



March 1, 2016

VIA ELECTRONIC FILING

Docket No. 16-00022

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 in Support of the Calculation of the 2016 Capital Riders Reconciliation

Dear Chairman Hilliard:

Attached for filing please find Tennessee-American Water Company's *Petition in Support of the Calculation of the 2016 Capital Riders Reconciliation*, along with sworn testimony, exhibits, proposed tariffs and workpapers. Set forth within the *Petition* is a request for the entry of a protective order in the same form applied in TRA Docket No. 13-00130.

As required, an original of this filing, along with four (4) hard copies, as well as two (2) CDs 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

A handwritten signature in black ink, appearing to read "Melvin J. Malone".

Melvin J. Malone

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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

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BUTLER SNOW LLP

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

**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 AND IN SUPPORT OF THE)
CALCULATION OF THE 2016 CAPITAL)
RIDERS RECONCILIATION)**

DOCKET NO. 1600022

**PETITION IN SUPPORT OF THE CALCULATION OF THE 2016 CAPITAL RIDERS
RECONCILIATION**

Pursuant to Tennessee Code Annotated § 65-5-103 *et seq.*, and the Tennessee Regulatory Authority's ("Authority" or "TRA") approval of the Amended Petition in TRA Docket No. 13-00130 on April 14, 2014, Tennessee-American Water Company ("Tennessee American," "TAWC" or "Company") submits this Petition in Support of the Calculation of the 2016 Capital Riders Reconciliation. Consistent with the action of the Authority in TRA Docket No. 13-00130, and the approved tariffs submitted therein, as well as the action taken by the Authority in TRA Docket Nos. 14-00121 and 15-00029,¹ Tennessee American states as follows in support of this Petition:

¹ TRA Docket No. 14-00121 is the matter in which TAWC submitted its first annual petition subsequent to the approval of the capital rider tariffs in TRA Docket No. 13-00130. The Authority deliberated on the merits of the Company's petition in Docket No. 14-00121 on June 29, 2015, and TAWC submitted a tariff filing compliant therewith on June 30, 2015 and August 28, 2015. *In Re: Petition of Tennessee-American Water Company for the Reconciliation of the 2015 Capital Riders*, TRA Docket No. 15-00029, is the matter in which TAWC submitted its first petition in support of the reconciliation calculations for the capital riders subsequent to the approval of the capital rider tariffs in TRA Docket No. 13-00130. The Authority deliberated on the merits of the Company's petition in Docket No. 15-00029 on October 19, 2015, and TAWC submitted a tariff filing compliant therewith on October 28, 2015.

I.

DESCRIPTION OF TENNESSEE AMERICAN

1. Tennessee American, a Tennessee corporation authorized to conduct a public utility business in the State of Tennessee, is a public utility as defined in Tenn. Code Ann. § 65-4-101, and provides residential, commercial, industrial and municipal water service, including public and private fire protection service, to Chattanooga and surrounding areas, including approximately 75,840 customers, that are subject to the jurisdiction of the Authority pursuant to Chapter 4 and Chapter 5 of Title 65 of the T.C.A. Tennessee American also serves customers in North Georgia. The rates for those customers are not regulated by the Public Service Commission of the State of Georgia, but are instead regulated by this Authority.

2. Tennessee American is a wholly-owned subsidiary of American Water Works Company, Inc., which is the largest water holding company in the United States, providing water and wastewater services to sixteen (16) million people in thirty-five (35) states and two (2) Canadian Provinces.

3. Tennessee American's principal place of business is located at 109 Wiehl Street, Chattanooga, Tennessee 37406.

4. All correspondence and communication with respect to this Petition should be sent to the following:

Linda Bridwell
Manager of Rates and Regulation – Tennessee and Kentucky
Kentucky American Water Company
2300 Richmond Road
Lexington, KY 40502
Linda.Bridwell@amwater.com
(859) 268-6373 (office)
(859) 268-6374 (fax)

Melvin J. Malone
Butler Snow LLP
The Pinnacle at Symphony Place
150 3rd Avenue South, Suite 1600
Nashville, TN 37201
melvin.malone@butlersnow.com
(615) 651-6700 (office)
(615) 651-6701 (fax)

II.

