

**BEFORE
THE TENNESSEE REGULATORY AUTHORITY**

PETITION OF TENNESSEE-)
AMERICAN WATER COMPANY)
REGARDING THE 2017 INVESTMENT)
AND RELATED EXPENSES UNDER)
THE QUALIFIED INFRASTRUCTURE)
INVESTMENT PROGRAM RIDER,)
THE ECONOMIC DEVELOPMENT)
INVESTMENT RIDER, AND THE)
SAFETY AND ENVIRONMENTAL)
COMPLIANCE RIDER)

Docket No. 16-00126

**DIRECT TESTIMONY
of
WILLIAM H. NOVAK**

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

February 1, 2017

IN THE TENNESSEE REGULATORY AUTHORITY
AT NASHVILLE, TENNESSEE

IN RE:

PETITION OF TENNESSEE AMERICAN
WATER COMPANY REGARDING THE
2016 INVESTMENT AND RELATED
EXPENSES UNDER THE QUALIFIED
INFRASTRUCTURE INVESTMENT
PROGRAM RIDER, THE ECONOMIC
DEVELOPMENT INVESTMENT RIDER,
AND THE SAFETY AND ENVIRONMENTAL
COMPLIANCE RIDER

Docket No. 16-00126

AFFIDAVIT

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 26 day of JAN, 2017.


NOTARY PUBLIC

My commission expires: 12-23-2017



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ATTACHMENTS

Attachment WHN-1	William H. Novak Vitae
Attachment WHN-2	TAWC Response to CPAD Data Request 2-4.
Attachment WHN-3	TAWC Response to CPAD Data Request 2-19.
Attachment WHN-4	WHN Calculation of 2014 Depreciation Expense.

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. 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 where I had either presented testimony or
19 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

¹ 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 and 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 TENNESSEE-AMERICAN WATER COMPANY?***

16 ***A4.*** Yes. I presented rate case testimony in Dockets U-86-7402, U-87-7534, 89-
17 15388, 91-05224, 93-06946, 10-00189, 12-00049, and 12-00157 concerning
18 Tennessee-American Water Company ("TAWC" or "the Company") as well as
19 testimony concerning TAWC in other generic tariff and rulemaking matters. I
20 have also presented testimony concerning the Company's alternative regulatory
21 mechanisms in Dockets 13-00130, 14-00121, 15-00001, 15-00029, 15-00111 and
22 16-00022. In addition, I previously advised the TRA on issues in other TAWC
23 dockets where I did not present testimony.

Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A5. My testimony will address the calculations supporting the Company's tariff filing that requests authority to implement the following surcharges in its capital recovery tariff riders.

Rider	Current Surcharge ²	Proposed Surcharge ³
Qualified Infrastructure Investment Program ("QIIP") Rider	4.56%	7.52%
Economic Development Investment ("EDI") Rider	0.10%	0.34%
Safety & Environmental Compliance ("SEC") Rider	5.72%	6.09%
Total Surcharge	10.38%	13.95%

The cumulative changes to the capital rider surcharges since their inception are shown in the following table.

TENNESSEE-AMERICAN WATER COMPANY CUMULATIVE IMPACT FROM CAPITAL RIDER FILINGS								
Effective Date	Docket No.	QIIP Rider	QIIP Reconcile	EDI Rider	EDI Reconcile	SEC Rider	SEC Reconcile	Total
04/15/14	13-00130	0.790%	0.000%	0.180%	0.000%	0.110%	0.000%	1.080%
06/30/15	14-00121	2.130%	0.000%	0.050%	0.000%	3.540%	0.000%	5.720%
11/01/15	15-00029	2.130%	0.254%	0.050%	-0.150%	3.540%	0.064%	5.888%
03/15/16	15-00111	4.560%	0.000%	0.100%	0.000%	5.720%	0.000%	10.380%
10/11/16	16-00022	4.560%	1.166%	0.100%	-0.178%	5.720%	-0.118%	11.250%
Proposed	16-00126	7.520%	0.000%	0.340%	0.000%	6.090%	0.000%	13.950%

Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF YOUR TESTIMONY?

A6. I have reviewed the Company's Petition filed on November 4, 2016, along with the accompanying tariff schedules. I have also reviewed the Company's testimony and exhibits supporting their filing. Finally, I have reviewed the

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

³ Petitioner's Exhibit – Proposed Tariff Sheet No. 12 – Riders – LCB.

