

PETITIONER'S EXHIBIT LCB-1

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 14-_____

DIRECT TESTIMONY

OF

LINDA C. BRIDWELL

ON

CHANGES TO THE PRODUCTION COSTS AND OTHER PASS-THROUGHS RIDER

SPONSORING PETITIONER'S EXHIBITS:

PETITIONER'S EXHIBIT – PCOP CALC – LCB

PETITIONER'S EXHIBIT – 2015 PCOP AVG IMPACT – LCB

PETITIONER'S EXHIBIT – CURRENT TARIFF SHEET NO. 12 – RIDERS – LCB

PETITIONER'S EXHIBIT – PENDING TARIFF SHEET NO. 12 – RIDERS - LCB

PETITIONER'S EXHIBIT – PROPOSED TARIFF SHEET NO. 12 – RIDERS - LCB

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Linda C. Bridwell and my business address is 2300 Richmond Road,
3 Lexington, Kentucky 40502.

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

5 A. I am employed by American Water Works Service Company ("AWW") as Manager of
6 Rates and Regulation for Tennessee and Kentucky.

7 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS OR ANY
8 OTHER COMMISSION?

9 A. Yes. I provided written testimony before the Tennessee Regulatory Authority ("TRA" or
10 "Authority") in TRA Docket No. 12-00049 and Docket No. 14-00021. I have also
11 provided both written and oral testimony in at least fifteen different proceedings before
12 the Kentucky Public Service Commission ("PSC") including rate cases, special
13 investigations, and applications for a Certificate of Public Convenience and Necessity.

14 Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL
15 BACKGROUND.

16 A. I received a B.S. degree in Civil Engineering from the University of Kentucky in 1988
17 and I received a M.S. degree in Civil Engineering from the University of Kentucky in
18 1992 with an emphasis in water resources. I completed a Masters of Business
19 Administration from Xavier University in Cincinnati, Ohio in 2000. I am a registered
20 Professional Engineer in the Commonwealth of Kentucky.

21 I have been employed by AWW since 1989. I began as a distribution supervisor for
22 Kentucky American Water ("KAWC") until 1990 when I was promoted to Planning
23 Engineer, then Engineering Manager, and later Director of Engineering in 1998. In July

1 2004, I accepted the position of Project Delivery and Developer Services Manager for the
2 Southeast Region of AWW, responsible for Kentucky, Tennessee, and West Virginia. In
3 2008, I became the KAWC Project Delivery Manager for the construction of a new water
4 treatment plant, booster station, and transmission main in Kentucky. This project was the
5 largest project completed by American Water, in any of its regulated businesses, at \$164
6 million. Upon completion of the project in October 2010, I became the Director of
7 Environmental Compliance and Water Quality for KAWC and in February of 2012 I
8 accepted my current position. I am an active member of the American Water Works
9 Association (AWWA), served as president of the local chapter and state section of the
10 American Society of Civil Engineering (ASCE), and served as an officer in the local
11 chapter of the National Society of Professional Engineers (NSPE) and as a State officer.
12 I have served periodically as an Adjunct Professor at the University of Kentucky in the
13 Civil Engineering Department, teaching "Water Quality and Pollution Control" and the
14 "Introduction to Environmental Engineering." I served as a member of the
15 Civil Engineering Industrial Advisory Committee at the University of Kentucky from
16 2005 until 2012. I served as a Commissioner on the Kentucky Water Resources
17 Development Commission established by Governor Patton and currently serve on the
18 Board of Directors for the Kentucky Infrastructure Authority.

19 **Q. WHAT ARE YOUR DUTIES AS MANAGER OF RATES AND REGULATION?**

20 A. My primary responsibilities encompass the coordination of regulatory issues in
21 Tennessee and Kentucky. This includes coordinating all reports and filings, working
22 with regulatory staff to make sure that all information produced addresses the
23 requirements or requests, and overseeing the preparation and filing of rate cases and tariff

1 changes. I work with the senior management in both states on planning. I am also
2 responsible for keeping abreast of changes in regulation, or trends in regulatory oversight
3 across the United States that may impact our local operations. I report to the Director of
4 Rates for the Central Division of American Water and am accountable to the Presidents
5 of KAWC and Tennessee American Water ("Tennessee American" or "TAWC"). I am
6 located in Kentucky, but work closely with the TAWC staff in Tennessee as well.

