

**BEFORE
THE TENNESSEE REGULATORY AUTHORITY**

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

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Docket No. 15-00001

**DIRECT TESTIMONY
of
WILLIAM H. NOVAK**

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

June 12, 2015

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

IN RE:)
)
PETITION OF TENNESSEE-AMERICAN)
WATER COMPANY REGARDING THE) Docket No. 15-00001
PRODUCTION COSTS AND OTHER)
PASS-THROUGHS RIDER)

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 12th day of June, 2015.



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 Bachelor's degree
11 in Business Administration with a major in Accounting, and a Master's 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 ("TRA") where I had either presented testimony
19 or 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 rate case testimony in Dockets U-86-7402, U-87-7534, 89-
17 15388, 91-05224, 93-06946, 10-00189, 12-00149, and 12-00157 concerning
18 Tennessee-American Water Company ("TAWC" or "the Company"). In addition,
19 I presented testimony in Dockets 13-00130 and 14-00121 regarding the
20 alternative regulation mechanisms for the Company that are the subject of this
21 particular docket.

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 true-up changes to the surcharges in its
5 Production Costs and Other Pass-Throughs ("PCOP") tariff rider. Since this is
6 the first time that such a true-up has been filed by the Company, my testimony
7 will also address particular aspects of the Company's methodologies for trueing-up
8 the PCOP tariff rider.

9
10 ***Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF***
11 ***YOUR TESTIMONY?***

12 ***A6.*** I have reviewed the Company's Petition filed in Docket 15-00001 on January 2,
13 2015, along with the accompanying tariff schedules. I have also reviewed the
14 Company's testimony and exhibits supporting its filing. Finally, I have reviewed
15 the Company's responses to the data requests submitted by the Consumer
16 Advocate in this case.

17
18 ***Q7. PLEASE EXPLAIN THE RELIEF THAT TAWC IS ASKING FROM THE***
19 ***TRA THROUGH ITS PETITION.***

20 ***A7.*** The Company is asking the TRA to implement a new PCOP recovery rider
21 surcharge that is based on the true-up of its actual costs for the twelve months
22 ended November 30, 2014 from the level that was established in the last rate case.
23 The overall structure for the PCOP recovery rider was approved by the TRA in

1 Docket 13-00130. The Company's proposed true-up calculation will increase the
2 PCOP surcharge from the current rate of -1.15% to -0.83%.²
3

4 ***Q8. DID YOU REVIEW THE CALCULATIONS SUPPORTING THE***
5 ***PROPOSED PCOP SURCHARGE IN THE COMPANY'S TARIFF***
6 ***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.
11

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

13 ***A9.*** Overall, the calculations supporting the Company's tariff filing appeared to be
14 reasonable and logical. However, since this was the Company's first PCOP true-
15 up filing, it was not surprising that there were some errors in the calculation.
16 The first error involved the Company's use of an incorrect calculation for fuel and
17 purchased power expense. Specifically, the Company correctly calculated
18 \$2,641,344 as its historical fuel and purchased power expense, but only included
19 \$2,593,366 in the PCOP calculation.³
20 The second error involved the Company's use of an incorrect amount for the
21 attrition year sales volumes from the last rate case within the PCOP calculation.
22 Specifically, the Company used sales volumes of 100,589,065 (100 gallons)

² The Company incorrectly identified this change as a rate **decrease** in its proposed tariff sheets.

³ See the Company's response to CAPD Data Request 2-7 for a more complete description of this error.

instead of 100,578,654 (100 gallons) that was actually recognized by the TRA in the last rate case.⁴

Q10. HAVE YOU CALCULATED THE IMPACT OF THESE ERRORS ON THE PCOP RIDER?

A10. Yes. As shown in Table 1 below, correcting the Company's filing for the two errors mentioned above increases the proposed surcharge from -0.83% to -0.73%. I therefore recommend that the TRA allow the Company to implement the corrected PCOP surcharge rate of \$-0.73% and apply it prospectively to customer bills.