BACKGROUND

5. In 2013, the Tennessee General Assembly passed House Bill 191, which revised Tenn. Code Ann. § 65-5-103 to allow alternative regulatory methods and mechanisms that recover certain costs without convening a general rate case, as long as specific criteria are satisfied, including, but not limited to, the Authority making a finding, prior to approval, that such alternative methods and mechanisms are in the public interest.

6. On October 4, 2013, Tennessee American submitted a Petition (the “*October 2013 Petition*”) seeking approval of four (4) proposed alternative regulatory methods and mechanisms as permitted under Tenn. Code Ann. § 65-5-103 *et seq.* More specifically, the Company sought approval for a Qualified Infrastructure Investment Program Rider (“QIIP”),² an Economic Development Investment Rider (“EDI”),³ a Safety and Environmental Compliant Rider (“SEC”)⁴ and a Pass-Throughs mechanism for Fuel, Purchased Power, Chemicals,

² The QIIP Rider is designed, in part, to mitigate regulatory lag, to accelerate the timeframe of essential infrastructure upgrades and replacements, and to produce a safer and more reliable water distribution and production system for ratepayers. Additionally, this mechanism has many other customer benefits and protections, including the lessening of the occurrence of “rate shock” associated with Base Rate increases.

³ The EDI Rider is designed, in part, to promote the public interest by supporting and enhancing Tennessee American’s ability to serve both growing and new businesses and by permitting the Company to prudently promote economic development, growth and expansion in its service area.

⁴ Generally, the SEC Rider supports the Company’s ability to serve the public interest by providing safe and reliable drinking water. The current regulatory environment, coupled with aging infrastructure, will require a larger investment in safety and environmental compliance not previously recognized in the Company’s rates. Hence, one of the benefits of this rider is avoiding “rate shock” by permitting smaller, more gradual rate increases over time.

Purchased Water, Wheeling Water Costs, Waste Disposal and TRA Inspection Fee (“PCOP”).⁵⁶

One of the primary regulatory concepts underlying the then-proposed Capital Riders and PCOP was to allow, with the requisite safeguards to serve the public interest, smaller, gradual increases in rates and thereby lessen the occurrence of “rate shock.” One of the many benefits of this new, more streamlined recovery approach would be the likelihood of less frequent rate case filings.

7. On January 10, 2014, the Company and the Attorney General and Reporter for the State of Tennessee, through the Consumer Advocate and Protection Division (“CAPD” or “Consumer Advocate”), submitted a Stipulation in TRA Docket No. 13-00130 (the “*Stipulation*”), resolving the contested issues presented and offering the *Stipulation* to the Authority for its review, consideration and approval. Considering the *Stipulation* and the supporting documentation as an Amended Petition, the Authority approved the Capital Riders and the PCOP on April 14, 2014.⁷

III.

THE APPROVED CAPITAL RIDERS, THE PCOP AND THIS PETITION

8. Detailed explanations of the Capital Riders and the PCOP, along with underlying supporting documentation, are set forth in the Direct, Rebuttal and Supplemental Testimony of Gary M. VerDouw in TRA Docket No. 13-00130.⁸ Moreover, the Company’s revised tariff sheets setting forth the Capital Riders , the PCOP, and the regulatory safeguards related thereto,

⁵ The PCOP is designed to streamline the recovery process by permitting Tennessee American to recovery the largest non-labor related component of the Company’s operations and maintenance expenses in a more timely manner, as increases in these essential and non-discretionary expenses (such as chemicals and power) are outside the control of the Company’s management.

⁶ For ease of reference, the QIIP, the EDI and the SEC are referred to collectively herein as the “Capital Riders.”

⁷ *Transcript of Proceedings, In the Matter of Tennessee Regulatory Authority Conference*, TRA Docket No. 13-00130, pp. 14-16 (April 14, 2014) (excerpt) (hereinafter “*Hearing Tr.*”).

⁸ The Testimony of CAPD Witness William H. Novak in TRA Docket No. 13-00130 likewise aided in shaping the *Stipulation* and the Amended Petition as well.

were submitted in TRA Docket No. 13-00130 on March 25, 2014 (the “*Approved Tariffs*”), and approved by the Authority as part of the Amended Petition on April 14, 2014.