7 **Q. WHAT IS THE PURPOSE OF THE PETITION TAWC HAS FILED?**

8 A. On April 14, 2014, the Tennessee Regulatory Authority approved four new alternative
9 rate mechanisms for TAWC in TRA Docket No. 13-00130, effective April 15, 2014.
10 Three of these alternative rate mechanisms were capital program riders and one was for a
11 rider for production costs and other pass-throughs. The three capital recovery riders are a
12 Qualified Infrastructure Investment Program ("QIIP") Rider, an Economic Development
13 Investment ("EDI") Rider, and a Safety and Environmental Compliance ("SEC") Rider.
14 The QIIP Rider, the EDI Rider and the SEC Rider are commonly referred to as the
15 Capital Riders. The Capital Riders were based on certain categories of capital
16 expenditures to cover the investment period of 2014. The Production Costs and Other
17 Pass-throughs Rider ("PCOP") is based on a historical review period.

18 The purpose of TAWC's Petition, which this testimony accompanies (the "Petition"), is
19 to provide the required information for the 2014 review period to comply with the
20 previously approved PCOP rider tariff, which as noted above was approved in TRA
21 Docket No. 13-000130. The information provided in my testimony is consistent with
22 Tenn. Code Ann. § 65-5-103 *et seq.* and the TRA's April 14, 2014, approval of the four
23 riders.

1 **Q. CAN YOU ELABORATE ON THE PRODUCTION COSTS AND OTHER PASS-**
2 **THROUGHS RIDER TARIFF THAT WAS APPROVED BY THE TRA ON**
3 **APRIL 14, 2014?**

4 **A.** Yes. The previously approved production costs and other pass-throughs rider included
5 the concept of an annual review of certain operational expenses during the period. The
6 PCOP differs from the Capital Riders in that the PCOP is based upon actual historical
7 expenses increases, rather than forward-looking projections. The PCOP is a tariff rate
8 adjustment mechanism for recovery or crediting to customers incremental changes in
9 essential, non-discretionary expenses, such as purchased power expense, purchased
10 chemical expense, purchased water expense, wheeling charge expense, waste disposal
11 expense and TRA inspection fees that are above or below the level authorized for
12 recovery in the most recent rate case. At the end of a year, the PCOP looks at the
13 historical period and compares the actual production expenses to the amount of
14 production expenses authorized in the most recent rate case. The "initial" PCOP Rider
15 year per the April 14, 2014, approval of the agency was the attrition year period from the
16 previous rate case of December 1, 2012 through November 30, 2013, as compared to the
17 actual amount of production expenses that occurred between December 1, 2012 through
18 November 30, 2013. The "current" review period is from December 1, 2013 through
19 November 30, 2014. This Petition includes the current review period expenses,
20 compared to the amounts approved in the last general rate case.

21 **Q. IS THERE A SECOND STEP TO THE PCOP RECONCILIATION PROCESS?**

22 **A.** Yes. A second annual filing for each of the production costs and other pass-through rider
23 was also included in the approved tariffs, anticipating a reconciliation adjustment of the

amount projected to be collected or refunded over the review period, compared to the actual amount collected or refunded. TAWC has included this reconciliation in the Petition as well.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to support the calculation of the 2015 PCOP Rider described in the Petition. Of the four riders approved by the Authority on April 14, 2014, in TRA Docket No. 13-00130, the PCOP Rider is the only item included in the Petition.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes I am. I am sponsoring the following exhibits:

Petitioner's Exhibit – PCOP Calc Exhibit – LCB
Petitioner's Exhibit – 2015 PCOP Avg Impact--LCB
Petitioner's Exhibit -- Current Tariff Sheet No. 12 – Riders – LCB
Petitioner's Exhibit – Pending Tariff Sheet No. 12 – Riders -- LCB
Petitioner's Exhibit – Proposed Tariff Sheet No. 12 – Riders - LCB

I will discuss these exhibits in further detail in my testimony below.

