

**BEFORE
THE TENNESSEE REGULATORY AUTHORITY**

PETITION OF TENNESSEE-)
AMERICAN WATER COMPANY)
REGARDING THE 2016 INVESTMENT)
AND RELATED EXPENSES UNDER)
THE QUALIFIED INFRASTRUCTURE)
INVESTMENT PROGRAM RIDER,)
THE ECONOMIC DEVELOPMENT)
INVESTMENT RIDER, AND THE)
SAFETY AND ENVIRONMENTAL)
COMPLIANCE RIDER)

Docket No. 15-00111

**DIRECT TESTIMONY
of
WILLIAM H. NOVAK**

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

February 19, 2016

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 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 Protection and Advocate Division
11 ("CPAD" 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 testimony in Dockets U-86-7402, U-87-7534, 89-15388, 91-
17 05224, 93-06946, 10-00189, 12-00149, 12-00157, 13-00130, 14-00121, 15-00001
18 and 15-00029 concerning Tennessee-American Water Company ("TAWC" or
19 "the Company") as well as testimony concerning TAWC in other generic tariff
20 and rulemaking matters. In addition, I previously advised the TRA on issues in
21 other TAWC dockets where I did not present testimony.

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 the following surcharges in its capital
5 recovery tariff riders.

Rider	Current Surcharge ²	Proposed Surcharge ³
Qualified Infrastructure Investment Program ("QIIP") Rider	2.13%	4.56%
Economic Development Investment ("EDI") Rider	0.05%	0.10%
Safety & Environmental Compliance ("SEC") Rider	3.54%	5.72%
Total Surcharge	5.72%	10.38%

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 November 12, 2015, along with
10 the accompanying tariff schedules. I have also reviewed the Company's
11 testimony and exhibits supporting their filing. Finally, I have reviewed the
12 Company's responses to the data requests submitted by the Consumer Advocate
13 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 the new capital recovery rider
18 surcharges for 2016 (shown above) that are based on the Company's 2016 budget.
19 The overall structure for these capital tariff riders was approved by the TRA in

² Petitioner's Exhibit – Current Tariff Sheet No. 12 – Riders – LCB.

³ Petitioner's Exhibit – Proposed Tariff Sheet No. 12 – Riders – LCB; subsequently revised in response to CPAD DR1-8; subsequently further revised in response to CPAD DR2-6.

1 Docket 13-00130. The revenue received from these capital recovery rider
2 surcharges will then be trued-up to actual costs in a subsequent filing. However,
3 even though the budget numbers supporting the current tariff filing are eventually
4 trued-up to actual costs, the current filing is very important since it establishes the
5 current monthly surcharge to customers.
6

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

9 ***A8.*** Yes. I reviewed the Company's filing. I also prepared data requests for
10 supplemental supporting information that was not contained in the filing. In
11 addition, I have had continuing discussions with the Company regarding the
12 filing. The purpose of my review was to determine whether or not the Company
13 had a reasonable and logical basis to support its proposed tariff surcharges. My
14 review **did not** include more extensive procedures that would typically be
15 included in an audit of TAWC's books and records since, as I mentioned above,
16 these tariffs will be eventually trued-up to the actual costs incurred in a
17 subsequent filing.
18

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

20 ***A9.*** Overall, I found that the structure of the calculations supporting the Company's
21 tariff filing appeared to be reasonable and logical. However, there were a number
22 of errors in the Company's filing that needed to be addressed. Specifically, data
23 included in the calculations related to the prior year amounts; and the plant

1 additions, the depreciation rates, the plant retirements, the cost of removal and the
2 tax depreciation calculations were in error and had to be resubmitted by the
3 Company.⁴ The correction of these errors resulted in the 2nd revised 2016
4 proposed capital surcharge rates totaling 10.38% presented in the table above.
5

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

8 ***A10.*** Yes. First, the Company manually changed the structure for the calculation of
9 certain costs without any disclosure in the Company's testimony, exhibits or
10 workpapers. Specifically, the Company altered the proposed plant additions for
11 accounts 320100 and 320200 for the purpose of manipulating the forecasted
12 depreciation expense.⁵ Although this change resulted in the Customer's favor,
13 there was no disclosure of this alteration making it difficult for the CPAD to
14 reconcile the Company's calculation and thus delaying the case. To address this,
15 we would ask that the TRA order the Company to expressly identify, describe and
16 justify any and all changes to the capital rider calculation structure in all future
17 filings.
18

19 Secondly, the Company has continued to utilize calculations that do not provide a
20 clear audit trail of the capital rider calculation in conflict with the TRA's decision
21 in Docket 15-00029. Specifically, the Company has continued to use database
22 query functions employing "SumIF" statements in its workpapers to support its

⁴ See Company's response to CPAD data requests 1-8, 1-9, 1-24, 1-31, 1-36 and 2-6.

