

# BUTLER | SNOW

December 30, 2014

## VIA ELECTRONIC FILING

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

**RE: Petition of Tennessee-American Water Company Regarding The Production Costs and Other Pass-Throughs Rider, TRA Docket No. 15-00001**

Dear Chairman Hilliard:

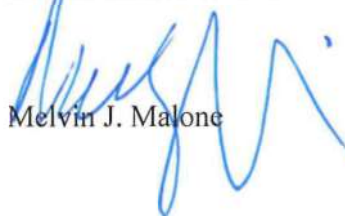
Pursuant to Tenn. Code Ann. § 65-5-103, *et seq.*, and the action of the Tennessee Regulatory Authority on April 14, 2014, in TRA Docket No. 13-00130, attached for filing please find the *Petition of Tennessee-American Water Company Regarding The Production Costs and Other Pass-Throughs Rider* (the "*Petition*"), along with sworn testimony, exhibits and proposed tariffs.<sup>1</sup>

As required, an original and four (4) hard copies of the *Petition* and supporting documentation will follow. We have also enclosed a check in the amount of \$25.00 for the required filing fee.

An extra copy of this cover letter is also enclosed to be filed-stamped for our records. Should you have any questions concerning this filing, or require additional information, please do not hesitate to let me or Valeria Gomez know.

Very truly yours,

BUTLER SNOW LLP



Melvin J. Malone

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Enclosures

cc: Deron Allen, President, Tennessee-American Water Company  
Wayne Irvin, Assistant Attorney General, Consumer Advocate and Protection Division  
Vance Broemel, Assistant Attorney General, Consumer Advocate and Protection Division

<sup>1</sup> For administrative convenience, two (2) CDs of the *Petition*, and supporting documentation, are enclosed.

*The Pinnacle at Symphony Place*  
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**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**PETITION OF TENNESSEE-AMERICAN  
WATER COMPANY REGARDING THE  
PRODUCTION COSTS AND OTHER  
PASS-THROUGHS RIDER**

**DOCKET NO.** \_\_\_\_\_

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**PETITION**

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Pursuant to Tennessee Code Annotated § 65-5-103 *et seq.*, and the Tennessee Regulatory Authority's ("Authority" or "TRA") approval of the Amended Petition in TRA Docket No. 13-00130 on April 14, 2014, Tennessee-American Water Company ("Tennessee American" or "Company") submits this Petition regarding the Production Costs and Other Pass-Throughs Rider (the "*Petition*"). Consistent with the action of the Authority in TRA Docket No. 13-00130, and the approved tariffs submitted therein, Tennessee American states as follows in support of this *Petition*:

**I.**

**DESCRIPTION OF TENNESSEE AMERICAN**

1. Tennessee American, a Tennessee corporation authorized to conduct a public utility business in the State of Tennessee, is a public utility as defined in Tenn. Code Ann. § 65-4-101, and provides residential, commercial, industrial and municipal water service, including public and private fire protection service, to Chattanooga and surrounding areas, including approximately 75,840 customers, that are subject to the jurisdiction of the Authority pursuant to Chapter 4 and Chapter 5 of Title 65 of the T.C.A. Tennessee American also serves customers in

North Georgia. The rates for those customers are not regulated by the Public Service Commission of the State of Georgia, but are instead regulated by this Authority.

2. Tennessee American is a wholly-owned subsidiary of American Water Works Company, Inc., which is the largest water holding company in the United States, providing water and wastewater services to sixteen (16) million people in thirty-five (35) states and two (2) Canadian Provinces.

3. Tennessee American's principal place of business is located at 109 Wiehl Street, Chattanooga, Tennessee 37406.

4. All correspondence and communication with respect to this Petition should be sent to the following:

Linda Bridwell  
Manager of Rates and Regulation – Tennessee and Kentucky  
Kentucky American Water Company  
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## II.

### BACKGROUND

5. In 2013, the Tennessee General Assembly passed House Bill 191, which revised Tenn. Code Ann. § 65-5-103 to allow alternative regulatory methods and mechanisms that recover certain costs without convening a general rate case, as long as specific criteria are satisfied, including, but not limited to, the Authority making a finding, prior to approval, that such alternative methods and mechanisms are in the public interest.

