

BUTLER | SNOW

September 20, 2016

VIA ELECTRONIC FILING

Hon. David Jones, 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,
TRA Docket No. 16-00022**

Dear Chairman Jones:

Attached for filing please find *Tennessee-American Water Company's Supplemental Rebuttal Testimony* in the above-captioned matter.

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

Attachment

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

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 16-00022

SUPPLEMENTAL 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. By whom are you employed and in what capacity?**

4 A. I am employed by American Water Works Service Company (“AWW”) as manager of
5 Rates and Regulation for Tennessee and Kentucky.

6 **Q. Did you file direct and rebuttal testimony in this case?**

7 A. Yes. I submitted Pre-filed Direct Testimony in this case on March 1, 2016, on behalf
8 Tennessee-American Water Company (“Tennessee American,” “TAWC” or “Company”).
9 I also filed Rebuttal Testimony in this case on July 26, 2016.

10 **Q. What is the purpose of your Supplemental Rebuttal testimony?**

11 A. The purpose of my Supplemental Rebuttal Testimony is to respond to the Supplemental
12 Testimony of William H. Novak, witness for the Consumer Protection and Advocate
13 Division of the Tennessee Attorney General’s Office (“CPAD”), filed with the Tennessee
14 Regulatory Authority (“TRA” or “Authority”) on September 15, 2016.

15 **Q. Mr. Novak indicates in his testimony that the CPAD has submitted various data**
16 **requests to TAWC in relation to this matter? Can you comment on that?**

17 A. Yes. The CPAD has submitted four (4) separate sets of discovery requests in this docket,
18 totaling 74 discovery requests in total (not counting sub-parts). In the spirit of cooperation,
19 TAWC did not object to any of the discovery requests submitted by the CPAD. Many of
20 the CPAD’s discovery requests focused on a perception of various errors that were, in fact,
21 correct in the filing.

22 **Q. Mr. Novak indicates in his Supplemental Testimony that he was unable to provide**
23 **timely review of TAWC’s calculation set forth in the Company’s Responses to the**

1 **CPAD's Fourth Set of Discovery Requests in advance of filing his Supplemental**
2 **Testimony because one of the responses that provides the revised surcharge**
3 **calculation consisted of 470 pages.¹ Did TAWC intend for the responses to the**
4 **discovery request to place a burden on the CPAD?**

5 A. No, TAWC did not. As this was the CPAD's Fourth Set of Discovery Requests, the
6 Company was simply attempting to provide the background and support requested by the
7 CPAD. In fact, TAWC prepared a summary page with regard to the changes that
8 highlighted and explained the amount of the correction for each of the three separate
9 items in response to Item 5, Item 6, and Item 7 of the CPAD's Fourth Set of Discovery
10 Requests. TAWC then included the corrections in one workbook attached to Item 7 of
11 the Responses to the CPAD's Fourth Set of Discovery Requests. This approach avoided
12 three (3) different versions of the same workbook with each adjustment. In order to
13 accommodate review and audit of the calculations in the reconciliation filing, TAWC
14 prepared the files in one excel workbook with multiple tabs to present calculations. As
15 part of the Responses to the Fourth Set of Discovery Requests, TAWC provided a copy
16 of the entire excel workbook in both excel and in pdf format. So, the Company was
17 attempting to submit the responses in an organized and trackable manner. While the
18 response to Item 7 to the CPAD's Fourth Set of Discovery Requests consisted of 470

¹ See *Supplemental Testimony of Mr. William H. Novak on Behalf of the Consumer Protection and Advocate Division*, p. 3, L 4 TRA Docket No. 16-00022 (Sept. 15, 2016) (hereafter "*Novak Supplemental Testimony*").

1 pages, most of the attachment was unchanged from the original workpapers filed with the
2 petition on March 1, 2016.

3 **Q. Was the information provided in response to Item 9 to the CPAD's Fourth Set of Discovery**
4 **Requests, which consisted of 124 pages, new information?**

5 A. No it was not. In Item 9 of the CPAD's Fourth Set of Discovery Requests, the CPAD
6 asked for a copy of monthly income statements to reflect the revenues involved in the
7 reconciliation. TAWC provides detailed monthly income statements to the TRA and
8 provides a copy to the CPAD as part of its monthly report to the TRA. TAWC determined
9 it appropriate to be thorough in providing the support and documentation for the response
10 provided in this proceeding, although it was information previously provided to the CPAD.