Q. WERE THE PETITIONER'S EXHIBITS LISTED ABOVE PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes.

Q. WHAT WERE THE SOURCES OF THE DATA USED TO PREPARE THE PETITIONER'S EXHIBITS LISTED ABOVE?

A. The data used to prepare the exhibits was acquired from the books of account and business records of Tennessee American, the officers and associates of Tennessee American with knowledge of the facts based on their job responsibilities and activities, and other internal sources which I examined in the course of my investigation of the matters addressed in this testimony.

1 Q. DO YOU CONSIDER THIS DATA TO BE RELIABLE AND OF A TYPE THAT
2 IS NORMALLY USED AND RELIED ON IN YOUR BUSINESS FOR SUCH
3 PURPOSES?

4 A. Yes.

5 Q. DO THE PETITIONER'S EXHIBITS LISTED ABOVE ACCURATELY
6 SUMMARIZE SUCH DATA AND THE RESULTS OF ANALYSIS USING SUCH
7 DATA?

8 A. Yes, it does.

9 Q. WHAT IS THE PRODUCTION COSTS AND OTHER PASS-THROUGH RIDER?

10 A. The PCOP Rider authorized in TRA Docket No. 13-00130 is based on certain categories
11 of operational expenditures during the attrition year in TRA Docket No. 12-00049. That
12 attrition year was December 1, 2012 to November 30, 2013. The purpose of the Petition
13 is to comply with the tariffs approved in TRA Docket No. 13-00130 and provide the
14 required information and supporting documentation in each of the PCOP operational
15 expense areas for the review period that is the 12-months subsequent to the attrition year
16 in the previous case. This review period is therefore December 1, 2013 through
17 November 30, 2014. The operational expense categories included in the PCOP Rider are
18 chemical expenses, fuel & power expenses, waste disposal expenses, purchased water
19 expenses, and the TRA Inspection Fee expenses.

20 Q. DOES THE PCOP RIDER BENEFIT THE CUSTOMERS?

21 Yes. The PCOP is mutually beneficial to the ratepayers, the public, and TAWC. Along
22 with the Capital Recovery Riders, the Production Costs and Other Pass-Throughs Rider
23 reduce the need for general rate cases, lessen the occurrence of consumer "rate shock,"

1 and allow for more efficient, streamlined regulation. The ratepayers and the public
2 benefit from efficiently addressing changes in costs that are largely outside TAWC's
3 control, without the expense of a general rate case. In the case of the PCOP, the
4 customers have seen a rate decrease as TAWC's production costs were less than
5 anticipated during the attrition year. The Company benefits from a more efficient,
6 streamlined regulatory process that presents TAWC with the opportunity to timely
7 recover its expenses.

8 **Q. CAN YOU EXPLAIN THE CALCULATION OF THE PCOP RIDER?**

9 A. Certainly. As set forth in the approved tariffs, the PCOP Rider is established on an
10 annual basis. Essentially, the calculation starts with levels of purchased power,
11 purchased chemical, purchased water, wheeling charges, waste disposal, and TRA
12 Inspection Fee assessments and water sales that are authorized in the Company's most
13 recent rate case. The authorized levels of purchased power, purchased chemical,
14 purchased water, wheeling charges, waste disposal, and TRA Inspection Fee assessments
15 are divided by the authorized level of water sales in hundred gallons. Then actual
16 purchased power expense, purchased chemical expense, purchased water expense,
17 wheeling charges, waste disposal expense, and TRA Inspection Fee assessments are
18 divided by the actual level of water sales in hundred gallons. The difference is the
19 incremental change in production costs per hundred gallons of water. This incremental
20 difference is then multiplied by the authorized level of water sales in hundred gallons.
21 After that, the amount of the PCOP revenues from the previous period that is either over
22 or under the anticipated amount is calculated with interest and added to the expense
23 difference. The total amount is grossed up for the authorized gross receipts tax rate and

1 uncollectible rate from the previous rate case, and then divided by the authorized
2 revenues from the previous case. It is expressed as a percentage for all water charges. If
3 it is negative, the amount is to be refunded to customers. If it is positive, it is added as a
4 surcharge to the customers' bills as additional revenues.

5 As approved, the PCOP changes on an annual basis until it resets back to zero at the
6 conclusion of the Company's next rate case filing, at which point the operational
7 expenses for these categories that are reflected and approved in that rate case filing will
8 be included within Base Rates.

