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July 26, 2016

**VIA ELECTRONIC FILING**

Hon. David Jones, Chairman  
c/o Sharla Dillon  
Tennessee Regulatory Authority  
502 Deaderick Street, 4<sup>th</sup> 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**

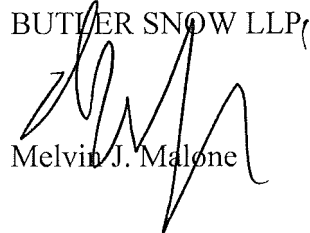
Dear Chairman Jones:

Attached for filing please find *Tennessee-American Water Company's 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

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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**

**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 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” or “TAWC”).

9    **Q.     What is the purpose of your rebuttal testimony?**

10   A.     The purpose of my rebuttal testimony is to respond to the Pre-filed Direct Testimony of  
11           William H. Novak, witness for the Consumer Protection and Advocate Division of the  
12           Tennessee Attorney General’s Office (“CPAD”).

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

15   A.     Yes. The CPAD has submitted three separate sets of discovery requests in this docket,  
16           totaling 65 discovery requests. TAWC did not object to any of the discovery requests  
17           submitted by the CPAD. TAWC has submitted responses to 63 of the CPAD’s discovery  
18           requests and is in the process of preparing responses to the final two pending discovery  
19           requests.

20   **Q.     In relation to the CPAD’s discovery requests, did there appear to be, among others,**  
21           **a central point of concern raised by the CPAD? If so, please explain.**

22   A.     In its request for information, the CPAD, in large measure, identifies a primary concern  
23           that the 2014 depreciation expense was not correct. Assuming the CPAD’s concern

1 turned out to be accurate, it would then follow, the CPAD contends, that the accumulated  
2 depreciation and ongoing depreciation expense calculation for the 2015 review period  
3 would also be incorrect. While there may be other CPAD concerns expressed in Mr.  
4 Novak's Pre-filed Direct Testimony, as I put forth in this rebuttal testimony and as shown  
5 in the Company's responses to the CPAD's three sets of discovery request, the  
6 depreciation was calculated in Docket No. 15-00029, and in this docket, consistent with  
7 the methodology authorized by the Tennessee Regulatory Authority ("TRA" or  
8 "Authority") in previous dockets with respect to the Capital Riders. For example, in its  
9 third request for information, Item 2, the CPAD asks for the reference in the Order in  
10 Docket No. 15-00029 that specifically approves the particular amount of \$39,779 in 2014  
11 depreciation expense, as set forth in Tennessee American's Petition in this docket. As I  
12 have explained in this rebuttal testimony, the methodology utilized to calculate the  
13 depreciation in this docket is consistent with the depreciation expense methodology as set  
14 forth in the Order in Docket 15-00029, which was utilized to calculate the 2014  
15 depreciation expense of \$39,779. So while the actual 2014 depreciation amount is not set  
16 forth in the Order in Docket No. 15-00029, the depreciation expense methodology  
17 adopted in that Order was utilized by Tennessee American to derive the depreciation in  
18 this Petition.

19 **Q. Mr. Novak indicates that he appeared to find errors in the Company's calculations**  
20 **that could not be reconciled.<sup>1</sup> Do you agree with Mr. Novak's assessment?**

21 A. No, I do not. Mr. Novak references specifically hard-coded numbers for 2014  
22 depreciation expense amounts that he does not believe reconcile with the 2014 reporting

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<sup>1</sup> See Direct Testimony of Mr. William H. Novak on Behalf of the Consumer Protection and Advocate Division filed in Docket No. 16-00022 on July 19, 2016, page 5, at Line 3.

1 period calculation in Docket No. 15-00029. Hard-coded numbers are generally referred  
2 to in a spreadsheet to mean that the number itself has been entered rather than calculated  
3 by a formula that can be seen in the spreadsheet. In this case, however, Mr. Novak does  
4 not appear to take into consideration the final version of the previous calculation in TRA  
5 Docket No. 15-00029 that was filed appropriately with the agency, as ordered by the  
6 TRA during its deliberation in Docket No. 15-00029. This final version of the exhibits  
7 for Docket No. 15-00029 was filed by TAWC with the Authority on October 28, 2015.  
8 An additional copy of this Docket No. 15-00029 filing was provided in this docket  
9 (No. 16-00022) on July 25, 2016, in response to the CPAD's third request for  
10 information, Item 1. That filing clearly contained the same 2014 depreciation expense  
11 amounts that totaled \$39,779 that was utilized in this filing of Docket No. 16-00022.  
12 Further detail of the 2014 depreciation calculation was also included in the Company's  
13 response to the CPAD's third request for information, Item 1. In an effort to simplify the  
14 presentation of the data, Tennessee American did hard code the 2014 values in the  
15 spreadsheet in this filing of Docket No. 16-00022. It may be that our attempt at  
16 simplification caused the CPAD's concerns.

