

**BEFORE  
THE TENNESSEE REGULATORY AUTHORITY**

PETITION OF TENNESSEE- )  
AMERICAN WATER COMPANY )  
REGARDING CHANGES TO THE )  
QUALIFIED INFRASTRUCTURE )  
INVESTMENT PROGRAM RIDER, )  
THE ECONOMIC DEVELOPMENT )  
INVESTMENT RIDER, AND THE )  
SAFETY AND ENVIRONMENTAL )  
COMPLIANCE RIDER )

Docket No. 15-00029

**DIRECT TESTIMONY  
of  
WILLIAM H. NOVAK**

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

*August 13, 2015*

BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE

IN RE: PETITION OF KINGSPORT POWER )  
COMP ANY d/b/a AEP APPALACHIAN ) Docket No. 15-00029  
POWER FOR APPROVAL OF )  
A STORM DAMAGE RIDER TARIFF )

---

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.

Sworn to and subscribed before me  
this 29th day of June, 2015.

  
\_\_\_\_\_  
NOTARY PUBLIC

My commission expires: May 6, 2019



  
\_\_\_\_\_  
WILLIAM H. NOVAK

## 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.<sup>1</sup>

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" or "Authority") where I had either  
19          presented testimony or advised the Authority on a host of regulatory issues for  
20          over 19 years. In addition, I was previously the Director of Rates & Regulatory  
21          Analysis for two years with Atlanta Gas Light Company, a natural gas  
22          distribution utility with operations in Georgia and Tennessee. I also served for  
23          two years as the Vice President of Regulatory Compliance for Sequent Energy

---

<sup>1</sup> State of Tennessee, Registered Accounting Firm ID 3682.

1 Management, a natural gas trading and optimization entity in Texas, where I was  
2 responsible for ensuring the firm's compliance with state and federal regulatory  
3 requirements.

4  
5 In 2004, I established WHN Consulting as a utility consulting and expert witness  
6 services company. Since 2004 WHN Consulting has provided testimony or  
7 consulting services to state public utility commissions and state consumer  
8 advocates in at least ten state jurisdictions as shown in Attachment WHN-1.

9  
10 ***Q3. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?***

11 ***A3.*** I am testifying on behalf of the Consumer Advocate & Protection Division  
12 ("CAPD" or "the Consumer Advocate") of the Tennessee Attorney General's  
13 Office.

14  
15 ***Q4. HAVE YOU PRESENTED TESTIMONY IN ANY PREVIOUS CASES***  
16 ***CONCERNING TENNESSEE-AMERICAN WATER COMPANY?***

17 ***A4.*** Yes. I presented rate case testimony in Dockets U-86-7402, U-87-7534, 89-  
18 15388, 91-05224, 93-06946, 10-00189, 12-00149 and 12-00157 concerning  
19 Tennessee-American Water Company ("TAWC" or "the Company") as well as  
20 testimony concerning TAWC in other generic tariff and rulemaking matters. I  
21 have also presented testimony concerning the Company's alternative regulatory  
22 mechanisms in Dockets 13-00130, 14-00121 and 15-00001.

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 certain reconciliation surcharges in its capital  
5 recovery tariff riders as shown in Table 1 below.

<b>TABLE 1 – Company Proposed Capital Rider Reconciliation Surcharges</b>		
<b>Rider</b>	<b>Current Surcharge<sup>2</sup></b>	<b>Proposed Surcharge<sup>34</sup></b>
Qualified Infrastructure Investment Program ("QIIP") Rider	0.000%	0.254%
Economic Development Investment ("EDI") Rider	0.000%	0.052%
Safety & Environmental Compliance ("SEC") Rider	0.000%	0.064%
<b>Total Surcharge</b>	<b>0.000%</b>	<b>0.370%</b>

6  
7 **Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF**  
8 **YOUR TESTIMONY?**

9 **A6.** I have reviewed the Company's Petition filed on March 3, 2015, along with the  
10 accompanying tariff schedules. I have also reviewed the Company's testimony  
11 and exhibits supporting their filing. Finally, I have reviewed the Company's  
12 responses to the data requests submitted by the Consumer Advocate and the TRA  
13 Staff in this case.

14  
15 **Q7. PLEASE EXPLAIN THE RELIEF THAT TAWC IS ASKING FROM THE**  
16 **TRA THROUGH ITS PETITION.**

17 **A7.** The Company is asking the TRA to implement certain surcharges (shown above  
18 in Table 1) based on the reconciliation performed to true-up the difference

---

<sup>2</sup> This filing represents the Company's first reconciliation of the capital recover riders.

<sup>3</sup> Petitioner's Exhibit, Proposed Tariff Sheet No. 12 – Riders.

<sup>4</sup> The capital rider tariffs specifically require that each individual surcharge be rounded to two (2) decimal places.