9 **Q. HAVE YOU INCLUDED THE CALCULATION OF THE PRODUCTION COSTS**
10 **AND OTHER PASS-THROUGHS RIDER IN THE PETITION?**

11 A. Yes. I have attached an exhibit that reflects the calculation of the PCOP Rider. The
12 detailed calculations are attached in an exhibit to my testimony as Petitioner's Exhibit
13 PCOP Calc – LCB. The calculations are consistent with the calculations that were made
14 in the approved tariff in TRA Docket No. 13-00130. Further, to assist in the streamlined
15 regulatory process, TAWC is including with the Petition its detailed work-papers
16 supporting the calculation of the PCOP, including all of the invoices for the review
17 period. Again, these workpapers are consistent with the calculations made to support the
18 approved tariff in TRA Docket No. 13-00130.

19 **Q. HAS TAWC INCLUDED DETAILED INFORMATION REGARDING THE**
20 **PROJECTS THAT MAKE UP EACH OF THE EXPENSE CATEGORIES FOR**
21 **THE PCOP RIDER?**

22 A. Yes. As with TRA Docket No. 13-00130, TAWC began with the General Ledger for
23 each of the accounts for the appropriate expenses. TAWC then reconciled the monthly

1 General Ledger charges with the actual invoices appropriate for monthly period. TAWC
2 removed any charges that were not included consistent with the previous docket. This
3 included power charges that are not specific to production, late charges, or charges for
4 service periods outside the review period even if the invoice was applied to the General
5 Ledger during the review period.

6 **Q. HOW ARE THE PCOP EXPENSES RECOVERED?**

7 A. The PCOP is expressed as a percentage. The current tariff Original Sheet No. 12 –
8 Riders – 1 is attached to my testimony as Petitioner's Exhibit Current Tariff Sheet No.
9 12 – Riders – LCB. Additionally, TAWC proposed new capital recovery riders in
10 Docket No. 14-00021. The new proposed tariff sheet in that case is still pending, and is
11 First Revised Sheet No. 12—Riders – 1 and is attached to my tariff as Petitioner's
12 Exhibit Pending Tariff Sheet No. 12—Riders – LCB. The proposed tariff sheet
13 Second Revised Sheet No. 12 – Riders - 1 is attached to my testimony as Petitioner's
14 Exhibit Proposed Sheet No. 12 – Riders – LCB. The PCOP is applied to the total
15 amount billed to each customer under the otherwise applicable rates and charges for basic
16 service, metered usage charges, and private fire charges, and are applied prior to the
17 inclusion of any other taxes, charges, or surcharges. The Capital Riders are combined
18 into one line item on the bill of each customer, while the PCOP Rider is a second line
19 item on the bill of each customer.

20 **Q. WHAT WILL HAPPEN TO THE PCOP RIDER UPON APPROVAL OF NEW**
21 **RATES IN A RATE CASE PROCEEDING?**

22 A. The PCOP will be reset to zero as of the effective date of the new base rates which Base
23 Rates then provide for the recovery of the operational expenses in Base Rates.

1 **Q. WHAT GROSS RECEIPT RATE IS UTILIZED IN THE FORMULA OF THE**
2 **CAPITAL RIDERS?**

3 A. The gross receipt rate is the established rate in the Company's immediately preceding
4 Base Rate case Order, currently TRA Docket No. 12-00049.

5 **Q. WHAT UNCOLLECTIBLES RATE IS USED TO DETERMINE THE PCOP?**

6 A. The uncollectible rate is the established rate in the Company's immediately preceding
7 Base Rate case Order, currently TRA Docket No. 12-00049.

8 **Q. HAS TAWC MADE ADJUSTMENTS TO THE PCOP FOR UNACCOUNTED-**
9 **FOR WATER PERCENTAGES?**

10 A. Yes. The fuel and power expenses, and chemical expenses have been reduced to assume
11 an authorized level of 15%. TAWC has been working on reducing its unaccounted for
12 water levels, but they currently remain above the TRA authorized rate of 15%.