6. On October 4, 2013, Tennessee American submitted a Petition (the “*October 2013 Petition*”) seeking approval of four (4) proposed alternative regulatory methods and mechanisms as permitted under Tenn. Code Ann. § 65-5-103 *et seq.* More specifically, the Company sought approval for a Qualified Infrastructure Investment Program Rider (“QIIP”),<sup>1</sup> an Economic Development Investment Rider (“EDI”),<sup>2</sup> a Safety and Environmental Compliance Rider (“SEC”)<sup>3</sup> and a Pass-Throughs mechanism for Fuel, Purchased Power, Chemicals, Purchased Water, Wheeling Water Costs, Waste Disposal and TRA Inspection Fee (“PCOP”).<sup>4</sup> One of the primary regulatory concepts underlying the then-proposed Capital Riders<sup>5</sup> and PCOP was to allow, with the requisite safeguards to serve the public interest, smaller, gradual increases

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<sup>1</sup> The QIIP Rider is designed, in part, to mitigate regulatory lag, to accelerate the timeframe of essential infrastructure upgrades and replacements, and to produce a safer and more reliable water distribution and production system for ratepayers. Additionally, this mechanism has many other customer benefits and protections, including the lessening of the occurrence of “rate shock” associated with Base Rate increases.

<sup>2</sup> The EDI Rider is designed, in part, to promote the public interest by supporting and enhancing Tennessee American’s ability to serve both growing and new businesses and by permitting the Company to prudently promote economic development, growth and expansion in its service area.

<sup>3</sup> Generally, the SEC Rider supports the Company’s ability to serve the public interest by providing safe and reliable drinking water. The current regulatory environment, coupled with aging infrastructure, will require a larger investment in safety and environmental compliance not previously recognized in the Company’s rates. Hence, one of the benefits of this rider is avoiding “rate shock” by permitting smaller, more gradual rate increases over time.

<sup>4</sup> The PCOP is designed to streamline the recovery process by permitting Tennessee American to recovery the largest non-labor related component of the Company’s operations and maintenance expenses in a more timely manner, as increases in these essential and non-discretionary expenses (such as chemicals and power) are outside the control of the Company’s management.

<sup>5</sup> For ease of reference, the QIIP, the EDI and the SEC are referred to collectively herein as the “Capital Riders.”

in rates and thereby lessen the occurrence of “rate shock.” One of the many benefits of this new, more streamlined recovery approach would be the likelihood of less frequent rate case filings.

7. On January 10, 2014, the Company and the Attorney General and Reporter for the State of Tennessee, through the Consumer Advocate and Protection Division (“CAPD” or “Consumer Advocate”), submitted a Stipulation in TRA Docket No. 130-00130 (the “*Stipulation*”), resolving the contested issues presented and offering the *Stipulation* to the Authority for its review, consideration and approval. Considering the *Stipulation* and the supporting documentation as an Amended Petition, the Authority approved the Capital Riders and the PCOP on April 14, 2014.<sup>6</sup>

### III.

#### THE APPROVED CAPITAL RIDERS, PCOP AND THIS PETITION

8. Detailed explanations of the Capital Riders and the PCOP, along with underlying supporting documentation, are set forth in the Direct, Rebuttal and Supplemental Testimony of Gary M. VerDouw in TRA Docket No. 13-00130.<sup>7</sup> Moreover, the Company’s revised tariff sheets setting forth the Capital Riders, the PCOP, and the regulatory safeguards related thereto, were submitted in TRA Docket No. 13-00130 on March 25, 2014, and approved by the Authority as part of the Amended Petition on April 14, 2014. For ease of reference, the revised tariff sheets are attached hereto as **EXHIBIT A** (the “*Approved Tariffs*”).

9. On April 14, 2014, the Authority determined, after a review of the evidentiary record in TRA Docket No. 13-00130, including the *Stipulation* and the *Approved Tariffs*, that the proposed Capital Riders and the PCOP were reasonable and that the *Approved Tariffs* met the

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<sup>6</sup> *Transcript of Proceedings, In the Matter of Tennessee Regulatory Authority Conference*, TRA Docket No. 13-00130, pp. 14-16 (April 14, 2014) (excerpt) (hereinafter “*Hearing Tr.*”).

<sup>7</sup> The Testimony of CAPD Witness William H. Novak in TRA Docket No. 13-00130 likewise aided in shaping the *Stipulation* and the Amended Petition as well.

requirements of Tenn. Code Ann. § 65-5-103 *et seq.*<sup>8</sup> As set forth in the *Approved Tariffs*, the Authority noted that the Capital Riders and the PCOP would not only accommodate a more timely recovery process for necessary costs and expenses, but also that these methods and mechanisms would further avoid the delay and expense commonly associated with full blown rate case proceedings.<sup>9</sup> Finally, the Authority found that the Amended Petition to be in the public interest.<sup>10</sup>

10. As set forth in the *Approved Tariffs* approved by the Authority, on or before December 1 of each year, Tennessee American is required to file with the Authority its QIIP, EDI and SEC Rider projections for the upcoming calendar year in the manner, and with the accompanying support, required by the *Approved Tariffs* and the Authority. As required, the Company submitted these projections on October 29, 2014, in TRA Docket No. 14-00121.