1 between the revenue recovered and the actual cost related to the capital recovery  
2 tariff riders. The overall structure for these capital recovery tariff riders was  
3 approved by the TRA in Docket 13-00130, with the initial surcharge having been  
4 approved in Docket 14-00121. As noted in Table 1 above, there is no current  
5 reconciliation surcharge with respect to the capital recovery tariff riders.  
6

7 ***Q8. DID YOU REVIEW THE CALCULATIONS SUPPORTING THE***  
8 ***PROPOSED SURCHARGES IN THE COMPANY'S TARIFF FILING?***

9 ***A8.*** Yes. I have reviewed the Company's filing supporting the proposed capital rider  
10 reconciliation surcharges. I also prepared data requests for supplemental  
11 supporting information that was not contained in or readily apparent from the  
12 filing. In addition, I have had continuing discussions with the Company regarding  
13 the filing.  
14

15 However, I would emphasize that my review was limited to the analysis of the  
16 Company's surcharge calculation based on the ledger data already recorded by  
17 TAWC and supplied in this docket.<sup>5</sup> Due to the high number of individual  
18 charges to plant in service during the audit period and the amount of resources  
19 that would be required to specifically review (much less evaluate the  
20 appropriateness of) each of those individual charges, I **did not** conduct any  
21 review on the individual amounts recorded as plant costs in the Company's ledger  
22 for each of the capital recovery riders.

---

<sup>5</sup> The Company has included over 5,000 individual charges to plant in service during the audit period. Please see the "WKP-PP In-Service" tab of Company spreadsheet "TAW\_TRA\_2014\_CapRider\_Recon" for details.

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

**A9.** Overall, I found that the calculations supporting the Company's reconciliation surcharge tariff filing appeared to be reasonable and logical. The Company has calculated the reconciliation surcharge in accordance with the terms of the TRA approved tariff. The surcharge for each capital recovery rider is calculated in Table 2 below.

<b>TABLE 2 – Calculation of Capital Rider Reconciliation Rates<sup>6</sup></b>				
	<b>QIIP</b>	<b>EDI</b>	<b>SEC</b>	<b>Total</b>
Plant Additions	\$2,268,238	\$563,849	\$451,082	\$3,700,168
Cost of Removal	36,881	0	3,256	40,137
CIAOC	0	0	0	0
Deferred Tax	1,474	-443	1,013	2,044
Accumulated Depreciation	9,719	4,325	2,385	16,429
<b>Net Investment</b>	<b>\$2,710,926</b>	<b>\$559,967</b>	<b>\$450,940</b>	<b>\$3,721,832</b>
Pre-Tax ROR	9.45%	9.45%	9.45%	9.45%
<b>Net Return</b>	<b>\$256,183</b>	<b>\$52,917</b>	<b>\$42,614</b>	<b>\$351,713</b>
Depreciation Expense	31,478	11,886	7,686	51,050
Other Taxes	36,231	7,622	5,437	49,290
<b>Net Cost of Service</b>	<b>\$323,892</b>	<b>\$72,425</b>	<b>\$55,737</b>	<b>\$452,053</b>
Revenue Tax Rate	3.19%	3.19%	3.19%	3.19%
<b>Gross Cost of Service</b>	<b>\$334,565</b>	<b>\$74,811</b>	<b>\$57,574</b>	<b>\$466,949</b>
<b>Rider Revenues</b>	<b>\$246,525</b>	<b>\$56,764</b>	<b>\$35,356</b>	<b>338,645</b>
Under/(Over) Recovery	\$88,040	\$18,047	\$22,218	\$128,304
Earnings Adjustment	0	0	0	0
Interest (Prime @ 3.25%)	1,433	294	361	2,088
<b>Net Reconciliation</b>	<b>\$89,473</b>	<b>\$18,341</b>	<b>\$22,579</b>	<b>\$130,392</b>
<b>Authorized Revenue (9/12)</b>	<b>\$35,305,293</b>	<b>\$35,305,293</b>	<b>\$35,305,293</b>	<b>\$35,305,293</b>
<b>Reconciliation Rate</b>	<b>0.25%</b>	<b>0.05%</b>	<b>0.06%</b>	<b>0.37%</b>

My review included tracing the details for each of the costs presented above to the appropriate source documents. As a result, I was able to independently confirm

<sup>6</sup> Petitioner's Exhibit, Capital Riders Reconciliation, from the Direct Testimony of Linda Bridwell.

1 the costs and revenues that are included in the Company's capital rider  
2 reconciliation.

3  
4 Also, the Company's filing in this docket adjusts the reconciliation period  
5 anticipated in the tariff to only include calendar year 2014 for both cost and  
6 revenue recovery in order to avoid a mismatch between the anticipated and actual  
7 approval date of the tariff. I agree with this adjustment and recommend its  
8 approval.