13 **Q. HOW ARE ANNUAL REVENUES DETERMINED FOR THE PCOP?**

14 A. The projected annual revenues will be the authorized water services revenues from the
15 last case, TRA Docket No. 12-00049, including all service charges and volumetric
16 charges for all classes that are subject to the Capital Riders.

17 **Q. IS THERE A RECONCILIATION OF THE CURRENT AUTHORIZED PCOP?**

18 A. Yes. There is a difference between the amount of the PCOP that was authorized to be
19 refunded in TRA Docket No. 13-00130 and what was actually refunded. This occurred
20 for two reasons. First, the PCOP was calculated assuming a full year of implementation,
21 but was not authorized until mid-April. Therefore there were 3.5 months less to apply the
22 PCOP refund than anticipated in the original filing. Second, the water sales were below
23 the authorized amount for the second year, which means less water sales to which the

1 PCOP can be applied. The reconciliation of this under refund amount, with interest, has
2 been included in the PCOP calculation.

3 **Q. YOU INDICATED THAT TENNESSEE AMERICAN IS ONLY INCLUDING**
4 **CHANGES TO THE PCOP RIDER FOR 2015 IN THIS FILING. WHEN WILL**
5 **TENNESSEE AMERICAN ADDRESS THE CAPITAL RIDERS?**

6 A. Consistent with the approved tariffs, Tennessee American filed a petition for the
7 adjustment of the Capital Riders for 2015 on October 29, 2014 in TRA Docket No. 14-
8 00121. This petition only addressed the 2015 project Capital Rider projects.
9 Additionally, TAWC will file a reconciliation for the Capital Riders no later than March
10 1, 2015. There are actually two steps to the reconciliation. The first is an adjustment for
11 budget to actual investment. This is a regulatory oversight and public interest component
12 of the mechanism that results in a true-up if the investment did not occur (up or down) as
13 forecasted. The second is an adjustment for the over or under recovery of revenues as
14 projected, including interest. In this way, the consumers are protected if sales exceed the
15 amount authorized in the previous rate case proceeding. This may occur if there is a
16 significant amount of customer growth or if dry and hot conditions occur in any given
17 year. This second adjustment also allows TAWC to adjust if sales are less than the
18 amount authorized in the last case, as may occur with declining usage that TAWC has
19 experienced in recent years. The reconciliation percentage for the Capital Riders,
20 pending approval by April 1, 2015, as contemplated in the tariffs, will be applied to
21 customer bills for 9 months in 2015.

22 **Q. MS. BRIDWELL, IN YOUR TESTIMONY IN TRA DOCKET NO. 14-00121, DID**
23 **YOU INDICATE THAT THERE WERE SOME ISSUES REGARDING THE**

1 **RECONCILIATION OF THE INITIAL FILING APPROVED BY THE**
2 **AUTHORITY ON APRIL 14, 2014? IF SO, CAN YOU ELABORATE ON THOSE**
3 **ISSUES AT THIS TIME?**

4 A. Yes, I did indicate that, and I can elaborate too. Based upon Tenn. Code Ann. § 65-5-103
5 *et seq.*, in TRA Docket 13-00130, Tennessee American proposed tariffs that it anticipated
6 would be approved and be in place in January 2014. As the tariffs became effective on
7 April 15, 2014 rather than earlier in January, TAWC did not begin applying the Capital
8 Rider or PCOP Rider surcharges until mid-April. Because of this, if these dates are
9 strictly applied, an annual reconciliation of the first filing approved on April 14, 2014,
10 would have to be completed in two steps – a) one to capture the amount of expenses for
11 the review period which could be filed by December 30, 2014; and b) one to capture the
12 difference in dollars refunded through the rider from April 15, 2014 through April 14,
13 2015, which would not be able to be filed until mid to late June, 2015. Filing in this
14 manner would create a mismatch of reconciliation periods that would remain until a new
15 rate case is filed and approved by the TRA and the filing periods would be re-set. The
16 mismatch of reconciliation periods will create additional expense for TAWC, and a
17 heightened, though avoidable, resource burden to the Authority and the Tennessee
18 Consumer Advocate and Protection Division (“CAPD”), relative to the preparation and
19 review of an additional reconciliation. Further, this mismatch would result in two
20 adjustments to customer bills over a 12-month period on the PCOP alone, which may
21 lead to some customer confusion.