11 **Q. Can you explain the three adjustments that were made as a result of the response to**
12 **Item 5, Item 6 and Item 7 of the CPAD's Fourth Set of Discovery Requests?**

13 A. Yes. In Item 5, the CPAD correctly identified five different plant accounts in two business
14 units that used an incorrect tax depreciation rate for Year 1, or 2015. The incremental
15 impact of this revision is a reduction to the revenue requirement of \$20.00. In Item 6, the
16 CPAD correctly identified that the Company formula for 2015 tax depreciation amounts
17 netted the previous year cumulative plant additions along with plant retirements. The tax
18 depreciation calculation should have only applied to vintage plant additions. The
19 incremental impact of this adjustment is a reduction in the revenue requirement of \$343.00.
20 In Item 7, the CPAD correctly identified that TAWC used an average plant balance from
21 2015 to calculate the 2015 tax depreciation for year 1 additions instead of a cumulative
22 end-of-year balance. The incremental impact of this adjustment is a reduction in the
23 revenue requirement of \$6,830.00. TAWC filed updated workpapers with all three of these

adjustments as part of the response to Item 7 to the CPAD's Fourth Set of Discovery Requests, with a summary page reflecting the incremental impact of each.

Q. Mr. Novak further indicates in his Supplemental Testimony that he does not believe that the Company has met its burden of proof in this docket.² Do you agree with this assessment by Mr. Novak?

A. No, I do not. Tennessee American continues to invest in incremental non-revenue producing infrastructure with a focus on safety, reliability, and economic development for the residents of the Chattanooga area. Tennessee American has continued to work towards providing quality control in the filings and to carry forward all changes or corrections from each of the previous cases on the Capital Riders. Tennessee American has attempted to fully and promptly answer all questions for information in this docket. When asked for detailed support information, Tennessee American originally provided details of all charges and credits from the ledger of each project. TAWC's goal is to have no corrections that need to be made during the filing. When appropriate, TAWC has moved to quickly, and in a cooperative spirit, make any necessary corrections. Tennessee American regrets that any adjustments were necessary in this filing. The limited nature of the adjustments in no way support an allegation that Tennessee American has somehow not met its burden of proof in this reconciliation filing.

Q. With the corrections made in this Fourth set of Discovery Requests, what are the adjusted reconciliation rates on the Capital Riders?

A. The adjustments to the Capital Riders are set forth below in the following table:

Capital Rider Surcharge	Original Surcharge	Revised Surcharge
-------------------------	--------------------	-------------------

² Novak Supplemental Testimony, p. 3, L 7.

Qualified Infrastructure Investment Program (“QIIP”) Rider	1.170%	1.166%
Economic Development Investment (“EDI”) Riders	-0.178%	-0.178%
Safety & Environmental Compliance (“SEC”) Rider	-0.102%	-0.118%
Total Surcharge	0.890%	0.870%

1

2 **Q. In this proceeding, what is the review period for the calculations of the reconciliation?**

3 A. The review period for this proceeding is the calendar year January 1, 2015 through
4 December 31, 2015.

5 **Q. Does Tennessee American use a 12-month average to calculate the balances of plant in service,
6 retirements, and cost of removal for the review period or a 13-month average?**

7 A. Tennessee American uses a 13-month average to calculate the balance of plant in service,
8 retirement, and cost of removal for the review period.

9 **Q. Has Tennessee American used a 13-month average to calculate the balance of plant in service,
10 retirements, and cost of removal in all of the capital rider proceedings?**

11 A. No, Tennessee American has not.

12 **Q. Can you explain why Tennessee American has not used a 13-month average to calculate the
13 balance of plant in service, retirements, and cost of removal in all of the Capital Rider
14 proceedings?**

15 A. Certainly. In its initial petition for the Capital Riders, TAWC requested a 12-month
16 average of January 2014 through December 2014 for plant in service. The Company
17 submitted a 12-month average for that filing, as opposed to a 13-month average, because
18 the initial additions to the plant in service were only for January through December 2014.
19 While 13-month averages are generally applicable in rate cases, to include anything outside
20 the initial period under review for approval by the TRA in TRA Docket No. 13-00130