1 Company's responses to the data requests submitted by the Consumer Advocate
2 in this case.

3

4 **Q7. PLEASE EXPLAIN THE RELIEF THAT TAWC IS ASKING FROM THE**
5 **TRA THROUGH ITS PETITION.**

6 **A7.** The Company is asking the TRA to implement the new capital recovery rider
7 surcharges for 2017 (shown above) that are based on the Company's 2017 budget.
8 The overall structure for these capital tariff riders was approved by the TRA in
9 Docket 13-00130. The revenue received from these capital recovery rider
10 surcharges will then be trued-up to actual costs in a subsequent filing. However,
11 even though the budget numbers supporting the current tariff filing are eventually
12 trued-up to actual costs, the current filing is very important since it establishes the
13 current monthly surcharge to customers.

14

15 **Q8. DID YOU REVIEW THE CALCULATIONS SUPPORTING THE**
16 **PROPOSED SURCHARGES IN THE COMPANY'S TARIFF FILING?**

17 **A8.** Yes. I reviewed the Company's filing. I also prepared data requests for
18 supplemental supporting information that was not contained in the filing. The
19 purpose of my review was to determine whether or not the Company had a
20 reasonable and logical basis to support its proposed tariff surcharges that are
21 based on the 2017 budget. My review did not include more extensive procedures
22 that would typically be included in an audit of TAWC's books and records since,

1 as I mentioned above, these tariffs will be eventually trued-up to the actual costs
2 incurred in a subsequent filing.

3

4 ***Q9. WHAT WERE THE RESULTS OF YOUR REVIEW?***

5 ***A9.*** Overall, I found that the structure of the calculations supporting the Company's
6 tariff filing appeared to be reasonable and logical.

7

8 ***Q10. DID YOUR REVIEW FIND ANY AREAS OF CONCERN WITH THE***
9 ***COMPANY'S PROPOSED TARIFF FILING?***

10 ***A10.*** Yes. I am concerned with the Company's use of historic construction
11 expenditures instead of recorded plant additions for certain plant categories with
12 multiple month construction activity. I am also concerned with the Company's
13 use of specific amounts for the 2014 depreciation expense that do not tie to any
14 appropriate calculation. Finally, I do have concerns with the structure of certain
15 calculations in the capital rider filing.

16

17 **I – MULTI-MONTH CONSTRUCTION EXPENDITURES & PLANT ADDITIONS**

18

19 ***Q11. PLEASE DESCRIBE YOUR CONCERN WITH MULTI-MONTH***
20 ***CONSTRUCTION ACTIVITY BASED ON CONSTRUCTION***
21 ***EXPENDITURES INSTEAD OF PLANT ADDITIONS.***

22 ***A11.*** The core concept of the Company's alternative regulatory mechanism for capital
23 riders is to first set an initial rate based on their anticipated capital budget and

1 then to file a reconciliation rate that trues up their capital budget to actual plant
2 additions. In Docket 16-00022, the TRA approved new rates that were designed
3 to true-up to the Company's actual additions to plant in service through December
4 31, 2015.

5
6 Typically, these actual historic plant additions should form the starting point for
7 the calculation of future capital additions for certain classes of plant in service
8 that are constructed over several months. For example, if a particular class of
9 plant in service takes three months to complete, then the average of the November
10 2015 additions plus the December 2015 additions plus the January 2016 additions
11 is recognized in the capital rider calculation as the plant addition for January
12 2016. However, even though the November 2015 and December 2015 actual
13 capital additions were known and already adopted by the TRA in Docket 16-
14 00022, the Company substituted "construction expenditures" for plant additions
15 and thereby changed the capital rider calculation.

16
17 ***Q12. PLEASE EXPLAIN THE DIFFERENCE BETWEEN MONTHLY "PLANT***
18 ***ADDITIONS" AND MONTHLY "CONSTRUCTION EXPENDITURES".***

19 ***A12.*** Plant additions represent the amount of plant that the Company records on its
20 ledger when a project is completed and becomes used and useful in providing
21 utility service. Construction expenditures represent on-going costs for materials,
22 labor and overhead that are incurred before the plant is completed. By way of
23 example, if the Company were to spend \$10,000, \$5,000 and \$2,000 on a

particular construction project in November 2015, December 2015 and January 2016 respectively before completing the project and recording the total as plant in January 2016, then the individual amounts would be considered “construction expenditures” and the sum of these amounts or \$17,000 would be considered a plant addition in January 2016.

Q13. WHAT ARE THE DIFFERENCES IN AMOUNTS FOR PLANT ADDITIONS AND CONSTRUCTION EXPENDITURES FOR NOVEMBER AND DECEMBER 2015?

A13. The differences in the Company’s filing between plant additions and construction expenditures for classifications typically taking more than one month to complete (Business Units A, B, C and D) are shown in the following two tables.

