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February 26, 2016

VIA ELECTRONIC FILING

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

RE: 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, TRA Docket No. 15-00111

Dear Chairman Hilliard:

Attached for filing please find *Tennessee-American Water Company's Rebuttal Testimony* in the above-captioned matter. Due to a one-day delay in the submission of supplemental discovery by TAWC, the dates for testimony were extended accordingly.

As required, an original of this filing, along with four (4) hard copies, will follow. Should you have any questions concerning this filing, or require additional information, please do not hesitate to contact me.

Very truly yours,

BUTLER SNOW LLP


Melvin J. Malone

clw

Attachments

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

*The Pinnacle at Symphony Place
150 3rd Avenue South, Suite 1600
Nashville, TN 37201*

MELVIN J. MALONE
615.651.6705
melvin.malone@butlersnow.com

T 615.651.6700
F 615.651.6701
www.butlersnow.com

30006021v1

BUTLER SNOW LLP

PETITIONER'S EXHIBIT LCB-1

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 15-00111

REBUTTAL TESTIMONY

OF

LINDA C. BRIDWELL

ON

**CHANGES TO THE QUALIFIED INFRASTRUCTURE INVESTMENT PROGRAM
RIDER, THE ECONOMIC DEVELOPMENT INVESTMENT RIDER, AND THE
SAFETY AND ENVIRONMENTAL COMPLIANCE RIDER**

1 **Q. Please state your name.**

2 A. My name is Linda C. Bridwell.

3 **Q. Did you file direct testimony in this case?**

4 A. Yes. I submitted pre-filed direct testimony in this case on November 12, 2015, on behalf
5 Tennessee-American Water Company (“Tennessee American,” “TAWC” or “the
6 Company”).

7 **Q. What is the purpose of your rebuttal testimony?**

8 A. The purpose of my rebuttal testimony is to respond to and provide further information
9 regarding concerns raised in the Pre-filed Testimony of William H. Novak, witness for
10 the Consumer Protection and Advocate Division of the Tennessee Attorney General’s
11 Office (“CPAD”).

12 **Q. What was Mr. Novak’s overall assessment of TAWC’s Petition and supporting**
13 **documentation in this docket?**

14 A. Mr. Novak testified that “[o]verall, I found that the structure of the calculations
15 supporting the Company’s tariff filing appeared to be reasonable and logical.”¹

16 **Q. Mr. Novak includes proposed surcharge amounts in his testimony² that are different**
17 **from the numbers filed in the original tariff. Can you further explain how those**
18 **numbers in Mr. Novak’s testimony developed?**

19 A. Yes. Tennessee American filed its original proposed surcharge amounts in this docket in
20 its Petition, filed November 12, 2015. Included along with its Petition were exhibits and
21 workpapers to support the calculations of the amount of the proposed surcharges. Mr.
22 Novak reviewed the November 12th filing, and the CPAD asked a number of questions

¹ See Direct Testimony of Mr. William H. Novak on Behalf of the Consumer Protection and Advocate Division filed in TRA Docket No. 15-00111 on February 19, 2016, page 4, Lines 20-21.

² Direct Testimony Novak, page 3, table at Line 5.

during the discovery process. As part of the discovery process, Mr. Novak and the CPAD accurately questioned certain of the calculations that Tennessee American made. After discussions with Mr. Novak and the CPAD, Tennessee American agreed that certain calculations identified by the CPAD should be revised. In response to Item 8 of the CPAD's first discovery request, Tennessee American filed a complete set of revised exhibits and workpapers incorporating those calculation changes. This was filed in this docket on January 8, 2016.

Q. Were the exhibits and workpapers submitted on January 8, 2016 revised further?

A. Yes. During a second round of discovery, Mr. Novak and the CPAD further identified other areas in which additional clarifications of, and/or revisions to, the calculations were appropriate. In the spirit of cooperation, and with an aim towards clarity, detailed explanations and overall accuracy, Tennessee American again agreed with the CPAD. Therefore, on January 28, 2016, Tennessee American promptly filed a second update in response to Item 6 of the CPAD's second discovery request. For ease of reference, a comparison of the calculated capital surcharge amounts – from the original Petition through the discovery process - is provided in the table below:

Rider	Current Surcharge³	Proposed Surcharge in Petition⁴	Revised Surcharge Calculation from CPAD 1-8⁵	Revised Surcharge Calculation from CPAD 2-6⁶
Qualified Infrastructure Investment Program (“QIIP”) Rider	2.13%	4.34%	4.56%	4.56%
Economic Development Investment (“EDI”) Rider	0.05%	0.07%	0.10%	0.10%
Safety & Environmental Compliance (“SEC”) Rider	3.54%	5.71%	5.73%	5.72%
Total Surcharge	5.72%	10.12%	10.39%	10.38%

³ Petitioner's Exhibit – Current Tariff Sheet No. 12-Riders--LCB

⁴ Petitioner's Exhibit – Proposed Tariff Sheet No. 12--LCB

⁵ Response to CPAD First Discovery Request No. 8 attachment, filed January 8, 2016, page 90 of 134.