11. As set forth in the *Approved Tariffs* approved by the Authority, within thirty (30) days of the end of the most recently authorized attrition year set forth in the most recent rate case order, and every twelve (12) months subsequent to the end of that attrition year, the Company shall submit to the Authority an annual filing calculating the PCOP percentage rate.<sup>11</sup> The PCOP percentage rate shall become effective thirty (30) days after the annual filing is submitted to the Authority and shall be applied as an adjustment to customers' bills for the twelve (12) month period following the effective date of the PCOP percentage rate. This *Petition* represents the required annual PCOP filing for the review period of December 1, 2013 through November 30, 2014.

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<sup>8</sup> *Hearing Tr.* at 14-16.

<sup>9</sup> *Id.* at 15.

<sup>10</sup> *Id.*

<sup>11</sup> The PCOP differs from the Capital Riders in that it is based upon actual historical expense increases, rather than a forward-looking, projection mechanism.



12. Based upon Tenn. Code Ann. § 65-5-103 *et seq.*, Tennessee American anticipated that the proposed tariffs submitted in TRA Docket No. 13-000130 would be approved and effective in early January 2014. As the *Approved Tariffs* were not effective until April 15, 2014, the Company did not begin implementing the PCOP until April 15, 2014, although the proposed amount that was approved was intended to be refunded over a full year. If the April 15, 2014, effective date, and the timeframes set forth in the PCOP Rider, are strictly applied, an annual reconciliation based upon the April 15, 2014, effective date would have to be completed in two (2) steps. The first step would capture the full year actual expense to the authorized levels in the previous case to be filed by December 31, while the second step would capture the difference in dollars refunded through the PCOP Rider from April 15, 2014 through April 14, 2015, which would be filed in mid to late May 2015. As the period captured in the second step does not end until April 2015, the filing representing the second step would not be submitted until sometime in May 2015. Strictly adhering to the afore-referenced timeframes in this manner would create a “mis-match” of reconciliation periods that would continue until the Company submits a new rate case. Upon the approval of such new rate case, the filing periods would be re-set.

13. This unintended mis-match of reconciliation periods will create additional expense for Tennessee American, and a heightened, though avoidable, resource burden to the Authority and CAPD, relative to the preparation and review of additional reconciliations. Further, and perhaps more importantly, such a mis-match may result in additional adjustments to Customer bills over a 12-month period, which may lead to Customer confusion. The Company carefully considered a few alternative ways to eliminate the mis-match and at the same time remain consistent with, and within the spirit of, the CAPD’s good faith settlement and the TRA’s public interest approval. The proposal set forth in the accompanying Direct Testimony of

Witness Linda Bridwell is a well-conceived approach to eliminating the mis-match without undermining either the Authority's regulatory oversight or the established public interest safeguards in the *Approved Tariffs* and without harming consumers.

14. In further support of its *Petition*, Tennessee American has simultaneously filed the following direct testimony, which is incorporated herein by reference:

- (a) **Direct Testimony of Linda Bridwell**, which provides the underlying support for the calculation of the PCOP percentage rate, with respect to the PCOP Rider and sponsors certain Tennessee American Exhibits; and

15. Tennessee American has filed simultaneously with this *Petition* the necessary tariffs.

16. Tennessee American submits that the *Petition*, and its accompanying support documentation, are consistent with Tenn. Code Ann. § 65-5-103 *et seq.*, consistent with the action of the Authority on the Amended Petition and consistent with and serve the public interest. Therefore, this *Petition* and Tennessee American's associated tariffs should be approved.

**WHEREFORE**, Tennessee American respectfully requests:

1. That the Authority approve this *Petition* and issue an order pursuant to Tenn. Code Ann. § 65-5-103 *et. seq.* and consistent with the action of the Authority on the Amended Petition;
2. That the Authority approve the proposed PCOP percentage as submitted herein;
3. That the Authority approve Tennessee American's tariffs, as submitted herein, as soon as is practicable; and



4. That the Authority grants such other and/or further relief as may be warranted.

This the 30<sup>th</sup> day of December, 2014.

RESPECTFULLY SUBMITTED,



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VALERIA GOMEZ (BPR #032131)

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Attorneys for Tennessee-American Water Company

Dated: Dec. 30, 2014

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

Wayne Irvin, Esq.  
Assistant Attorney General  
Office of the Tennessee Attorney General  
Consumer Advocate and Protection Division  
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Wayne.Irvin@ag.tn.gov

Vance Broemel, Esq.  
Assistant Attorney General  
Office of the Tennessee Attorney General  
Consumer Advocate and Protection Division  
P.O. Box 20207  
Nashville, TN 37202-0207  
Vance.Broemel@ag.tn.gov

This the 30<sup>th</sup> day of December, 2014.

  
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Melvin J. Malone