1 **Q. WHAT HAS TAWC DONE TO ADDRESS THIS RECONCILIATION ISSUE**
2 **WITH THE AUTHORITY AND THE CAPD?**

3 A. TAWC carefully considered the options for the most appropriate approach of the
4 reconciliation to remain consistent with and within the spirit of both the CAPD's good
5 faith settlement and the TRA's approval, and remain in the public interest. We have done
6 this without compromising or undermining the regulatory oversight and public interest
7 safeguards and without harm to the consumers. Although the period for revenue
8 adjustment is less than originally anticipated in the tariffs, TAWC is proposing to only
9 file one reconciliation for the review period of December 1, 2013 through November 30,
10 2014, to incorporate both steps, and thus eliminate the mismatch of the reconciliation
11 periods. This will result in an under refund situation for revenues on the PCOP Rider, but
12 will reduce the expense and administrative burden for all parties involved by having only
13 one proceeding for the reconciliation of the PCOP Rider for 2014. During the
14 consideration of the alternative rate methods and before approval by the TRA, both the
15 CAPD and the TRA expressed concern over whether these alternative methods would
16 place significant burdens upon the agency and its resources. Eliminating the mismatch
17 also is an attempt to ensure seamless, easy to verify filings in support of the PCOP.

18 **Q. AGAIN, WHY IS TENNESSEE AMERICAN NOT INCLUDING THE**
19 **RECONCILIATION COMPONENT OF THE 2014 CAPITAL RIDERS IN THIS**
20 **FILING?**

21 A. The QIIP, EDI, and SEC Capital Riders were approved to cover the calendar year 2014.
22 Because the year has not been completed, the reconciliation cannot accurately occur

1 consistent with the tariffs. As established in the tariffs, the reconciliation will occur in
2 early 2015 and be filed no later than March 1, to be effective in rates April 1, 2015.

3 **Q. WILL THE CAPITAL RIDERS HAVE A TWO-STEP RECONCILIATION**
4 **PROCESS?**

5 A. Yes. Similar to the PCOP Rider, the Capital Riders reconciliation has 1) the
6 reconciliation of the budget of investments compared to actual made as part of the capital
7 riders for calendar year 2014; and 2) the difference in dollars collected through the riders
8 in calendar year 2014.

9 **Q. IS THERE A SIMILAR CONCERN WITH THE TIMING OF THESE**
10 **RECONCILIATIONS?**

11 A. Yes. Similar to the PCOP, the Capital Riders were approved on April 14, 2014 and
12 implemented on April 15, 2014 although the proposed amount that was approved was
13 intended to be collected over a year. So the Capital Riders would complete the
14 reconciliation in two steps a) one to capture the investments made as part of the capital
15 riders for calendar year 2014, which could be filed by March 1, 2015; and b) one to
16 capture the difference in dollars collected through the riders from April 15, 2014 through
17 April 14, 2015, which would not be able to be filed until mid to late June, 2015. Again,
18 filing in this manner creates a mismatch of reconciliation period that would remain until a
19 new rate case is filed and approved by the TRA and the filing periods would be re-set.
20 The mismatch of reconciliation periods will create additional expense for all parties
21 relative to the preparations and review of an additional reconciliation. Further, this
22 mismatch would mean two adjustments to customer bills over a 12-month period which
23 may lead to some customer confusion.

1 Q. WHAT HAS TAWC DONE TO ADDRESS THE RECONCILIATION ISSUE
2 WITH THE AUTHORITY AND THE CAPD?

3 A. TAWC is filing one reconciliation on the PCOP at this time. TAWC will also file one
4 reconciliation on the Capital Riders by March 1, 2015. This will allow both the
5 reconciliation periods to match on both the PCOP and the Capital Riders, thus saving
6 expenses for all parties involved and potentially reducing customer confusion.

7 Q. WHAT IS THE PROPOSED NEW PCOP RIDER?

8 A. TAWC is proposing a PCOP Rider that results in an annualized revenue refund of
9 \$392,163 or a surcharge of -0.83%. This is a reduction of \$150,219 from the previously
10 approved refund of \$542,382. The previously approved PCOP Rider is -1.15%, and this
11 new proposed PCOP Rider is a decrease of 0.32%.