⁶ Response to CPAD Second Discovery Request No. 6 attachment, filed January 28, 2016, page 90 of 128.

1 **Q. Did the Company object to any of the discovery requests submitted in this docket by**
2 **the CPAD?**

3 **A.** No.

4 **Q. Based upon the revisions submitted during discovery, can you identify each specific**
5 **revision to the calculations underlying the revised amounts of the surcharge set**
6 **forth above?**

7 **A.** Yes. There were six separate items that were revised in the calculations. These were:

8 1) In the initial filing, Tennessee American included the actual 2014 monthly capital
9 expenditures, along with the budgeted 2015 and budgeted 2016 capital expenditures to
10 calculate the amount of the surcharge of each of the riders. However, in the first 2
11 months of each forecasted year (in this filing both 2015 and 2016 are forecasted), certain
12 budget lines project an in-service amount based on an average of three month's capital
13 spend. Tennessee American did not revise the 2015 monthly averages in January and
14 February to include the **actual** 2014 monthly amounts for the November and December
15 2014 capital expenditures in calculating the average. Instead, those 2015 monthly
16 averages in January and February still utilized the budgeted 2014 monthly amounts for
17 November and December 2014 capital expenditures⁷;

18 2) The average monthly plant additions in March 2015 did not include the February 2015
19 amount;⁸

20 3) Tennessee American also used an incorrect plant life value for the retirement of Basin
21 1 project;⁹

⁷ CPAD First Discovery Request, Item 8.

⁸ CPAD First Discovery Request, Item 9.

⁹ CPAD First Discovery Request, Item 24.

1 4) Tennessee American included an incorrect formula in calculating the allocated
2 retirements for 2016, compared to 2015;¹⁰ and

3 5) Tennessee American did not update the Cost of Removal and Retirement Data¹¹, or
4 Contribution in Aid of Retirements¹² used in developing historical averages to include
5 2013 and 2014 data.

6 Consistent with the CPAD's requests, these items were all included as part of the revised
7 calculation in response to the first discovery request.

8 6) Finally, the Company's calculation of tax depreciation expense for 2014, 2015 and
9 2016 should have MACRS tax depreciation rates applied to the cumulative plant
10 additions for each vintage year instead of the average plant balance for the year.¹³

11 Consistent with the CPAD's request, this item was included in response to Item 6 of the
12 CPAD's Second Discovery Request filed on January 28, 2016.

13 **Q. Does Tennessee American agree with the amount of the surcharge calculation set**
14 **forth in Mr. Novak's testimony¹⁴?**

15 A. Yes. As demonstrated by the record in this case, Tennessee American has worked
16 cooperatively with the CPAD to improve upon its schedules and calculations in support
17 of the Capital Riders. Notwithstanding the safe-harbor true-up provisions contained in
18 the Capital Rider tariffs which would have provided the opportunity to capture the
19 revisions, TAWC worked in good faith with the CPAD to support the accuracy of the
20 Petition and underlying documentation.

¹⁰ CPAD First Discovery Request, Item 31.

¹¹ CPAD First Discovery Request, Item 36.

¹² CPAD First Discovery Request, Item 37.

¹³ CPAD Second Discovery Request, Item 6.

¹⁴ See Direct Testimony of Mr. William H. Novak on Behalf of the Consumer Protection and Advocate Division filed in Docket No. 15-00111 on February 19, 2016, page 3, Line 5.

1 **Q. Mr. Novak cites three concerns in his testimony regarding the Company’s Proposed**
2 **Filing.¹⁵ Can you provide further explanation regarding those concerns?**

3 A. Yes. First, Mr. Novak notes that Tennessee American manually changed the structure of
4 the calculation without explanation in the filing, specifically altering proposed plant
5 additions in two accounts to calculate the forecasted depreciation expense. In his
6 testimony, Mr. Novak asks that the TRA order the Company to expressly identify,
7 describe and justify any and all changes to the Capital Rider calculation structure in all
8 future filings.¹⁶

9 In response to discovery, TAWC cooperatively and in good faith noted that the Company
10 “did not specify the change in this filing . . . because the change was to [the] benefit of
11 the customers and reduced the revenue requirement.”¹⁷ The outcome – the benefit to the
12 customer – was presented in the Petition, although the underlying methodology was not.
13 Recognizing after discussions with the CPAD that any methodological changes should be
14 duly noted by TAWC even if the overall outcome is a benefit to the customer, Tennessee
15 American has already committed to “expressly identify any such change – even those to
16 the benefit of the customer” in future filings.¹⁸ The Company reaffirms that commitment
17 here again under oath. Given TAWC’s good faith explanation for the omission, coupled
18 with the Company’s voluntary and expressed commitment under oath in future filings,
19 Mr. Novak’s request is unnecessary.