Table 1 – Calculation of PCOP Surcharge Rate For the 12 Months Ended November 30, 2014			
	CAPD⁵	TAWC⁶	Difference
Actual PCOP Cost	\$3,806,371	\$3,762,688	\$43,683
Over-Under Collection Adjustment	-234,289	-234,289	0
Net PCOP Cost	\$3,572,082	\$3,528,399	\$43,683
Water Sales (100 Gallons)	96,335,650	96,335,661	-11
PCOP Cost per 100 Gallons	\$0.03708	\$0.03663	\$0.00045
Base Rate Cost per 100 Gallons	0.04039	0.04038	0.00001
Over/Under Cost per 100 Gallons	\$-0.00331	\$-.00375	\$0.00044
Rate Case Water Sales (100 Gallons)	100,578,564	100,589,065	-10,501
Net Deferral Amount	\$-332,961	\$-391,769	\$46,316
Revenue Gross-Up Factor	1.03752	1.03752	0.00000
Gross Deferral Amount	\$-345,454	\$-391,769	\$46,316
Projected Revenue Subject to PCOP	47,073,724	47,073,724	0
PCOP Surcharge Rate	-0.73%	-0.83%	0.10%

Q11. WERE THERE ANY OTHER ISSUES THAT CAME TO LIGHT DURING YOUR REVIEW OF THE COMPANY'S PCOP CALCULATION?

⁴ See the Company's response to CAPD Data Request 2-20 for a more complete description of this error.

⁵ CAPD PCOP Workpaper PCOP-1-1.00.

⁶ Petitioner's Exhibit – PCOP Calc – LCB.

1 **A11.** Yes. The Company purchases a small portion of its total water supply from three
2 vendors. My review of the PCOP tariff rider calculation revealed that these
3 vendors were charging TAWC sales taxes on the water purchased. Since
4 TAWC's water purchases are considered a sale for resale, it is inappropriate to
5 include sales taxes on these purchases. TAWC has indicated that "...the sales tax
6 was charged erroneously and is investigating recovery of the taxes."⁷ I therefore
7 recommend that the TRA direct the Company to include any sales tax recovery
8 related to these charges in a future PCOP filing.

9

10 **Q12. DO YOU HAVE ANY COMMENT ON THE METHODOLOGY USED BY**
11 **THE COMPANY TO CALCULATE THE PCOP SURCHARGE?**

12 **A12.** Yes. The Company has based its PCOP calculation on the total of its vendor
13 invoices instead of the amounts recorded on the ledger. Since this filing
14 represents the first time that a PCOP true-up calculation has been made, I did
15 have concerns about which method was appropriate. The Company replied that
16 the utilization of invoice amounts to match the service period was requested by
17 the TRA.⁸

18 While the examination of invoice amounts may address certain concerns of the
19 TRA, it does result in other potentially significant problems. First, since the
20 PCOP expenses that are examined in a rate case are obtained from the Company's
21 general ledger, the true-up to invoice amounts results in an "apples to oranges"
22 type of comparison. Second, the examination of each and every PCOP related

⁷ Company response to CAPD Data Request 2-6.

⁸ Company response to CAPD Data Request 2-1.

1 invoice would be a herculean task that is potentially beyond the resources that are
2 available for a PCOP audit by the TRA. Third, the Company's ledger balance is
3 independently audited, while the individual invoices are not. Finally, an
4 examination of the PCOP invoices does not necessarily demonstrate that these
5 invoices are paid, whereas the general ledger gives a running balance of monthly
6 expenses and payments. In view of the above, I would respectfully recommend
7 that the TRA reconsider its position on the utilization and review of individual
8 invoices for the PCOP calculation and instead require future PCOP calculations to
9 be based on the amounts recorded on the Company's ledger.

10
11 ***Q13. DOES THIS COMPLETE YOUR TESTIMONY?***

12 ***A13.*** Yes, it does. However, I reserve the right to incorporate any new data that may
13 subsequently become available and to correct any issues later identified.

ATTACHMENT WHN-1

William H. Novak Vitae

William H. Novak

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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>
Alabama	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>
	Peoples & North Shore Gas Cos./Illinois Commerce Comm.	2007	Management Audit of Gas Purchasing Practices	<u>06-0556</u>
	Southwestern Public Service Co./New Mexico PRC	2010	Financial Audit of Fuel Costs for 2009 and 2010	<u>09-00351-UT</u>
New York	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>07-1080-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.