

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

May 26, 2016

IN RE:)	
)	
PETITION OF TENNESSEE-AMERICAN WATER)	
COMPANY REGARDING THE 2016 INVESTMENT)	
AND RELATED EXPENSES UNDER THE QUALIFIED)	DOCKET NO.
INFRASTRUCTURE INVESTMENT PROGRAM)	15-00111
RIDER, THE ECONOMIC DEVELOPMENT)	
INVESTMENT RIDER, AND THE SAFETY AND)	
ENVIRONMENTAL COMPLIANCE RIDER)	

ORDER APPROVING *PETITION* AS AMENDED

This matter came before Vice Chairman David F. Jones, Director Kenneth C. Hill and Director Robin L. Morrison of the Tennessee Regulatory Authority (the “Authority” or “TRA”), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on March 14, 2016 for consideration of the *Petition* filed by Tennessee-American Water Company (“TAWC” or the “Company”) on November 12, 2015.

BACKGROUND

TAWC provides residential, commercial, industrial and municipal water service to customers in Tennessee and North Georgia. TAWC is a wholly-owned subsidiary of American Water Works Company, Inc. On November 12, 2015, TAWC filed a *Petition* requesting Authority approval to increase the tariff percentage rates during the 2016 calendar year for the Qualified Infrastructure Investment Program Rider (“QIIP” or “QIIP Rider”), the Economic Development Investment Program Rider (“EDI” or “EDI Rider”), and the Safety and Environmental Compliance Program Rider (“Safety Rider” or “SEC”). The QIIP, EDI and SEC

(collectively, “Capital Riders”) were previously approved by the Authority on April 14, 2014 in Docket No. 13-00130.¹

On November 23, 2015, the panel of Directors assigned to this docket convened a contested case proceeding and appointed the Authority’s General Counsel or her designee to act as Hearing Officer in this matter. On December 14, 2015, the Consumer Protection and Advocate Division of the Office of the Attorney General (“Consumer Advocate”) filed its *Petition to Intervene*. On December 21, 2015, the Hearing Officer suspended the proposed tariff through March 1, 2016.² On February 23, 2016, the Hearing Officer re-suspended the proposed tariff through April 1, 2016.³

Since filing its *Petition*, TAWC has filed revised proposed tariff pages and exhibits, responses to the informal data requests of the Consumer Advocate and responses to the Authority’s request for certain information it determined necessary to review and consider TAWC’s revised proposed tariffs in this docket.

PETITION

In accordance with the tariffs approved in TRA Docket No. 13-00130, on or before December 1 of each year, the Company shall submit to the Authority an annual filing that calculates the tariff Rider percentage rates for the upcoming calendar year.⁴ As part of the annual rate filing, the Company is required to submit certain supporting information and documentation, including a budget of each Rider’s forecasted investments and operating expenses adopted by the Company’s board of directors.⁵

¹ See *In re: Petition of Tennessee-American Water Company for Approval of a Qualified Infrastructure Investment Program, an Economic Development Investment Rider, a Safety and Environmental Compliance Rider and Pass-Throughs for Purchased Power, Chemicals, Purchased Water, Wheeling Water Costs, Waste Disposal, and TRA Inspection Fee*, Docket No. 13-00130, *Order Approving Amended Petition*, (January 27, 2016).

² *Order Suspending Tariffs through March 1, 2016* (December 21, 2015).

³ *Order Re-Suspending Tariffs through April 1, 2016* (February 23, 2016).

⁴ See *Petition*, pp. 5-6 (November 12, 2015).

⁵ *Id.*

In support of the *Petition*, the Company submitted the pre-filed testimony of Ms. Linda Bridwell and Mr. Brent E. O'Neill. Ms. Bridwell testifies that the proposed Capital Riders incorporate the adjustments and modifications approved by the Authority in TRA Docket 14-00121.⁶ Ms. Bridwell asserts that approval of these Capital Riders continue to provide benefits to both the customer and Company and ensures safe and reliable service.⁷ The Company claims that if it were not for the approved riders, TAWC would be in the midst of preparing another rate case. Further, allowing immediate recovery of plant investments allows the Company to replace aging infrastructure, thus improving the safety and reliability of the service. As such, Ms. Bridwell explains the Capital Riders remain in the public interest as previously determined by this Authority.⁸ The Capital Riders are cumulative and cover the period of January 1, 2016 through December 31, 2016. They will remain in place until a new rate case takes place at which time all plant recovery will be in base rates and the capital riders will be re-set to zero.⁹

The cost of capital, depreciation rates, property tax rate and annual revenues used in the calculations are those last approved by the Authority in TRA Docket 12-00049.¹⁰ Ms. Bridwell attests the calculations in this filing are consistent with those made and approved in TRA Docket Nos. 13-00130 and 14-00121, and no operating expenses have been included in the EDI or SEC Riders.¹¹ Based upon the Company's calculations, the QIIP Rider will be 4.34% resulting in annual revenue of \$2,042,443, representing a 2.21% and \$1,040,546 increase respectively. The proposed EDI Rider will be 0.07% with annual revenue of \$34,925, representing a 0.02% and \$12,308 increase respectively. The SEC Rider will be 5.71% with \$2,687,609 in annual revenue,

⁶ *Id.* at 7.