Table 1 16-00022 Plant Additions⁴		
Business Unit	Nov 2015	Dec 2015
A	\$0	\$67,251
B	223,756	337,840
C	103,929	110,053
D	-1,056	959,844

Table 2 16-00126 Construction Expenditures⁵		
Business Unit	Nov 2015	Dec 2015
A	\$35,979	\$10,743
B	109,119	92,341
C	103,929	109,644
D	12,033	64,679

Q14. WHY DID THE COMPANY USE PLANT ADDITIONS IN DOCKET 16-00022 AND CONSTRUCTION EXPENDITURES IN THE CURRENT DOCKET TO CALCULATE THE CAPITAL RIDER COST?

⁴ Company workpapers in Docket 16-00022, “WKP 2015 Pivot Actuals” tab that was referenced in CPAD1-5, CPAD1-6, CPAD1-7 and CPAD1-8 in this docket.

⁵ Company workpapers in Docket 16-00126, “WKP 2016 In-Serviced SCEP Proof” tab that was referenced in CPAD1-5, CPAD1-6, CPAD1-7 and CPAD1-8 in this docket.

1 **A14.** As shown on Attachment WHN-2, the Company "...believes that utilizing Table
2 1 above in the forecasted plant additions would create a scenario in which the
3 company would essentially double count plant additions and therefore over-earn
4 on the same capital dollars as they were already included in prior utility plant in-
5 service balances." In essence, the Company has implemented a procedure where
6 it utilizes construction expenditures in its budget filings and then uses plant
7 additions in its reconciliation filing. It also appears that this inconsistency has
8 been taking place, without specific TRA approval, since the inception of the
9 Company's alternative regulatory mechanism.

10
11 ***Q15. WHAT IS YOUR RECOMMENDATION FOR THE TRA REGARDING***
12 ***HISTORICAL PLANT ADDITIONS AND CONSTRUCTION***
13 ***EXPENDITURES IN THE CAPITAL RIDER CALCULATION?***

14 **A15.** The true-up to actual results in the reconciliation of costs is a vital component in
15 the capital rider calculation. Switching back and forth between known capital
16 additions and construction expenditures is a haphazard way to manage this
17 alternative regulation mechanism. However, I do respect the Company's
18 conclusion that the use of actual plant additions in the budget could cause certain
19 costs to double counted.

20 To alleviate this situation, I would recommend that the TRA instruct the
21 Company to eliminate the use of multi-month averages of plant for Business Units
22 A, B, C and D, and instead to utilize only the actual plant additions recorded on
23 the Company's ledger in a particular month for both the budget and reconciliation

1 filings. In addition, I would recommend that this change be made retroactively
2 from the inception of the capital rider mechanism and included in the Company's
3 next reconciliation filing.
4

5 II – 2014 DEPRECIATION EXPENSE 6

7 ***Q16. PLEASE DESCRIBE YOUR CONCERN WITH THE COMPANY'S 2014*** 8 ***DEPRECIATION EXPENSE CALCULATION.***

9 ***A16.*** The Company's alternative regulation mechanism is cumulative in nature. This
10 means that Company is able to recover the aggregate cost of its incremental
11 capital investment since the inception of the mechanism. One component of this
12 cumulative calculation is depreciation expense. Typically, depreciation expense
13 is calculated by multiplying the average plant in service by the TRA approved
14 depreciation rates. For 2015, 2016 and 2017 the Company's workpapers clearly
15 show this calculation of depreciation expense. However, the Company has
16 modified the depreciation expense calculation for 2014 by converting the
17 formulas to hard-coded numbers that produce a different result.
18

19 ***Q17. WHY DID THE COMPANY CHANGE THE FORMULA FOR THE 2014*** 20 ***DEPRECIATION EXPENSE CALCULATION?***

21 ***A17.*** According to the Company's response to the CPAD Discovery Request 2-19a,
22 which I have included as Attachment WHN-3 to my testimony, the Company
23 believes that the "2014 depreciation expense agrees to the final version of

1 depreciation expense filed in Docket No. 15-00029.” However, since
2 depreciation expense is only the product of the plant and the depreciation rates
3 that were approved by the TRA in that docket, then the 2014 depreciation expense
4 that the Company has included with their filing in this docket must be in error.
5 Stated differently, either the 2014 plant in service that the Company has included
6 is in error or the 2014 depreciation expense is in error – both cannot be correct.
7

8 ***Q18. WHAT IS THE DIFFERENCE IN AMOUNT BETWEEN THE***
9 ***COMPANY’S HARD-CODED AMOUNTS AND THE FORMULA***
10 ***CALCULATION FOR THE 2014 DEPRECIATION EXPENSE?***