1 would have been outside the mechanism. In Docket No. 13-00130, the initial period of
2 January through December 2014 then assumes that additions to plant in-service begin
3 January 1, 2014. Consistent with the foregoing, TAWC then applied a 12-month average
4 for all calculations in 2014 in Docket No. 13-00130, and used the same for all calculations
5 in 2014 in the initial reconciliation of actual additions in 2014, Docket No. 15-00029.
6 However, the subsequent periods of 2015, 2016 and any additional years will have a rolling
7 balance as of December 31 of the prior year as part of the cumulative balance within the
8 review period. As a going forward approach in the mechanism, TAWC proposed first to
9 the Authority in Docket No. 14-00121 to use a 13-month average of end-of-month balances
10 beginning with the balance of December 2014. Consistent with the approach proposed in
11 Docket No. 14-00121, TAWC picked up an average of 13-month end balances beginning
12 in December 2014 through December 2015. This 13-month average of month end balances
13 works within the parameters of the mechanism and is consistent with the general rate cases
14 that the TRA has approved for TAWC. The last general rate filing in TRA Docket No. 12-
15 00049 included a 13-month average of rate UPIS. This 13-month end balance average
16 aligns with the general rate filings, is within the mechanism and actually reduces the
17 revenue requirement.

18 **Q. Mr. Novak contends that Tennessee American has “manipulated” the formulas**
19 **within the Capital Rider calculation “without any disclosure” in this proceeding by**

1 **using a 13-month average for calculating the Capital Riders instead of the 12-month**
2 **average that was originally used in 2014.³ Is Mr. Novak correct?**

3 A. No, he is not. In the initial filing seeking approval of the Capital Riders in Docket No. 13-
4 00130, Tennessee American transparently applied a 12-month average of calculations for
5 2014. The Company's testimony and supporting documentation in that docket consistently
6 discussed and reflected a 12-month average in the proceeding and the calculations were all
7 very clear. In Docket No. 14-00121, Tennessee American updated the 2015 forecast to
8 transparently include a 13-month average from December 31, 2014 through December 31,
9 2015. In addition to the supporting documentation filed with the petition in Docket No.
10 14-00121, TAWC's response to the TRA's request for information, filed January 20, 2015,
11 further elaborated on and explained TAWC's proposed 13-month average approach. As
12 indicated above, Tennessee American deliberately and openly made this transition because
13 the 13-month average would then encompass a time period included in the Capital Riders
14 for 2015, and is consistent with traditional capital calculations from previous Tennessee
15 American rate cases. That filing was made on October 29, 2014. The CPAD was a party
16 to Docket 14-00121, including Mr. Novak as its witness who submitted Direct Testimony.
17 The CPAD filed numerous data requests in Docket No. 14-00121, and none questioned the
18 use of a 13-month average. Therefore, it was Tennessee American's understanding that all
19 parties were aware of the transparent proposal to use a 13-month average. The adjustments
20 to the Capital Riders in Docket No. 14-00121 were approved June 30, 2015. In TRA
21 Docket No. 15-00029, Tennessee American filed a reconciliation of the actual capital
22 expenditures for January 1, 2014 through December 31, 2014 under the Capital Riders on

³ *Novak Supplemental Testimony*, p. 4, L 25.

1 February 28, 2015. The calculations in that proceeding were submitted using a 12-month
2 average for January 1, through December 31, 2014, consistent with the original approval
3 in Docket No. 13-00130. Again, there were numerous data requests in that proceeding and
4 again none questioned or addressed the use of a 12-month average. Hence, it was
5 Tennessee American's understanding that all parties understood and accepted the
6 regulatory reasoning underlying the differences. The reconciliation of the Capital Riders
7 was approved in Docket No. 15-00029 on October 19, 2015. The 13-month average of end
8 of month balances was then appropriately utilized in calculating the forecasted additions
9 for 2016 in Docket No. 15-00111. Tennessee American filed the adjustment to the Capital
10 Riders for 2016 in Docket No. 15-00111 on November 12, 2015. TAWC did not
11 specifically identify that as a change to the calculations in its supporting testimony because
12 the use of a 13-month average was very much consistent with the approved calculations in
13 the proceeding adjustment, Docket No. 14-00121. There were no data requests regarding
14 a 13-month or 12-month average of calculations in that proceeding. The adjustment for
15 the 2016 Capital Riders in Docket No. 15-00111 was approved on March 14, 2016.
16 Tennessee American filed this petition on March 1, 2016, just prior to the approval in
17 Docket No. 15-00111. At the time of this filing, TAWC did not consider the use of a 13-
18 month average for subsequent year calculations to be a "change" in the calculations or a
19 "manipulation" of the formulas because it had already been approved by the Authority.