⁷ Linda C. Bridwell, Pre-Filed Direct Testimony, pp. 9-10 (November 12, 2015).

⁸ *Id.* at 22-23.

⁹ *Id.* at 16.

¹⁰ *Id.* at 16-17.

¹¹ *Id.* at 15, 18.

representing a 2.17% and \$1,022,797 increase respectively.¹² Ms. Bridwell originally estimated approval of the *Petition* would result in the typical residential customer living in the City of Chattanooga having a bill increase of \$0.95 per month or \$11.40 per year.¹³

Brent E. O'Neill, P.E. provided testimony regarding the capital investments and sponsors exhibits outlining the needed capital investments through the Strategic Capital Expenditure Plan ("SCEP" or "the Plan") and letters supporting additional capital expenditures for the benefit of economic development. According to Mr. O'Neill, the capital investments of the Company are either normal recurring projects or major investment projects.¹⁴

The QIIP is designed to recover infused capital for expenditures related to replaced, unscheduled and relocated mains, hydrants, valves and meters. The SCEP Program Summary outlines the expenditures by month for the 2016 year related to each expenditure category.¹⁵ Mr. O'Neill provides a brief description of some of the investment items included within the Plan. Mr. O'Neil testifies that the Plan includes \$830,500 to replace water mains during the year, the completion of which enables TAWC to reduce its carbon footprint and reduce main breaks within its system.¹⁶

Mr. O'Neill outlines eight main replacement projects scheduled to occur in 2016.¹⁷ The Plan also includes \$920,000 for unscheduled main replacements. Mr. O'Neill avers the unscheduled main replacement budget should remain relatively constant in order to see a continual reduction in the number of main breaks.¹⁸ Relocation of mains accounts for \$250,000 of the Plan budget and occurs because of work associated with municipal or state changes. Hydrant and valve replacements account for \$270,000 of the Plan expenditures. TAWC

¹² *Id.* at 21-22.

¹³ *Id.* at 22.

¹⁴ Brent E. O'Neill, P.E., Pre-Filed Direct Testimony, p. 4 (November 12, 2015).

¹⁵ *Id.* at Exhibit 2016 SCEP BEO.

¹⁶ *Id.* at 7.

¹⁷ *Id.* at 6-10.

¹⁸ *Id.* at 11-12.

estimates replacing 119 water service lines (small diameter pipe that start at the distribution main typically near the street and end near the property line). This accounts for \$250,000 of the Plan budget.¹⁹ Meter replacement cost is estimated to be \$753,930 for the replacement of 5,000 meters during 2016. TAWC plans on inspecting water storage tanks during 2016 in order to prioritize and plan rehabilitation of tanks in 2017.²⁰

The QIIP also includes a Capital Investment Project for the Citico Plant Improvement Phase IB totaling \$8.2 million. During investigations of Citico Basins 1 and 2, it was discovered that the concrete walls were in poor condition and unable to support the load of the proposed equipment. Therefore, Phase IB was developed in order to improve the pretreatment process and reduce the amount of solids in the water prior to entering the filters of Plant 1.²¹ According to Mr. O'Neill, there will be operational expense savings resulting from this improvement. However, they are not quantifiable at this time but will be captured in Production Costs and Other Pass-Throughs Rider ("PCOP") when filed.

The purpose of the EDI is to recover capital and/or operational expenses expended to promote economic development. TAWC included \$270,000 in its SCEP for EDI related to new mains, hydrants, valves and manholes. TAWC asserts this will enable the Company to extend existing dead ends or position the current distribution system for future development. TAWC identified two EDI projects: (1) installation of new lines along Camp Jordan Parkway to support the Bass Pro Shopping Center; and (2) improvement of water service in the Town of Red Bank for the Pratt & Associates Climate Controlled Storage Project.²²

According to TAWC, the Company is continually faced with adhering to safety and environmental compliance mandates from the state and federal government, and capital

¹⁹ *Id.* at 13-15.

²⁰ *Id.* at 15-16.

²¹ *Id.* at 18.