9. On April 14, 2014, the Authority determined, after a review of the evidentiary record in TRA Docket No. 13-00130, including the *Stipulation* and the *Approved Tariffs*, that the proposed Capital Riders and the PCOP were reasonable and that the *Approved Tariffs* met the requirements of Tenn. Code Ann. § 65-5-103 *et seq.*⁹ As set forth in the *Approved Tariffs*, the Authority noted that the Capital Riders and the PCOP would not only accommodate a more timely recovery process for necessary costs and expenses, but also that these methods and mechanisms would further avoid the delay and expense commonly associated with full blown rate case proceedings.¹⁰ Finally, the Authority found that the Amended Petition to be in the public interest.¹¹

10. As set forth in the *Approved Tariffs*, on or before December 1 of each year, Tennessee American is required to file with the Authority its QIIP, EDI and SEC Rider projections for the upcoming calendar year in the manner, and with the accompanying support, required by the *Approved Tariffs* and the Authority. As required, the Company previously submitted these projections to the Authority in TRA Docket No. 15-00111.

11. As set forth in the *Approved Tariffs*, within thirty (30) days of the end of the most recently authorized attrition year set forth in the most recent rate case order, and every twelve (12) months subsequent to the end of that attrition year, the Company shall submit to the Authority an annual filing calculating the PCOP percentage rate.¹² The PCOP percentage rate shall become effective thirty (30) days after the annual filing is submitted to the Authority and

⁹ *Hearing Tr.* at 14-16.

¹⁰ *Id.* at 15.

¹¹ *Id.*

¹² The PCOP differs from the Capital Riders in that it is based upon actual historical expense increases, rather than a forward-looking, projection mechanism.

shall be applied as an adjustment to customers' bills for the twelve (12) month period following the effective date of the PCOP percentage rate. As required, the Company previously submitted the annual filing calculating the PCOP percentage rate to the Authority in TRA Docket No. 15-00131.

12. As set forth in the *Approved Tariffs*, no later than March 1 of each year, Tennessee American is required to file with the Authority its QIIP, EDI, and SEC Rider reconciliations for the previous calendar year in the manner, and with the accompanying support, required by the *Approved Tariffs* and the Authority. Based upon Tenn. Code Ann. § 65-5-103 *et seq.*, and consistent with the *Approved Tariffs*, as well as the action of the Authority in TRA Docket Nos. 14-00121 and 15-00029, Tennessee American is submitting its reconciliation for the Capital Riders.

13. In further support of its Petition, Tennessee American has simultaneously filed the following direct testimony, which is incorporated herein by reference:

- (a) **Direct Testimony of Linda C. Bridwell**, which provides underlying support for the calculation of the 2015 Capital Riders Reconciliation and sponsors certain Tennessee American Exhibits.
- (b) **Direct Testimony of Brent E. O'Neill**, which provides underlying support for the calculation of the 2016 Capital Riders Reconciliation, including support for the capital investments and capital expenditures, and sponsors certain Tennessee American Exhibits.

14. Tennessee American has filed simultaneously with this Petition the necessary tariffs.

15. In order to ensure the timely submission of relevant information in this matter, Tennessee American hereby requests the entry of a protective order similar to that approved in TRA Docket No. 13-00130. Such a proposed protective order is attached hereto as **EXHIBIT A**.


16. Tennessee American submits that the Petition, and its accompanying support documentation, are consistent with Tenn. Code Ann. § 65-5-103 *et seq.*, consistent with the action of the Authority on the Amended Petition, and subsequent related dockets, and consistent with and serve the public interest. Therefore, this Petition and Tennessee American's associated tariffs should be approved.

WHEREFORE, Tennessee American respectfully requests:

1. That the Authority approve this Petition and issue an order pursuant to Tenn. Code Ann. § 65-5-103 *et seq.* and consistent with the action of the Authority on the Amended Petition;
2. That the Authority approve the calculation of the 2016 Capital Riders Reconciliation as submitted herein;
3. That the Authority approve Tennessee American's tariffs, as submitted herein, as soon as is practicable; and
4. That the Authority grant such other and/or further relief as may be warranted.

This the 1st day of March, 2016.

RESPECTFULLY SUBMITTED,



MELVIN J. MALONE (BPR #013874)

Butler Snow LLP

150 3rd Avenue South, Suite 1600

Nashville, TN 37201

melvin.malone@butlersnow.com

(615) 651-6705

Attorneys for Tennessee-American Water Company

Dated: March 1, 2016