17 **Q. So, do you agree with Mr. Novak's assertion that the Company's 2014 depreciation**  
18 **expense calculations do not reconcile with the previous reporting period**  
19 **calculation?**

20 **A.** No, I do not.

1 **Q. And, do you agree with Mr. Novak’s implication that the Company’s calculations of**  
2 **accumulated depreciation and accumulated deferred tax are in error?**

3 A. No, I do not. Because the 2014 depreciation expense has not been hard-coded in error in  
4 this filing of Docket No. 16-00022, the dependent 2015 depreciation expense,  
5 accumulated depreciation, and accumulated deferred tax have not been calculated on an  
6 erroneous basis.

7 **Q. Mr. Novak further indicates that he does not believe that the Company has met its**  
8 **burden of proof in this docket.<sup>2</sup> Do you agree with this assessment by Mr. Novak?**

9 No, I do not. In TRA Docket No. 15-00029, Tennessee American was directed by the  
10 Authority to provide proof spreadsheets in future filings to improve the ability to trace the  
11 calculations. This meant that Tennessee American was directed to provide calculations  
12 in the spreadsheet — other than the “SumIf” functions in the spreadsheets — to clearly  
13 demonstrate the methodology and to ease tracking the basis for the calculations.  
14 Tennessee American complied with this directive in this docket. Tennessee American  
15 has attempted to fully answer all questions for information in this docket, and answer  
16 them promptly. When asked for detailed support information, Tennessee American  
17 originally provided details of all charges and credits from the ledger of each project.

18 **Q. Does Tennessee American have any concerns about responding to the requests for**  
19 **information from the CPAD in this proceeding?**

20 A. No, it does not. As I mentioned above, Tennessee American has attempted to respond  
21 promptly and fully to the requests for information. When asked for detailed support  
22 information, Tennessee American originally provided details of all charges and credits  
23 from the ledger of each project. Tennessee American did not originally provide the

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<sup>2</sup> Novak testimony, page 6, line 12.

1 specific invoices to support the charges, although the description of the vendor was  
2 provided for each charge.

3 **Q. Mr. Novak refers to the inclusion of charitable contributions in Docket 14-00121 as**  
4 **a previous error made by Tennessee American.<sup>3</sup> Do you agree with that**  
5 **representation?**

6 A. No, I do not. Tennessee American believed that monetary support of community  
7 economic development projects were both valid and supported efforts under the  
8 legislation and the authorized tariffs. Nonetheless, Tennessee American clearly  
9 understood that this was a method of utilization of the tariff that needed to be specifically  
10 approved, or denied, by the TRA. In TRA Docket No. 14-00121, Tennessee American  
11 included two proposed economic development partnerships as part of the petition request,  
12 and specifically highlighted those partnerships in pre-filed direct testimony. The CPAD  
13 disagreed with the position of TAWC, and the TRA denied those partnerships in the  
14 petition adjustment. This was not an error, but an appropriate step in the streamlined,  
15 rate-making process that allowed the TRA to interpret the authorizing statute on behalf of  
16 the regulated utilities and their respective customers.

17 **Q. Mr. Novak further identifies as an error in Docket No. 15-00111 a calculation where**  
18 **Tennessee American manually changed an incorrect account number without**  
19 **providing notice to the TRA or the CPAD as part of the filing.<sup>4</sup> Do you agree with**  
20 **that assessment?**

21 A. No, I do not. The characterization here as an “error,” without further context, does not  
22 provide a complete picture. Tennessee American acknowledged that it revised the

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<sup>3</sup> Novak testimony, page 7, line 1.

<sup>4</sup> Novak testimony, page 7, line 3.

