal for a Capital Improvement Surcharge of \$3.27 per
18 customer per month to finance certain infrastructure projects estimated to total
19 \$725,000. My testimony will also address the Company's proposal for an
20 assessment of \$3.06 per square foot for the installation of additional facilities at
21 one property for excess usage.

1 ***Q5. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF***
2 ***YOUR TESTIMONY?***

3 ***A5.*** I have reviewed the Company's Petition and accompanying exhibits filed on
4 November 18, 2014. I have also reviewed the Company's testimony and exhibits
5 supporting their filing that was filed on March 13, 2015. In addition, I have
6 reviewed the Company's responses to the data requests submitted by the TRA
7 Staff and the Consumer Advocate.

8
9 ***Q6. PLEASE EXPLAIN THE RELIEF THAT TWSI IS ASKING FROM THE***
10 ***TRA THROUGH ITS PETITION.***

11 ***A6.*** The Company is asking the TRA to implement the new capital improvement
12 surcharge of \$3.27 per customer to allow it to recover its debt financing of
13 \$725,000 in order to fund repairs for its service territory at Maple Green, Cedar
14 Hill and Smoky Village. Up to this point, substantially all of the Company's plant
15 has been funded through contributions in aid of construction from property
16 developers. This request for approval of debt financing and a resulting surcharge
17 represents a policy shift away from developer contributions.

18
19 The Company is also asking for approval for a new assessment charge of \$3.06
20 per square foot for the installation of additional facilities for its service territory at
21 Summit View. Again, this surcharge is a departure from the developer financing
22 procedures that the Company has traditionally used.

23

1 **Q7. IS THE COMPANY'S REQUESTED RELIEF TYPICAL FOR A DEBT**
2 **FINANCING PETITION?**

3 **A7.** No. Typically, a utility would request only approval for the debt issuance from
4 the TRA in this type of filing. The utility would then separately file a petition for
5 any needed change in rates after the utility plant has been constructed and
6 installed. In this case, the Company is asking for approval to issue debt
7 simultaneously with a proposed surcharge for debt recovery. To my knowledge,
8 the TRA has never approved financing of a capital project before its completion.

9
10 **Q8. WHAT SPECIFIC PROJECTS DOES THE COMPANY PROPOSE TO**
11 **ADDRESS THROUGH ITS PETITION?**

12 **A8.** The details of the specific projects that the Company proposes to charge
13 ratepayers through its debt petition are discussed in detail by other CAPD
14 witnesses. However, a summary of each project along with its initially
15 anticipated cost is presented in Table 1 below.

Table 1 – Company Proposed Projects		
Site	Cause/Proposed Project	Projected Cost
Maple Green	Sink Hole/New Wetlands Treatment System	\$250,000
Cedar Hill	Sink Hole/New Wetlands Treatment System	300,000
Smoky Village	Poor Drainage/Drip Field Expansion	175,000
Summit View	Alleged Excess Usage/New Recirculating Sand Filter and New Drip Field	330,000

16
17 **Q9. DO YOU AGREE WITH THE COMPANY'S ANTICIPATED COSTS AS**
18 **SHOWN IN TABLE 1 TO REMEDY THESE PROJECTS?**

1 **A9.** No. The costs included in Table 1 were the Company's anticipated costs from
2 self-construction that were included in their Petition. The Company has since
3 decided to solicit bids from qualified independent contractors to provide a remedy
4 for these projects. Therefore, the projected costs included in Table 1 will need to
5 be updated and reevaluated when these bids are received.²
6

7 **Q10. HAVE YOU REVIEWED THE COMPANY'S PROPOSAL FOR DEBT**
8 **FINANCING?**

9 **A10.** Yes. Included in Exhibit G to the Company's Petition is a loan term sheet
10 outlining their proposed financing. The proposed loan provides for financing of
11 \$725,000 for 10 years at an interest rate of 6.00%. I have reviewed this interest
12 rate, and it does not appear unreasonable. However, I note that the Company has
13 not filed enough information to determine if the requested amount of the loan
14 (\$750,000) is reasonable for the capital projects described. One reason for this
15 statement is because the TRA typically reviews the reasonableness of a utility's
16 capital expenditures, and whether the utility's spending should be passed on to
17 ratepayers, after the funds have been spent.
18

19 **Q11. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE TRA.**

20 **A11.** At this time, my recommendation would only address the anticipated cost of
21 construction for each of the sites proposed by the Company. I would therefore
22 recommend that the TRA reevaluate the costs of construction after the bids from
23 each site are received from independent contractors.