²² *Id.* at 23-27.

investments made to meet these mandates are recoverable from the SEC Rider. The SCEP includes \$260,000 for System Control And Data Acquisition (“SCADA”) Equipment and Systems. Mr. O’Neill testifies the SCADA investment is necessary in order to install or replace existing equipment used for monitoring and operating the treatment plants, of which the majority of spending will cover Remote Terminal Units (“RTU”) for booster stations within the distribution system. The Security Equipment and Systems expenditures of \$200,000 are necessary to upgrade existing systems in order to improve the security of the facilities. TAWC estimates it will expend \$955,000 for Process Plant Facilities and Equipment recoverable from the SEC. Mr. O’Neill testifies that this money will be spent to ensure reliability of the Citico Water Treatment plant, replace a chemical feed vault within the Citico facility and other replacement work at the Citico facility.²³

Mr. O’Neill testifies the Capital Riders support the infrastructure of the utility, provide opportunities for economic development and ensure safe and reliable service. Additionally, the capital investment can be made immediately with ratepayers being spared the expense of a rate case. For these reasons, the Company maintains the Capital Riders remain in the public interest.²⁴

POSITION OF THE CONSUMER ADVOCATE

Following discovery and exchanges of information with TAWC, Mr. Hal Novak submitted pre-filed testimony on behalf of the Consumer Advocate which addressed the calculations of TAWC’s proposed Capital Riders. Based upon the Company’s responses to data requests and Mr. Novak’s review, several errors were found and corrected in this filing resulting in a total capital surcharge rate of 10.38%. The errors consisted of TAWC including prior year amounts in its calculations and errors in the plant additions, depreciation rates, plant retirements,

²³ *Id.* at 29-32.

²⁴ *Id.* at 33.

cost of removal and tax depreciation calculations. In summary, Mr. Novak recommends adoption of a QIIP Rider of 4.56%, an EDI Rider of 0.10% and a SEC Rider of 5.72%. These recommended percentages result in a 10.38% total surcharge.²⁵

Mr. Novak made four additional recommendations regarding any future Capital Rider filings. First, Mr. Novak refers to the Company altering plant additions in this filing without disclosing the change. To assist in the review of future filings, Mr. Novak recommends the Authority direct TAWC to “expressly identify, describe and justify any and all changes to the capital rider calculations structure in all future filings.”²⁶ Second, Mr. Novak references the data base function “SumIF” in workpapers supporting the Capital Rider calculations and testifies that it does not provide a clear audit trail. The “SumIF” function is not used in the 2015 and 2016 calculations but relies upon the 2014 workpapers which utilized the function. Mr. Novak testified that because of this the Consumer Advocate had to verify the 2014 calculations before proceeding to review the 2015 and 2016 calculations, resulting in a delay. To avoid this problem in the future, Mr. Novak recommends the Authority direct TAWC to eliminate all “SumIF” functions in all calculations in future Capital Rider filings.

Third, according to Mr. Novak, TAWC did not provide the source and support for the calculations with its filings which required data requests to obtain the documentation, which Mr. Novak asserts delayed the proceeding. To correct this in future filings, the Consumer Advocate recommends the Authority direct TAWC to include all source and support, including footnotes, for all calculations. Fourth, because this is the third (2014, 2015 and 2016) capital rider filing, the Consumer Advocate asserts it is becoming confusing knowing what rider percentage is in effect at a particular time. The Consumer Advocate therefore recommends the Authority direct

²⁵ William H. Novak, Pre-Filed Direct Testimony, pp. 3-5 (February 19, 2016).

²⁶ *Id.* at 5.

TAWC to include in its tariff a cumulative table listing the effective date, Docket No., Individual Rider percentage, Reconciliation percentage and Total Surcharge of all capital riders.²⁷

REBUTTAL OF TAWC

The Company concurred with the errors identified by the Consumer Advocate and submitted revised calculations on January 28, 2016, incorporating the necessary corrections. Specifically, the QIIP surcharge of 4.56%, EDI surcharge of 0.10%, and SEC surcharge of 5.72%.²⁸ These corrected surcharges would increase the average customer bill by \$1.00 per month or \$12.00 per year.²⁹

Ms. Bridwell further responded to the recommendations made by Mr. Novak and the Consumer Advocate. First, Ms. Bridwell testifies that TAWC has committed to identify and disclose any changes to the Capital Rider calculations structure in all future filings. Second, TAWC disagrees with the change recommended by the Consumer Advocate to eliminate all “SumIF” functions with the calculations and workpapers. In response to concerns raised by the Consumer Advocate in prior dockets, TAWC created a “Proof” tab whereby the calculations were duplicated without the “SumIf” function in order for the Consumer Advocate to review and identify any inconsistencies. Further, TAWC maintains a wholesale elimination of the “SumIF” function could lead to errors and inconsistencies in future filings.