¹⁵ Direct Testimony Novak, A10, Pages 5 and 6.

¹⁶ Direct Testimony Novak, Page 5, Lines 15-17.

¹⁷ Response to CPAD Second Discovery Request, Item 15, filed January 28, 2016.

¹⁸ Response to CPAD Second Discovery Request, Item 15, filed January 28, 2016.

1 Second, Mr. Novak has asked that the TRA order the Company to eliminate all “SumIF”
2 functions for all calculations in future capital recovery filings.¹⁹ Mr. Novak raised this
3 same issue in the previous filing (TRA Docket No. 14-00121) and in the following
4 reconciliation filing (TRA Docket No. 15-00029) as well. Tennessee American objects
5 to the wholesale elimination of all “SumIF” functions in the calculations. The use of the
6 “SumIF” function, along with other array functions in the formulas in the excel
7 spreadsheets, improve the accuracy of the calculations with a streamlined efficiency
8 when attempting to develop calculations based on large quantities of data, such is in these
9 calculations. In light of Mr. Novak’s previously expressed concerns on this issue in
10 TRA Docket Nos. 14-00121 and 15-00029, and the Order in Docket No. 15-00029,
11 Tennessee American attempted to address Mr. Novak’s concern by creating a “Proof” tab
12 within the worksheets that duplicated the calculations without “SumIF” and array
13 formulas. These enhancements to the files were made in the spirit of cooperation and in
14 good faith. Tennessee American commits to working further with the CPAD to improve
15 the structure of the calculations for transparency without jeopardizing the efficiency and
16 accuracy of the calculations. An abrupt elimination of the “SumIF” formulas may lead to
17 inconsistency or inaccuracies in filings going forward. Such unintended consequences of
18 Mr. Novak’s request should be avoided.

19 Third, Mr. Novak testified that Tennessee American did not fully provide the source and
20 support for its capital recovery calculations along with its filing.²⁰ Tennessee American
21 submitted its source and support documentation necessary to fully support its initial filing
22 in good faith and consistent with previous Capital Rider filings. During the discovery

¹⁹ Direct Testimony Novak, Page 6, Lines 8-9.

²⁰ See Direct Testimony Novak, page 6, Lines 12-13.

1 process, clarification was requested and was cooperatively submitted. In light of the
2 newness of the alternative regulation statutes, Tennessee American understands that these
3 clarifications will serve to improve the submission of and review of the calculations in
4 this docket. Moreover, the Company's aim is to fully incorporate the clarifications and
5 improvements from this docket and TRA Docket No. 14-00121 in and as part of the
6 future initial Capital Rider filings.

7 **Q. Mr. Novak asks that Tennessee American revise the Tariff Sheet No. 12 – Riders to**
8 **include a table of all of the changes to the riders with each Docket Number of the**
9 **changes included.²¹ Do you agree with this proposed revision to the Tariff Sheet?**

10 A. No, I do not. Rather than improving the transparency of the tariff sheet, including the
11 extensive table suggested by Mr. Novak may result in the unintended consequence of
12 actually confusing customers and other interested parties in referencing the tariff sheet in
13 their efforts to understand the total amount of the charges. However, Tennessee
14 American does agree that understanding the evolution of the charges may be helpful for
15 the review of each filing. With this in mind, and in the spirit of cooperation, Tennessee
16 American will voluntarily provide this table, updated as necessary, as an exhibit with
17 each successive Petition for filing and reconciliation.

18 **Q. What is your recommendation?**

19 A. I recommend that the Tennessee Regulatory Authority approve the revised Qualified
20 Infrastructure Investment Program Rider at 4.56%, the revised Economic Development
21 Investment Rider at 0.10% and the revised Safety and Environmental Compliance Rider
22 at 5.72%.

²¹ See Direct Testimony Novak, Page 7, Lines 6-7.

1 **Q.** Does this conclude your rebuttal testimony?

2 **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 24th day of February, 2016.

Dorothy A. Stone
Notary Public

My Commission Expires: 10/3/2016