² The Company anticipates receiving these bids by May 15, 2015.

1

2 ***Q12. DOES THIS COMPLETE YOUR TESTIMONY?***

3 ***A12.*** Yes it does. However, I reserve the right to incorporate any new data that may
4 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	<u>S-32534</u>
	CenterPoint Energy/Louisiana PSC	2011	Audit of PGA Filings from 2002 - 2008 of CenterPoint Entex	<u>S-32537</u>
	Louisiana Electric Utilities/Louisiana PSC	2012	Technical Consultant for Impact of Net Meter Subsidy on other Electric Customers	<u>R-31417</u>
	Aqua Utilities	2006	Rate Case Audit - Revenue, Expenses, Rate Base and Rate Design	<u>06-00187</u>
Tennessee	Atmos Energy Corporation/Atmos Intervention Group	2006	Rate design for Industrial Intervenor Group	<u>05-00258</u>
	Atmos Energy Corporation/Atmos Intervention Group	2007	Rate design for Industrial Intervenor Group	<u>07-00105</u>
	Bristol TN Essential Services	2009	Audit of Cost Allocation Manual	<u>05-00251</u>
	Chattanooga Manufacturers Association	2009	Spokesperson for Industrial Natural Gas Users before the Tennessee State Legislature	<u>HB-1349</u>
	Tennessee-American Water Company/Tennessee AG	2011	Rate Case Audit - Weather Normalization Adjustments	<u>10-00189</u>
	Piedmont Natural Gas Company/Tennessee AG	2011	Rate Case Audit - Revenue, Class Cost of Service Study & Rate Design	<u>11-00144</u>
	Lynwood Wastewater Utility/Tennessee AG	2012	Rate Case Audit - Revenue, Class Cost of Service Study & Rate Design	<u>11-00198</u>
	Tennessee-American Water Company/Tennessee AG	2012	Rate Case Audit - Revenues, Rate Base, Class Cost of Service Study and Rate Design	<u>12-00049</u>
	Atmos Energy Corporation/Tennessee AG	2012	Rate Case Audit - Revenues, Rate Base and Rate Design	<u>12-00064</u>
	Jefferson County (Birmingham) Wastewater/Alabama AG	In Process	Bankruptcy Filing - Allowable Costs and Rate Design	<u>2009-2318</u>
Alabama	Peoples & North Shore Gas Cos./Illinois Commerce Comm.	2007	Management Audit of Gas Purchasing Practices	<u>06-0556</u>
Illinois	Southwestern Public Service Co./New Mexico PRC	2010	Financial Audit of Fuel Costs for 2009 and 2010	<u>09-00351-UT</u>
New Mexico	National Grid/New York PSC	2011	Audit of Affiliate Relationships and Transactions	<u>10-M-0451</u>
Ohio	Ohio-American Water Company/Ohio Consumers' Counsel	2010	Rate Case Audit - Class Cost of Service and Rate Design	<u>09-0391-WS-AIR</u>
	Vectren Energy Delivery of Ohio/Ohio Consumers' Counsel	2008	Rate Case Audit - Class Cost of Service and Rate Design	<u>07-1060-GA-AIR</u>
	Duke Energy-Ohio/Public Utilities Commission of Ohio	2009	Focused Management Audit of Fuel & Purchased Power (FPP Riders)	<u>07-0723-EL-JNC</u>
Texas	Center Point Energy/Texas AG	2009	Rate Case Audit - Class Cost of Service and Rate Design	<u>GUD 9902</u>
Virginia	Aqua Utilities/PSS Legal Fund	2011	Rate Case Audit - Class Cost of Service and Rate Design	<u>W-218, Sub-319</u>
Washington DC	Washington Gas Light Co./Public Service Comm of DC	2011	Audit of Tariff Rider for Infrastructure Replacement Costs	<u>1027</u>

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