

**BEFORE  
THE TENNESSEE REGULATORY AUTHORITY**

PETITION OF TENNESSEE-  
AMERICAN WATER COMPANY  
REGARDING THE PRODUCTION  
COSTS AND OTHER PASS-  
THROUGHS RIDER

)  
)  
)  
)  
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Docket No. 15-00131

**DIRECT TESTIMONY  
of  
WILLIAM H. NOVAK**

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

*April 20, 2016*

**IN THE TENNESSEE REGULATORY AUTHORITY  
AT NASHVILLE, TENNESSEE**

<b>IN RE:</b>	)	
	)	
<b>PETITION OF TENNESSEE AMERICAN</b>	)	
<b>WATER COMPANY REGARDING THE</b>	)	<b>Docket No. 15-00131</b>
<b>PRODUCTION COSTS AND OTHER</b>	)	
<b>PASS-THROUGH RIDERS</b>	)	

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**AFFIDAVIT**

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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.

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

Sworn to and subscribed before me  
this 21<sup>st</sup> day of Jan., 2016.

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



My commission expires: May 6, 2019

## ATTACHMENTS

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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") where I had either presented testimony  
19 or 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

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<sup>1</sup> 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 & 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 THE ALTERNATIVE REGULATION MECHANISMS***  
16 ***FOR TENNESSEE-AMERICAN WATER COMPANY?***

17 ***A4.*** Yes. I presented testimony in Dockets 13-00130, 14-00121, 15-00001, 15-00029,  
18 and 15-00111 concerning alternative regulation mechanisms for Tennessee-  
19 American Water Company ("TAWC" or "the Company"). In addition, I have  
20 presented testimony in other TAWC Dockets concerning other regulatory matters.

21  
22 ***Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS***  
23 ***PROCEEDING?***

1 **A5.** My testimony will address the calculations supporting the Company's tariff filing  
2 that requests authority to implement a new surcharge in its Production Costs and  
3 Other Pass-Throughs ("PCOP") tariff rider. The proposed PCOP surcharge, along  
4 with the PCOP surcharges previously approved by the TRA are presented below  
5 in Table 1.

Table 1 – Production Costs & Other Pass-Throughs Surcharge Rate		
Docket Number	Effective Date	Surcharge Rate
13-00130	4-15-14	-1.15%
15-00001	8-17-15	-0.73%
15-00131 (Proposed)	TBD	-0.44% <sup>2</sup>

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

9 **A6.** I have reviewed the Company's Petition filed in Docket 15-00131 on December  
10 30, 2015, along with the accompanying tariff schedules. I have also reviewed the  
11 Company's testimony and exhibits supporting its filing. Finally, I have reviewed  
12 the Company's responses to the data requests submitted by the Consumer  
13 Advocate 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 a new PCOP recovery rider  
18 surcharge that is based on the true-up of its actual costs for the twelve months  
19 ended November 30, 2015 from the level that was established in the last rate case.

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<sup>2</sup> Petitioner's Exhibit – Proposed Tariff Sheet No. 12 – Riders – LCB; Subsequently revised in response to CPAD DR2-4 as described below.

1 The overall structure for the PCOP recovery rider was approved by the TRA in  
2 Docket 13-00130. The Company's proposed true-up calculation will increase the  
3 PCOP surcharge from the current rate of -0.73% to -0.44%<sup>3</sup> as shown on Table 1  
4 above.

5  
6 ***Q8. DID YOU REVIEW THE CALCULATIONS SUPPORTING THE***  
7 ***PROPOSED PCOP SURCHARGE IN THE COMPANY'S TARIFF***  
8 ***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.

13  
14 ***Q9. WHAT WERE THE RESULTS OF YOUR REVIEW?***

15 ***A9.*** Overall, the calculations supporting the Company's tariff filing appeared to be  
16 reasonable and logical. However, there were some relatively minor errors  
17 discovered in my review along with other errors were uncovered by the TRA  
18 Staff. As a result of these errors, the Company has refiled their proposed PCOP  
19 tariff sheet in this docket. The new tariff sheet changes the proposed PCOP  
20 surcharge rate from -0.44% shown above in Table 1 to -0.37%.<sup>4</sup> In my opinion,  
21 this new tariff filing adequately addresses the errors discovered during the review.

22  

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<sup>3</sup> The Company incorrectly identified this change as a rate decrease in its proposed tariff sheets.

<sup>4</sup> Company response to CPAD data request 2-4.

1 **Q10. DO YOU HAVE ANY COMMENT ON THE METHODOLOGY USED BY**  
2 **THE COMPANY TO CALCULATE THE PCOP SURCHARGE?**

3 **A10.** Yes. The Company has based its PCOP calculation on the total of its vendor  
4 invoices instead of the amounts recorded on the ledger as affirmed by the TRA in  
5 Docket 15-00001.<sup>5</sup> Because the ledger balances represent the PCOP expenses  
6 that are examined within the context of a rate case, my review of the proposed  
7 PCOP surcharge only included amounts reported on the Company's ledger.