12 Q. HAS TENNESSEE AMERICAN FILED A TARIFF ADDRESSING THE
13 PROPOSED PCOP RIDER?

14 A. Yes. A new tariff Second Revised Sheet No. 12 – Riders – 1 reflects the PCOP Rider and
15 is attached to my testimony as Petitioner's Exhibit Proposed Sheet No. 12- Riders -
16 LCB.

17 Q. WHAT IS THE IMPACT TO THE AVERAGE CUSTOMER BILL?

18 A. The typical residential customer living in the City of Chattanooga, and using an average
19 of 4,154 gallons per month will see a decrease in their bill of \$0.18 per month, or \$2.16
20 per year from the PCOP Rider. This is a change from the previous PCOP Rider which
21 was a decrease in their monthly bill of \$0.25. A summary of this information is attached
22 to my testimony as Petitioner's Exhibit 2015 PCOP Avg. Impact – LCB.

1 **Q. IS THE PCOP RIDER STILL IN THE PUBLIC INTEREST?**

2 A. Yes. Tennessee American understands that the purpose of the legislation was, in part, to
3 encourage timely recovery of expenses to enhance financial stability, while reducing the
4 costs to consumers and utilities for regulatory review and implementation, and promoting
5 rate gradualism for consumers. TAWC believes the approved production costs and other
6 pass-throughs rider is achieving that goal. Without the approved alternative rate
7 mechanisms, TAWC would be preparing another general rate case. TAWC has been
8 able to immediately pass along expense savings to its customers over the last year and
9 will continue in this year. In this way, customers benefit from immediate expense
10 savings without a cost of a rate case, which we believe to be in the public interest.

11 **Q. WHAT DO YOU RECOMMEND WITH REGARD TO THIS PETITION?**

12 A. I recommend that the petition be approved for the adjustment in the PCOP Rider.

13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

14 A. Yes.

STATE OF Kentucky,
COUNTY OF Fayette)

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Linda C. Bridwell, being by me first duly sworn deposed and said that:

She is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, her testimony would be as set forth in her pre-filed testimony in this matter.

Linda C. Bridwell
Linda C. Bridwell

Sworn to and subscribed before me
this 29th day of December, 2014.

Dorothy A. Stone
Notary Public

My Commission Expires: 10/3/2016

Tennessee American Water Company
Docket No. 14-

Calculation of Production Costs and Other Pass-Throughs ("PCOP") Including Non-Revenue Water
To Determine PCOP Tariff Rider
Actuals for the Year Ending November 30, 2014

Line Number	Description	Amount
<u>I. Calculation of the Base Rate Cost of Production Costs and Other Pass-Throughs as authorized in the Base Rate case (*):</u>		
1	Pro Forma Production Costs and Other Pass-Throughs	\$ 4,062,167
2	Pro Forma Water Sales (WS) in 100 Gallons	100,589,065
3	Base Rate Cost per 100 Gallons WS (Line 1 / Line 2)	<u>\$ 0.04038</u>
<u>II. Deferral calculation - Actual Non-Revenue Water Cost Production Costs and Other Pass-Throughs vs. the Base Rate Cost (**):</u>		
4	Actual Production Costs and Other Pass-Throughs	\$ 3,762,688
5	Over-Under Collection Adjustment	\$ (234,289)
6	Review Period PCOP Costs Adjusted for Over-Under Collections	\$ 3,528,399
7	Actual Water Sales (100 Gallons)	96,335,661
8	Actual Rate Cost Production Costs and Other Pass-Throughs per 100 Gallons WS (Line 6 / Line 7)	<u>\$ 0.03663</u>
9	Base Rate Cost per 100 Gallons WS (Line 3)	<u>\$ 0.04038</u>
10	Incremental Change in Production Costs and Other Pass-Throughs per 100 Gallons WS (Line 9 - Line 8)	<u>\$ (0.00376)</u>
11	Base Rate Case Water Sales 100 Gallons (Line 2)	100,589,065
12	Deferral Amount (Line 10 * Line 11)	<u>\$ (377,982)</u>
<u>III. Calculation of Production Costs and Other Pass-Throughs ("PCOP") Tariff Rider</u>		
13	Total Deferred Amount (Line 12)	\$ (377,982)
14	Total Deferred Amount Grossed Up for revenue taxes (sum of Gross Receipts Tax and Uncollectibles (Line 13 / (1.0-.03616)) (***)	\$ (392,163)
15	Projected Annual Base Rate Revenue subject to PCOP (*)	47,073,724
16	PCOP % (Line 14 / Line 15)	<u>-0.83%</u>