⁵ See Company's response to CPAD data requests 1-21, 1-27, 1-32, 1-33, 2-14 and 2-15.

1 2014 Capital Rider calculations without providing a clear audit trail to the source
2 data. Although the Company eliminated these query functions in the 2015 and
3 2016 calculations, the support for these later calculations depends upon the results
4 from the 2014 calculations which still use them. As a result, the CPAD was
5 forced to take additional steps to ensure the accuracy of the 2014 capital rider
6 calculations before work could begin on the 2015 and 2016 calculations, thus
7 delaying the progress of this case. To address this, we would ask that the TRA
8 order the Company to eliminate all “SumIF” functions for all calculations in
9 future capital recovery filings in order to provide a clear and transparent audit
10 trail.

11
12 Finally, the Company did not fully provide the source and support for its capital
13 recovery calculations along with its filing. As a result, the CPAD was forced to
14 request additional supporting information (often multiple times) in order to ensure
15 the accuracy of the capital rider calculations.⁶ To address this, we would ask that
16 the TRA order the Company to provide the source and support (including
17 appropriate footnotes) for all supporting data to the capital rider calculations in
18 future filings.

19
20 ***Q11. DO YOU HAVE ANY FURTHER RECOMMENDATIONS FOR THE TRA***
21 ***ON THE CAPITAL RECOVERY RIDER CALCULATIONS?***

⁶ See specifically, CPAD data requests 1-7, 1-8, 1-10, 1-16, 1-18, 1-25, 1-26, 1-34, 1-35, 1-38, 2-7, 2-8, 2-9, 2-10, 2-11, 2-16 and 2-17 which request supporting information that should have been provided with the Company's filing.

1 **A11.** Yes. This filing represents the third annual implementation of the Company's
2 budget for the capital recovery riders.⁷ In addition, the Company has already
3 implemented a reconciliation adjustment for the capital recovery riders in docket
4 15-00029. As a result of these annual changes to the capital recovery rider, it has
5 sometimes become somewhat unwieldy and difficult to discern the exact rate in
6 service at any one particular time. I would therefore recommend that the TRA
7 order the Company to include in their tariff the individual and cumulative
8 adjustment to each of the capital recovery riders in a manner similar to the
9 presentation included in the following table.⁸

Effective Date	Docket No.	QIIP Rider	QIIP Reconcile	EDI Rider	EDI Reconcile	SEC Rider	SEC Reconcile	Total
04/15/14	13-00130	0.790%	0.000%	0.180%	0.000%	0.110%	0.000%	1.080%
06/30/15	14-00121	2.130%	0.000%	0.050%	0.000%	3.540%	0.000%	5.720%
11/01/15	15-00029	2.130%	0.254%	0.050%	-0.150%	3.540%	0.064%	5.888%
01/01/16	15-00111	4.340%	0.254%	0.070%	-0.150%	5.710%	0.064%	10.288%

10 This table is similar to what the TRA now requires for PGA filings by gas
11 utilities. It allows the reader to correctly ascertain the capital rider recovery rate
12 that was placed in service and exactly when it was initiated and terminated.

13
14 **Q12. DOES THIS COMPLETE YOUR TESTIMONY?**

15 **A12.** Yes it does. However, I reserve the right to incorporate any new data that may
16 subsequently become available.

⁷ The initial filing for the 2014 budget was granted in Docket 13-00130 and rates for the 2015 budget were granted in docket 14-00121.

⁸ A separate table for the PCOP Rider should also be included in the Company's tariff.

ATTACHMENT WHN-1

William H. Novak Vitae

William H. Novak

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The Woodlands, TX 77381

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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
Alabama	Jefferson County (Birmingham) Wastewater/Alabama AG	In Process	Bankruptcy Filing - Allowable Costs and Rate Design	2009-2318
Illinois	Peoples & North Shore Gas Cos./Illinois Commerce Comm.	2007	Management Audit of Gas Purchasing Practices	06-0556
New Mexico	Southwestern Public Service Co./New Mexico PRC	2010	Financial Audit of Fuel Costs for 2009 and 2010	09-00351-UT
New York	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
	Duke Energy-Ohio/Public Utilities Commission of Ohio	2009	Focused Management Audit of Fuel & Purchased Power (FPP Riders)	07-0723-EL-JUNC
Texas	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.