11 ***A18.*** The total difference in the current filing is \$10,386. However, this difference is
12 cumulative and will therefore apply to all previous and future capital rider filings.
13 In addition, there is a cumulative impact on the deferred tax calculation for 2014,
14 since the Company has used hard numbers for that calculation as well.
15

16 I have modified the Company’s 2014 depreciation expense calculation⁶ and
17 included it with my testimony as Attachment WHN-4 to illustrate the difference
18 in the individual depreciation expense calculations and to also provide a
19 computation of the total difference. Because the complete calculation of the
20 depreciation differences in Attachment WHN-4 is quite extensive, I have only
21 provided an excerpt of the calculation for “Business Unit B” along with totals in
22 the following table.

⁶ See specifically the “WKP 2014 In-Serviced Actual” tab of the Company’s workpaper spreadsheet “TAW_APP_SCH1_2017.xlsx” that was included with their filing.

2014 Depreciation Expense Calculations				
Business Unit/Account		TAWC	WHN	Difference
B Main-Replaced/Restored				
	T&D Mains	\$2,753	\$3,592	\$839
	Services	3	24	21
	Hydrants	2	54	52
----- Other Accounts -----				
Total Depreciation Expense		\$51,050	\$61,436	\$10,386

1

2 **Q19. WHAT IS YOUR RECOMMENDATION FOR THE TRA REGARDING**
3 **THE 2014 DEPRECIATION EXPENSE CALCULATION?**

4 **A19.** I would recommend that the TRA instruct the Company to utilize the TRA
5 approved depreciation rates in its 2014 depreciation expense calculation and the
6 2014 deferred tax calculation. In addition, I would recommend that this change be
7 made retroactively from the inception of the capital rider mechanism and included
8 in the Company's next reconciliation filing.

9

10 III – STRUCTURE OF CAPITAL RIDER CALCULATIONS

11

12 **Q20. PLEASE DESCRIBE YOUR CONCERNS WITH THE OVERALL**
13 **STRUCTURE OF THE COMPANY'S FILING.**

14 **A20.** I have concerns regarding the Company's repeated use of "hard-coded" numbers
15 in the capital rider filing without any supporting documentation. I also have
16 concerns over changes in the capital rider formula without explanation. Finally, I

1 have concerns over the Company's objections to providing attestations from their
2 controller over the costs actually recorded on the Company's ledger.

3
4 **Q21. PLEASE DESCRIBE YOUR CONCERNS WITH THE USE OF "HARD-**
5 **CODED" DATA.**

6 **A21.** In several instances, the Company has included "hard-coded" data in their filing
7 without any support. This lack of documentation required me to issue additional
8 data requests for supporting information and delayed my analyses and
9 recommendations.⁷ The TRA's Order addressed this very issue during the
10 Company last budget and stated the following:

11 *Further, the panel found that the identification of any changes in*
12 *the structure of calculations of future capital rider filings should*
13 *assist all parties in their review. For this reason, the panel voted*
14 *unanimously that all changes in the structure of calculations shall*
15 *be identified, justified and disclosed in all future capital rider*
16 *flings. Further, that panel found that excluding the source and*
17 *support for calculations used to derive the capital rider*
18 *percentages may delay the proceeding; therefore, the panel voted*
19 *unanimously that TAWC is to include all sources and support*
20 *(including footnotes) for all calculations in all future capital rider*
21 *filings.*⁸
22

23 It is critical that all of the supporting documentation be included with the
24 Company's filing in order to complete a timely review. I would therefore request
25 the TRA to consider developing a clear set of consequences for the Company's
26 consistently incomplete filings.

27

⁷ See specifically Company responses to CPAD data requests 1-3, 1-4, 1-5, 1-6, 1-7, 1-8, 2-1, 2-6, 2-7, 2-9, 2-12 and 2-14.

⁸ TRA Order in Docket 15-00111, May 26, 2016, Page 10.

1 **Q22. PLEASE DESCRIBE YOUR CONCERNS OVER CHANGES TO THE**
2 **FORMULAS IN THE CAPITAL RIDERS.**

3 **A21.** Along with the omission of supporting documentation, the Company has also
4 continued to change certain formulas in the capital rider without notice to the
5 TRA. Again, this is a serious issue that the TRA has addressed in the Company's
6 previous filings. I had hoped to clearly identify this issue by first asking through
7 data requests for the Company to identify any formula changes to the rider.⁹
8 However, even though the Company responded that there were no "material
9 changes to the revenue requirement calculation" the Company later admitted to
10 such a change in the formula calculation for plant retirements that had not been
11 addressed in either the Company's petition or testimony.¹⁰ Again, it is critical
12 that the rationale and support for any alterations to the capital rider calculation be
13 included with the Company's filing and submitted to the TRA for approval in
14 order to complete a timely review. I would therefore request the TRA to consider
15 developing a clear set of consequences for the Company's consistently altered
16 filing calculations.