9  
10 ***Q10. DID YOUR REVIEW FIND ANY AREAS OF CONCERN WITH THE***  
11 ***COMPANY'S PROPOSED TARIFF FILING?***

12 ***A10.*** Yes. While I was able to eventually confirm the source and support for each  
13 component of the Company's filing, the work papers were put together in a  
14 manner that excluded a clear audit trail for the calculation. Specifically, the  
15 Company has depended upon a specific database query function for its capital  
16 rider reconciliation calculations.<sup>7</sup> While this function appears to provide a correct  
17 end result, it does not provide a clear audit trail necessary to confirm the  
18 calculation. Therefore, the only way that I was able to confirm that the  
19 reconciliation factor calculation was correct was to completely disassemble the  
20 Company's work papers in a manner that did provide support to the source  
21 documents. While I was able to carry out this confirmation to my satisfaction, it  
22 did involve a great deal of time for review that was not anticipated.

---

<sup>7</sup> Specifically, the Company is using "SumIF" statements in its work papers to support its calculations without providing a clear audit trail to the source documents.

1

2       The CAPD first informally brought this issue to the Company's attention in the  
3       PCOP true-up filing in Docket 15-00001. While I had hoped to avoid a repeat of  
4       this same obstacle in the current docket, such was not the case. Although the  
5       Company's calculation methodology does produce a correct result, it is just as  
6       important that the calculation be readily verifiable in an independent review. This  
7       would assist the Authority and CAPD in achieving the alternative regulation  
8       statute's goal of saving cost and expenses in the determination of rates. I  
9       therefore respectfully recommend that the TRA order the Company to produce a  
10      clear audit trail for all of the Company's calculations in future filings.

11

12      Further, to address the issue concerning the review and evaluation of the  
13      appropriateness of the individual charges to plant in service for each of the capital  
14      recovery riders, I would respectfully recommend that the Authority direct the  
15      parties and the TRA Staff to meet to consider an appropriate sampling technique.

16

17   ***Q11. DOES THIS COMPLETE YOUR TESTIMONY?***

18   ***A11.*** Yes it does. However, I reserve the right to incorporate any new data that may  
19      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	S-32534
	CenterPoint Energy/Louisiana PSC	2011	Audit of PGA Filings from 2002 - 2008 of CenterPoint Entex	S-32537
	Louisiana Electric Utilities/Louisiana PSC	2012	Technical Consultant for Impact of Net Meter Subsidy on other Electric Customers	R-31417
Tennessee	Aqua Utilities	2006	Rate Case Audit - Revenue, Expenses, Rate Base and Rate Design	06-00187
	Atmos Energy Corporation/Atmos Intervention Group	2006	Rate design for Industrial Intervenor Group	05-00258
	Atmos Energy Corporation/Atmos Intervention Group	2007	Rate design for Industrial Intervenor Group	07-00105
	Bristol TN Essential Services	2009	Audit of Cost Allocation Manual	05-00251
	Chattanooga Manufacturers Association	2009	Spokesperson for Industrial Natural Gas Users before the Tennessee State Legislature	HB-1349
	Tennessee-American Water Company/Tennessee AG	2011	Rate Case Audit - Weather Normalization Adjustments	10-00189
	Piedmont Natural Gas Company/Tennessee AG	2011	Rate Case Audit - Revenue, Class Cost of Service Study & Rate Design	11-00144
	Lynwood Wastewater Utility/Tennessee AG	2012	Rate Case Audit - Revenue, Class Cost of Service Study & Rate Design	11-00198
	Tennessee-American Water Company/Tennessee AG	2012	Rate Case Audit - Revenues, Rate Base, Class Cost of Service Study and Rate Design	12-00049
	Atmos Energy Corporation/Tennessee AG	2012	Rate Case Audit - Revenues, Rate Base and Rate Design	12-00064
	Jefferson County (Birmingham) Wastewater/Alabama AG	In Process	Bankruptcy Filing - Allowable Costs and Rate Design	2009-2318
	Peoples & North Shore Gas Cos./Illinois Commerce Comm.	2007	Management Audit of Gas Purchasing Practices	06-0556
Alabama	Southwestern Public Service Co./New Mexico PRC	2010	Financial Audit of Fuel Costs for 2009 and 2010	09-00351-UT
New Mexico	National Grid/New York PSC	2011	Audit of Affiliate Relationships and Transactions	10-M-0451
Ohio	Ohio-American Water Company/Ohio Consumers' Counsel	2010	Rate Case Audit - Class Cost of Service and Rate Design	09-0391-WS-AIR
	Vectren Energy Delivery of Ohio/Ohio Consumers' Counsel	2008	Rate Case Audit - Class Cost of Service and Rate Design	07-1080-GA-AIR
Texas	Duke Energy-Ohio/Public Utilities Commission of Ohio	2009	Focused Management Audit of Fuel & Purchased Power (FPP Riders)	07-0723-EL-JUNC
	Center Point Energy/Texas AG	2009	Rate Case Audit - Class Cost of Service and Rate Design	GUD 9902
Virginia	Aqua Utilities/PSS Legal Fund	2011	Rate Case Audit - Class Cost of Service and Rate Design	W-218_Sub-319
Washington DC	Washington Gas Light Co./Public Service Comm of DC	2011	Audit of Tariff Rider for Infrastructure Replacement Costs	1027

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