(*) The numbers are taken from the settlement agreement in Docket No. 12-00049

(**) The numbers are actuals for the year ended November 30, 2014 including Non-Revenue Water for Purchased Power and Chemicals

(***) Assumes Gross Receipts Tax @ 3.0%, Uncollectibles @ 1.0571%, TRA Fee @ 0.4250%, and Forfeited Discount Rate @ -0.8661%

5/8" Meter and Usage of 5.55 CCF (or 41.54 100 Gallons)

11

TENNESSEE-AMERICAN WATER COMPANY

TRA NO. 19
Original Sheet No. 12-Riders-1CLASSIFICATION OF SERVICESUMMARY OF RIDERS1. Applicability

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider ("SEC"), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

For the Riders defined in the tariffs :

QIIP	0.79 %
EDI	0.18 %
<u>SEC</u>	<u>0.11 %</u>
Subtotal of all Capital Recovery Riders	1.08 %

QIIP Annual Reconciliation Percentage	0.00 %
EDI Annual Reconciliation Percentage	0.00 %
<u>SEC Annual Reconciliation Percentage</u>	<u>0.00 %</u>
Subtotal of all Reconciliation Percentages	0.00 %

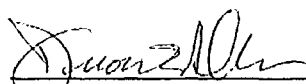
Total of Capital Recovery Riders and Reconciliation Percentages	1.08 %
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PCOP	-1.15 %
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ISSUED: March 25, 2014

EFFECTIVE: April 15, 2014

BY:


Deron E. Allen
PRESIDENT109 Wiehl Street
Chattanooga, Tennessee 37403

TENNESSEE-AMERICAN WATER COMPANY

TRA NO. 19

First Revised Sheet No. 12-Riders-1

CLASSIFICATION OF SERVICE**SUMMARY OF RIDERS****1. Applicability**

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider ("SEC"), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations


For the Riders defined in the tariffs :

QIIP	2.13 %	(I)
EDI	0.61 %	(I)
<u>SEC</u>	<u>3.54 %</u>	(I)
Subtotal of all Capital Recovery Riders	6.28 %	(I)
QIIP Annual Reconciliation Percentage	0.00 %	
EDI Annual Reconciliation Percentage	0.00 %	
<u>SEC Annual Reconciliation Percentage</u>	<u>0.00 %</u>	
Subtotal of all Reconciliation Percentages	0.00 %	
Total of Capital Recovery Riders and Reconciliation Percentages	6.28 %	
PCOP	-1.15 %	

ISSUED: December 29, 2014

EFFECTIVE: January 13, 2015

BY:


Deron E. Allen
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

CLASSIFICATION OF SERVICE**SUMMARY OF RIDERS****1. Applicability**

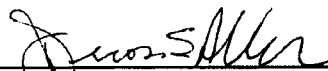
In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider ("SEC"), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

For the Riders defined in the tariffs :

QIIP	2.13 %	
EDI	0.61 %	
<u>SEC</u>	<u>3.54 %</u>	
Subtotal of all Capital Recovery Riders	6.28 %	
QIIP Annual Reconciliation Percentage	0.00 %	
EDI Annual Reconciliation Percentage	0.00 %	
<u>SEC Annual Reconciliation Percentage</u>	<u>0.00 %</u>	
Subtotal of all Reconciliation Percentages	0.00 %	
Total of Capital Recovery Riders and Reconciliation Percentages	6.28 %	
PCOP	-0.83 %	(D)

ISSUED: December 30, 2014**EFFECTIVE: January 29, 2015****BY:**


DERON E. ALLEN
PRESIDENT

12-30-14
109 Wiehl Street
Chattanooga, Tennessee 37403