Third, in light of the newness of the alternative rate regulation statutes, TAWC agrees to include the clarifications identified in this docket and TRA Docket No. 14-00121 in all future filings.³⁰ Fourth, TAWC asserts that inclusion of the cumulative tables in the tariff as suggested by Mr. Novak could result in customer confusion and, therefore, objects to having such a table in

²⁷ *Id.* at 5-7.

²⁸ Linda C. Bridwell, Pre-Filed Rebuttal Testimony, p. 2 (February 26, 2016).

²⁹ Transcript of Authority Conference, p. 38 (March 14, 2016).

³⁰ Linda C. Bridwell, Pre-Filed Rebuttal Testimony, p. 7 (February 26, 2016).

the effective tariff. However, TAWC agrees to include this table as an exhibit to the Petition in future filings.³¹

MARCH 14, 2016 HEARING AND APPEARANCES

A Hearing in this matter was held before the voting panel on March 14, 2016, as noticed by the Authority on March 4, 2016. Prior to the hearing, the parties gave notice to the Authority that they waived cross-examination of the respective expert witnesses and jointly requested the record in the docket, including the discovery, be made part of the evidentiary record.³² Participating in the hearing were the following parties and their respective counsel:

TAWC - Melvin J. Malone, Esq., Butler, Snow, O'Mara, Stevens & Cannada, PLLC, 1200 One Nashville Place, 150 Fourth Avenue North, Nashville, Tennessee 37219.

Consumer Advocate – Wayne Irvin, Esq., Office of the Attorney General, 425 Fifth Avenue North, Fourth Floor, John Sevier Building, P.O. Box 20207, Nashville, Tennessee 37202.

The voting panel heard testimony by Ms. Linda Bridwell and Mr. Brent E. O'Neill on behalf of the Company. Mr. Hal Novak provided testimony on behalf of the Consumer Advocate. During the hearing, the public was given an opportunity to offer comment, but no member of the the public sought to comment on the *Petition*. Following the conclusion of the testimony, the voting panel considered the *Petition*.

FINDINGS AND CONCLUSIONS

According to the documentation presented by TAWC, the majority of investment included for recovery is the result of necessary main replacements and improvements of structural deficiencies in the sedimentation facilities that will reduce the solids in the flow to the Citico facility, along with the completion of various areas of the Citico project. Upon due consideration, the panel found the investment projects presented by the Company to be

³¹ *Id.*

³² *Joint Notice*, p. 1 (March 3, 2015).

reasonable and consistent with previous findings of the Authority. Additionally, the panel found the supporting workpapers and pre-tax return, as submitted on January 28, 2016, appear to be accurate and the revenue volumes are in agreement with those adopted in TRA Docket No. 12-00049. Based upon review of the projects proposed and supporting information and agreement of the parties, the panel voted unanimously to approve a QIIP of 4.56%, an EDI of 0.10%, and an SEC of 5.72%, as agreed to by the parties.

Further, the panel found that the identification of any changes in the structure of calculations of future capital rider filings should assist all parties in their review. For this reason, the panel voted unanimously that all changes in the structure of calculations shall be identified, justified and disclosed in all future capital rider filings. Further, that panel found that excluding the source and support for calculations used to derive the capital rider percentages may delay the proceeding; therefore, the panel voted unanimously that TAWC is to include all source and support (including footnotes) for all calculations in all future capital rider filings.

Regarding the concerns raised by the parties related to use of the “SumIF” function in 2014 workpapers, the panel found that the “Proof” tab provided by the Company should assist the parties in their audit. The record reflects the parties stated they were able to verify the accuracy of the 2014 calculations with the “SumIF” function included. A complete removal of this function could lead to inaccuracies in future filings, thus the panel found that there is insufficient justification to eliminate all “SumIF” functions.

Finally, the panel concluded that the Capital Riders benefit both consumers and TAWC. The panel found that the programs allow the utility timely recovery of investment related expenses to ensure safe and reliable drinking water and promote economic development, while benefitting consumers through reduced rate case and legal expenses that would otherwise result through expensive rate case proceedings.

IT IS THEREFORE ORDERED THAT:

1. The *Petition* filed by Tennessee-American Water Company on November 12, 2015 is approved as amended on January 28, 2016.

2. A Qualified Infrastructure Investment Rider of 4.56% resulting in annual revenues of \$2,145,126 is approved.

3. An Economic Development Investment Rider of 0.10% resulting in annual revenues of \$47,256 is approved.

4. A Safety and Environmental Compliance Rider of 5.72% resulting in annual revenues of \$2,693,844 is approved.

5. In future capital rider filings, Tennessee-American Water Company shall identify, justify and disclose any changes in the structure of calculations. All sources and support, including footnotes, for all calculations shall be included by Tennessee-American Water Company in future filings.

Vice Chairman David F. Jones, Director Kenneth C. Hill and Director Robin L. Morrison concur.

ATTEST:



Earl R. Taylor, Executive Director