20 **Q. Mr. Novak recommends that the TRA use a 13-month average of plant in service,**
21 **retirements and cost-of-removal for 2014 in the Capital Rider calculation that**

1 consists of a January 1, 2014 balance of zero in these accounts. ⁴ Do you agree with
2 that recommendation?

3 A. No, I do not. Based on the explanation as set forth above, and as explained in TAWC's
4 Responses to the CPAD's Fourth Set of Discovery Requests, the 12-month average for
5 2014 is correct, and a 13-month average for subsequent years is correct.

6 **Q. Are there other reasons that you don't agree with Mr. Novak's recommendation?**

7 A. Yes. The use of a 12-month average for 2014 plant in service, retirements, and cost of
8 removal has virtually no impact on the calculations in this docket. This proceeding is
9 reconciling the actual plant in service, retirements, and cost of removal for January 1
10 through December 31, 2015. The calculations for 2014 were approved with a 12-month
11 average in Docket No. 13-00130. The reconciliation of the 12-month average calculations
12 of plant in service, retirements, and cost of removal were approved in Docket No. 15-
13 00029. The only way to impact the calculations for the reconciliation in 2015 in this current
14 proceeding, would be to re-calculate the previously approved 2014 reconciliation that
15 carried over into 2015. The CPAD is essentially asking the TRA to go back and change
16 the rates that were charged in 2014 for plant in service, retirements, and cost of removal in
17 2014 and carry that change into a reconciliation for 2015. The CPAD has not offered any
18 specific reason for asking for this change two and half years later, and the CPAD's
19 recommended change is certainly not based on a correction of an error that has been
20 detected at a later time. The TRA should deny Mr. Novak's recommendations in its
21 entirety.

22 **Q. Is the reconciliation process set forth within the Capital Riders working?**

⁴ Novak supplemental testimony, page 4, line 13.

1 A. Yes, the reconciliation process is working. The purpose of the reconciliation is a true-up
2 between what was authorized during the review period of January 1, 2015 through
3 December 31, 2015 to the actual results. I don't agree with the recommendations set forth
4 in Mr. Novak's testimony and supplemental testimony, but the reconciliation and review
5 process has been thorough and is working. Over the course of the five proceedings, TAWC
6 has worked in good faith and in a cooperative spirit with CPAD to provide prompt and
7 transparent information. TAWC has attempted to update and adjust any calculation
8 differences as determined during the course of the proceedings. As with previous
9 proceedings, TAWC will file a final version of the exhibits prior to the hearing to provide
10 a complete record in the docket of exhibits and calculations.

11 **Q. Has TAWC made a commitment to highlight in future Petitions any and all proposed changes**
12 **in the methodology submitted by TAWC?**

13 A. Yes, it has. In my Pre-filed Rebuttal Testimony in Docket No. 15-00111, I made the
14 following statement:

15 "In response to discovery, TAWC cooperatively and in good faith noted
16 that the Company "did not specify the change in this filing . . . because the
17 change was to [the] benefit of the customers and reduced the revenue
18 requirement."⁵ The outcome – the benefit to the customer – was presented
19 in the Petition, although the underlying methodology was not.
20 Recognizing after discussions with the CPAD that any methodological
21 changes should be duly noted by TAWC even if the overall outcome is a
22 benefit to the customer, Tennessee American has already committed to

⁵ TAWC Responses to CPAD Second Discovery Request, Item 15, TRA Docket No. 15-00111) (Jan. 28, 2016).

1 “expressly identify any such change — even those to the benefit of the
2 customer” in future filings.⁶ The Company reaffirms that commitment
3 here again under oath.”⁷

4 **Q. Are the QIIP rider, the EDI rider and the SEC rider, and the proposed reconciliation**
5 **still in the public interest?**