8  
9 **Q11. IS THE COMPANY'S ENTIRE PCOP CALCULATION BASED SOLELY**  
10 **ON INVOICE AMOUNTS?**

11 **A11.** No. While the individual expense calculations are based on invoices, the revenue  
12 surcharge amounts (along with the resulting interest surcharge) are based on the  
13 activity recorded in the Company's ledger.<sup>6</sup> While I continue to disagree with the  
14 use of invoice amounts for calculating the PCOP surcharge, it would seem that the  
15 revenue surcharge reconciliation should also be based on invoice amounts if the  
16 TRA wants to be consistent with its prior decision.

17  
18 **Q12. DO YOU HAVE ANY FURTHER CONCERNS WITH THE**  
19 **METHODOLOGY USED TO CALCULATE THE PCOP SURCHARGE?**

20 **A12.** Yes. In view of time and resource constraints, my review of the Company's  
21 PCOP surcharge was limited to the amounts recorded on the Company's ledger,  
22 since there are thousands of individual expense invoices that are posted. To

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<sup>5</sup> TRA Order in Docket 15-00001, Page 13, Ordering Paragraph #6, February 5, 2016.

<sup>6</sup> Company response to CPAD Data Request 1-15.



1 adequately address the issue concerning the review and evaluation of the  
2 appropriateness of the individual charges to the operating expenses for the PCOP  
3 rider, I would respectfully recommend that the Authority direct the parties and the  
4 TRA Staff to meet to consider an appropriate sampling technique. A similar  
5 meeting was ordered by the TRA regarding the Company's capital riders, and the  
6 Company and the Consumer Advocate have had productive discussions on this  
7 topic, but at this point we have not yet met with the TRA Staff.<sup>7</sup>

8  
9 ***Q13. DOES THIS COMPLETE YOUR TESTIMONY?***

10 ***A13.*** Yes, it does. However, I reserve the right to incorporate any new data that may  
11 subsequently become available and to correct any issues later identified.

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<sup>7</sup> TRA Order in Docket 15-00029, Page 13, Ordering Paragraph #5, February 8, 2016.

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	<u>S-32534</u>
	CenterPoint Energy/Louisiana PSC	2011	Audit of PGA Filings from 2002 - 2008 of CenterPoint Entex	<u>S-32537</u>
	Louisiana Electric Utilities/Louisiana PSC	2012	Technical Consultant for Impact of Net Meter Subsidy on other Electric Customers	<u>R-31417</u>
Tennessee	Aqua Utilities	2006	Rate Case Audit - Revenue, Expenses, Rate Base and Rate Design	<u>06-00187</u>
	Atmos Energy Corporation/Atmos Intervention Group	2006	Rate design for Industrial Intervenor Group	<u>05-00258</u>
	Atmos Energy Corporation/Atmos Intervention Group	2007	Rate design for Industrial Intervenor Group	<u>07-00105</u>
	Bristol TN Essential Services	2009	Audit of Cost Allocation Manual	<u>05-00251</u>
	Chattanooga Manufacturers Association	2009	Spokesperson for Industrial Natural Gas Users before the Tennessee State Legislature	<u>HB-1349</u>
	Tennessee-American Water Company/Tennessee AG	2011	Rate Case Audit - Weather Normalization Adjustments	<u>10-00189</u>
	Piedmont Natural Gas Company/Tennessee AG	2011	Rate Case Audit - Revenue, Class Cost of Service Study & Rate Design	<u>11-00144</u>
	Lynwood Wastewater Utility/Tennessee AG	2012	Rate Case Audit - Revenue, Class Cost of Service Study & Rate Design	<u>11-00198</u>
	Tennessee-American Water Company/Tennessee AG	2012	Rate Case Audit - Revenues, Rate Base, Class Cost of Service Study and Rate Design	<u>12-00049</u>
	Atmos Energy Corporation/Tennessee AG	2012	Rate Case Audit - Revenues, Rate Base and Rate Design	<u>12-00084</u>
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-JT
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	<u>09-0391-WS-AIR</u>
	Vectren Energy Delivery of Ohio/Ohio Consumers' Counsel	2008	Rate Case Audit - Class Cost of Service and Rate Design	<u>07-1080-GA-AIR</u>
	Duke Energy-Ohio/Public Utilities Commission of Ohio	2009	Focused Management Audit of Fuel & Purchased Power (FPP Riders)	<u>07-0723-EL-JNC</u>
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	<u>W-218, Sub-319</u>
Washington DC	Washington Gas Light Co./Public Service Comm of DC	2011	Audit of Tariff Rider for Infrastructure Replacement Costs	<u>1027</u>

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