1 calculation to correct an inappropriate plant account number. Tennessee American used  
2 a projection of capital expenditures to a specific utility plant account based on a previous  
3 year's level of capital expenditures. However, it became clear that more capital  
4 expenditures had been assigned to that account in the historical period than normally  
5 occurs in a given year and Tennessee American made that adjustment on a going forward  
6 basis in the filing. In my Pre-filed Rebuttal Testimony in Docket No. 15-00111, I made  
7 the following statement:

8 “In response to discovery, TAWC cooperatively and in good faith noted  
9 that the Company “did not specify the change in this filing . . . because  
10 the change was to [the] benefit of the customers and reduced the revenue  
11 requirement.”<sup>5</sup> The outcome – the benefit to the customer – was  
12 presented in the Petition, although the underlying methodology was not.  
13 Recognizing after discussions with the CPAD that any methodological  
14 changes should be duly noted by TAWC even if the overall outcome is a  
15 benefit to the customer, Tennessee American has already committed to  
16 “expressly identify any such change – even those to the benefit of the  
17 customer” in future filings.<sup>6</sup> The Company reaffirms that commitment  
18 here again under oath.”<sup>7</sup>

19 **Q. Mr. Novak indicates that there have been a series of errors since the TRA first**  
20 **approved the Capital Recovery and Expense Riders in Docket No. 13-00130, and**

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

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

<sup>7</sup> *Pre-filed Rebuttal testimony of Linda C. Bridwell on behalf of Tennessee American Water*, TRA Docket No. 15-00111, p. 5, L 9 (date submitted).



1           **therefore the Company is not prepared to carry out its obligation for its alternative**  
2           **regulatory mechanism. Do you agree with his assessment?**

3    A.    No, I absolutely do not. In 2013, House Bill 191, now codified at Tenn. Code Ann. § 65-  
4           5-103 *et seq.*, gave the Authority the authorization to implement alternative regulatory  
5           mechanisms to allow for public utility rate reviews and cost recovery in lieu of a general  
6           rate case proceeding before the Authority, consistent with the public interest. TAWC  
7           proposed the alternative rate mechanisms in TRA Docket No. 13-00130 to address the  
8           ongoing capital investment needs, while maintaining rate gradualism and reducing the  
9           expense for general rate cases. Tennessee American acknowledges that inadvertent  
10          errors have occurred as it has developed forms, exhibits and workpapers to comply with  
11          the tariffs approved in TRA Docket No. 13-00130. With each progressing filing,  
12          Tennessee American has worked to insert quality control measures that will further  
13          minimize, if not eliminate, future errors, while continuing to maintain regulatory  
14          transparency. The safeguards set forth in TAWC's approved alternative regulatory  
15          mechanisms are working. In this reconciliation docket, Tennessee American believes  
16          that its efforts for continuous improvement and quality control are readily evident, and  
17          does not believe that Mr. Novak has identified an error in the 2014 depreciation expense.  
18          Tennessee American's responses to the CPAD's three sets of discovery responses clearly  
19          demonstrate that the CPAD's recommendation to deny the Company's petition for  
20          adjustment in this proceeding is both premature and not supported by the record in this  
21          matter.

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

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

22           As reflected in the evidentiary record in TRA Docket No. 13-00130, the US  
23      Environmental Protection Agency and the American Society of Civil Engineers have

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

13 As reflected in the evidentiary record in TRA Docket No. 14-00121, the presence of the  
14 new Coca Cola facility in Chattanooga, along with the accompanying jobs and other  
15 associated community and public benefits, shows that the EDI rider is working as  
16 intended by the Tennessee General Assembly. Moreover, the Company's cooperative  
17 and coordinated efforts with the City of Chattanooga to timely address crucial safety,  
18 health and reliability issues, including those identified in the US Environmental  
19 Protection Agency's April 2013 Consent Decree issued to the City of Chattanooga  
20 requiring improvements to the City's sanitary sewer system, demonstrates that the SEC  
21 rider is serving our Customers and the public interest as anticipated.

22 As it pledged to do when it first submitted the capital riders for review and consideration  
23 by the agency in TRA Docket No. 13-00130, TAWC has been able to partner with the

1 community to promote economic development, which we believe to be consistent with  
2 Tenn. Code Ann. § 65-5-103 *et. seq.*, consistent with the approved QIIP rider, EDI Rider,  
3 and SEC Rider, and in the public interest. TAWC has been able to increase infrastructure  
4 replacement and meet environmental compliance needs on a timely basis, which we  
5 believe to be in the public interest.

6 **Q. Does this conclude your rebuttal testimony?**

7 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 26<sup>th</sup> day of July, 2016.

Danny A. Slane  
Notary Public

My Commission Expires: 10/3/2016

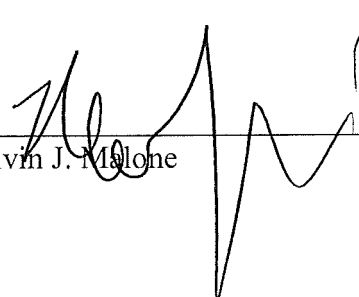
CERTIFICATE OF SERVICE

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  
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This the 26<sup>th</sup> day of July, 2016.

  
\_\_\_\_\_  
Melvin J. Malone