6 **A.** Yes. As outlined by TAWC in much detail and with supporting documentation in TRA
7 Docket No. 13-00130, the QIIP, the EDI and the SEC Riders are mutually beneficial to the
8 ratepayers, the public, and TAWC. Among other things, the capital riders reduce the need
9 for general rate cases, lessen the occurrence of consumer “rate shock,” support the
10 maintenance and improvement of essential infrastructure, support opportunities for
11 successful economic development, growth and job creation, ensure safety and reliability,
12 and allow for more efficient, streamlined regulation. The ratepayers and the public benefit
13 from the safety and reliability components and from the more seamless and timely capital
14 investment in infrastructure, coupled with the related support to economic development,
15 growth and job creation. The Company benefits from a more efficient, streamlined
16 regulatory process that presents TAWC with the opportunity to timely recover its expenses
17 and earn a fair rate of return on its investments. Without the approved alternative rate
18 mechanisms, and specifically without the capital riders, TAWC would be preparing another
19 general rate case. Tennessee American understands that the purpose of the new legislation
20 — Tenn. Code Ann. § 65-5-103 *et. seq.*, — was, in part, to encourage an increase in certain
21 types of infrastructure investment and recovery by utilities, while reducing the costs to

⁶ TAWC Responses to CPAD Second Discovery Request, Item 15, TRA Docket No. 15-00111 (Jan. 28, 2016).

⁷ *Pre-filed Rebuttal testimony of Linda C. Bridwell on behalf of Tennessee American Water*, TRA Docket No. 15-00111, p. 5, L 9 (Feb. 26, 2016).

1 consumers and utilities for regulatory review and implementation, and promoting rate
2 gradualism for consumers. TAWC believes the approved capital recovery riders are
3 achieving that goal.

4 As reflected in the evidentiary record in TRA Docket No. 13-00130, the US
5 Environmental Protection Agency and the American Society of Civil Engineers have
6 published reports regarding the significant capital needs for water and wastewater
7 infrastructure in the United States, including here in Tennessee. A substantial portion of
8 TAWC's distribution infrastructure is between 50 and 100 years old, and TAWC needs to
9 continue to invest in replacing its infrastructure in order to meet its obligation to provide
10 safe, reliable drinking water to its customers. The QIIP rider is assisting TAWC in
11 responsibly and strategically addressing the systems' infrastructure replacement needs,
12 while helping to increase the time between rate cases and reducing the cost of rate cases to
13 its Customers. As testified to by Company witness Brent O'Neill in Docket No. 15-00111,
14 TAWC has strategically focused its efforts on mains with the highest maintenance
15 concerns. As evidence of the success of the timely impact of the QIIP to the integrity of
16 the TAWC system, main breaks are down 40% during the period of January 1, 2015
17 through August 31, 2015, as compared to the 10-year average.

18 As reflected in the evidentiary record in TRA Docket No. 14-00121, the presence
19 of the new Coca Cola facility in Chattanooga, along with the accompanying jobs and other
20 associated community and public benefits, shows that the EDI rider is working as intended
21 by the Tennessee General Assembly. Moreover, the Company's cooperative and
22 coordinated efforts with the City of Chattanooga to timely address crucial safety, health
23 and reliability issues, including those identified in the US Environmental Protection

1 Agency's April 2013 Consent Decree issued to the City of Chattanooga requiring
2 improvements to the City's sanitary sewer system, demonstrates that the SEC rider is
3 serving our Customers and the public interest as anticipated.

4 As it pledged to do when it first submitted the capital riders for review and
5 consideration by the agency in TRA Docket No. 13-00130, TAWC has been able to partner
6 with the community to promote economic development, which we believe to be consistent
7 with Tenn. Code Ann. § 65-5-103 *et. seq.*, consistent with the approved QIIP rider, EDI
8 Rider, and SEC Rider, and in the public interest. TAWC has been able to increase
9 infrastructure replacement and meet environmental compliance needs on a timely basis,
10 which we believe to be in the public interest.

11 **Q. What do you recommend?**

12 I recommend that the TRA approve the 2015 reconciliation of the Capital Riders, as
13 adjusted by Tennessee American.

14 **Q. Does this conclude your Supplemental Rebuttal Testimony?**

15 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 20th day of September, 2016.

Russ A. Stone
Notary Public

My Commission Expires: 10/3/2016

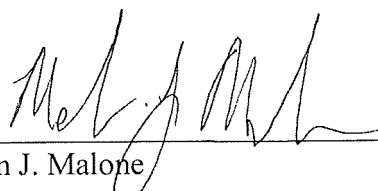
CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

Vance Broemel, Esq.
Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Protection and Advocate Division
P.O. Box 20207
Nashville, TN 37202-0207
Vance.Broemel@ag.tn.gov

Wayne Irvin, Esq.
Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Protection and Advocate Division
P.O. Box 20207
Nashville, TN 37202-0207
Wayne.Irvin@ag.tn.gov

This the 20th day of September, 2016.



Melvin J. Malone