

**BEFORE
THE TENNESSEE REGULATORY AUTHORITY**

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. 16-00022

**SUPPLEMENTAL DIRECT TESTIMONY
of
WILLIAM H. NOVAK**

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

September 15, 2016

**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. 16-00022

AFFIDAVIT

I, William H. Novak, CPA, on behalf of the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Supplemental 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 15th day of Sept., 2016.



NOTARY PUBLIC

My commission expires: May 6, 2019



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. ARE YOU THE SAME WILLIAM H. NOVAK THAT PREVIOUSLY**
8 **PRESENTED PRE-FILED DIRECT TESTIMONY IN THIS SAME**
9 **DOCKET?**

10 **A2.** Yes.

11

12 **Q3. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

13 **A3.** I am testifying on behalf of the Consumer Protection & Advocate Division
14 (“CPAD” or “the Consumer Advocate”) of the Tennessee Attorney General’s
15 Office.

16

17 **Q4. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY IN**
18 **THIS PROCEEDING?**

19 **A4.** My supplemental testimony will address the Company’s responses to the
20 Consumer Advocate’s fourth data request that was filed by TAWC on September
21 9, 2016 after my pre-filed direct testimony was submitted.

22

¹ State of Tennessee, Registered Accounting Firm ID 3682.

1 ***Q5. PLEASE DESCRIBE THE SPECIFIC SECTIONS OF THE COMPANY'S***
2 ***RESPONSES TO THE CPAD'S FOURTH DATA REQUEST THAT YOU***
3 ***WILL BE ADDRESSING.***

4 **A5.** I will be specifically addressing the Company's responses to CPAD4-5, CPAD 4-
5 6 and CPAD4-7 regarding TAWC's correction of certain errors in their original
6 filing. In addition, I will address the Company's responses to CPAD4-1, CPAD4-
7 2 and CPAD4-3 regarding the use of 12 and 13 month averages within the
8 Company's capital rider surcharge calculations.

9
10 ***Q6. PLEASE DESCRIBE THE ERRORS IDENTIFIED BY THE CPAD AND***
11 ***CORRECTED BY THE COMPANY IN RESPONSE TO CPAD4-5, CPAD4-***
12 ***6, AND CPAD4-7.***

13 **A6.** Each of these items address certain errors in the Company's tax depreciation
14 calculation. In their responses to CPAD4-5, CPAD4-6 and CPAD4-7, the
15 Company agrees with the CPAD's identification of these errors and includes a
16 new capital rider reconciliation surcharge calculation with along their response to
17 CPAD4-7 to correct all three errors. As a result, the Company is now proposing
18 the following change in its proposed surcharge for each of the capital riders:

| TABLE 1 – Company Original & Revised Capital Rider Reconciliation Surcharges | | |
|---|---------------------------------------|--------------------------------------|
| Rider | Original Surcharge² | Revised Surcharge³ |
| Qualified Infrastructure Investment Program ("QIIP") Rider | 1.170% | 1.166% |
| Economic Development Investment ("EDI") Rider | -0.178% | -0.178% |
| Safety & Environmental Compliance ("SEC") Rider | -0.102% | -0.118% |
| Total Surcharge | 0.890% | 0.870% |

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

³ Company Response to CPAD4-7.

1 ***Q7. HAVE YOU BEEN ABLE TO REVIEW THE COMPANY'S REVISED***
2 ***SURCHARGE FOR EACH OF THE CAPITAL RIDERS?***

3 ***A7.*** No. The Company's revised surcharge calculation that was filed on September 9,
4 2016, consists of 470 pages. As a result, I have been unable to timely review its
5 calculation in advance of filing this supplemental testimony. Because of this, I
6 am forced to repeat the conclusion in my pre-filed testimony that the Company
7 has not met its burden of proof in this docket due to the errors described above.
8 In addition, I would continue to recommend that the TRA deny the Company's
9 current Petition and that the Capital Rider be suspended.

10

11 ***Q8. PLEASE ADDRESS THE USE OF THE PROPER PERIOD TO BE***
12 ***UTILIZED IN THE CALCULATION OF THE CAPITAL RIDERS.***

13 ***A8.*** The Capital Rider calculation involves the use of average plant in service, average
14 retirements and average cost of removal in order to properly calculate certain cost
15 components such as book and tax depreciation expense. For 2014, the Company
16 used a 12-month average to calculate these components. However, for 2015 the
17 Company adjusted this calculation to a 13-month average without notice of the
18 formula change in their testimony.

19

20 ***Q9. DID THE COMPANY PROVIDE AN EXPLANATION FOR THIS***
21 ***FORMULA CHANGE?***

22 ***A9.*** Yes. In their response to CPAD4-1, CPAD4-2 and CPAD4-3, the Company

23

1 states the following:

2 *In its initial petition for the capital riders, TAWC requested a 12-month*
3 *average of January 2014 through December 2014 for plant in service. The*
4 *reason the Company requested a 12-month average then as opposed to a*
5 *13-month average is because the initial additions to the plant in service*
6 *were only for January through December 2014.* [Emphasis added.]
7

8 The essence of the Company's statement is that the use of a 13-month average for
9 the 2014 calculation would be inappropriate since December 31, 2013 is outside
10 of the review period. However, the January 1, 2014 starting point is certainly
11 within the review period and should be included in the 2014 average at a zero
12 balance in order to properly calculate a 13-month average for 2014. As a result, I
13 recommend that the TRA use a 13-month average of plant in service, retirements
14 and cost-of-removal for 2014 in the Capital Rider calculation that consists of a
15 January 1, 2014 balance of zero in these accounts.
16

17 ***Q10. HAVE YOU BEEN ABLE TO MAKE SUCH A 13-MONTH***
18 ***CALCULATION IN YOUR ANALYSES?***

19 ***A10.*** No. This change in the formula calculation of the Capital Riders was only fully
20 revealed in the Company's response to CPAD4-1, CPAD4-2 and CPAD4-3 on
21 September 9, 2016. As a result, I have been unable to timely implement a 13-
22 month average of these items in advance of filing this testimony.
23

24 This represents yet another instance where the Company has continued to
25 manipulate the formulas within the Capital Rider calculation without any

1 disclosure in their testimony. Because of this, I recommend that the TRA deny the
2 Company's current Petition and that the Capital Rider be suspended.

3

4 ***Q15. DOES THIS COMPLETE YOUR SUPPLEMENTAL TESTIMONY?***

5 ***A15.*** Yes, it does. However, I reserve the right to incorporate any new data that may
6 subsequently become available.