17
18 **Q23. PLEASE DESCRIBE YOUR CONCERNS OVER THE COMPANY'S**
19 **OBJECTIONS TO THE ATTESTATION OF COSTS RECORDED ON**
20 **THE LEDGER FROM THE COMPANY'S CONTROLLER.**

21 **A23.** Finally, I would like to address the need for attestation by the appropriate
22 Company officers on the capital rider costs that are recorded on the books.

⁹ See CPAD data request 1-2.

¹⁰ See Company response to CPAD data request 2-10.

1 Specifically, I requested attestation from the Company's controller on certain
2 costs recorded in the ledger after I found the data request responses on these items
3 to be incomplete.¹¹ In response, the Company objected to these requests and
4 initially stated that any attestation could only be provided by the witnesses to this
5 docket.

6
7 With all due respect to the two engineering witnesses in this case that have been
8 provided by the Company, this docket primarily concerns the calculation of plant
9 costs and plant cost recovery. As a result, there are certain instances where I will
10 need to seek confirmation that these costs are in fact recorded on the Company's
11 ledger. The Company's objection to this request results in a situation where
12 neither the Consumer Advocate nor the TRA has assurance that this filing truly
13 and accurately conforms to the tariff requirements and accurately reflects the
14 numbers included in the Company's general ledger. I would therefore ask the
15 TRA to order the Company to provide a more specific attestation (than apparently
16 the Company currently contemplates is to be provided in the already existing
17 verification requirement) from the Company's Chief Financial Officer that the
18 Capital Rider costs are true and accurate and tie back to the information recorded
19 on the Company's general ledger at the time that these requests are made.
20

21 ***Q24. DOES THIS COMPLETE YOUR TESTIMONY?***

22 ***A24.*** Yes, this completes my testimony at this time. However, I reserve the right to
23 incorporate additional testimony regarding any additional data that may

¹¹ See specifically CPAD data requests 2-5d and 2-19d.

1 subsequently become available and to provide supplemental testimony that results
2 from my continuing review and analysis of the Company's recently filed
3 responses to the Consumer Advocate's supplemental discovery requests related to
4 the recently filed Verification Statement of Valoria Armstrong.

ATTACHMENT WHN-1

William H. Novak Vitae

William H. Novak

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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	S-32534
	CenterPoint Energy/Louisiana PSC	2011	Audit of PGA Filings from 2002 - 2008 of CenterPoint Entex	S-32537
Tennessee	Louisiana Electric Utilities/Louisiana PSC	2012	Technical Consultant for Impact of Net Meter Subsidy on other Electric Customers	R-31417
	Aqua Utilities	2006	Rate Case Audit - Revenue, Expenses, Rate Base and Rate Design	06-00187
	Atmos Energy Corporation/Atmos Intervention Group	2006	Rate design for Industrial Intervenor Group	05-00258
	Atmos Energy Corporation/Atmos Intervention Group	2007	Rate design for Industrial Intervenor Group	07-00105
	Bristol TN Essential Services	2009	Audit of Cost Allocation Manual	05-00251
	Chattanooga Manufacturers Association	2009	Spokesperson for Industrial Natural Gas Users before the Tennessee State Legislature	HB-1349
	Tennessee-American Water Company/Tennessee AG	2011	Rate Case Audit - Weather Normalization Adjustments	10-00189
	Piedmont Natural Gas Company/Tennessee AG	2011	Rate Case Audit - Revenue, Class Cost of Service Study & Rate Design	11-00144
	Lynwood Wastewater Utility/Tennessee AG	2012	Rate Case Audit - Revenue, Class Cost of Service Study & Rate Design	11-00198
	Tennessee-American Water Company/Tennessee AG	2012	Rate Case Audit - Revenues, Rate Base, Class Cost of Service Study and Rate Design	12-00049
Alabama	Atmos Energy Corporation/Tennessee AG	2012	Rate Case Audit - Revenues, Rate Base and Rate Design	12-00064
	Jefferson County (Birmingham) Wastewater/Alabama AG	In Process	Bankruptcy Filing - Allowable Costs and Rate Design	2009-2318
	Peoples & North Shore Gas Cos./Illinois Commerce Comm.	2007	Management Audit of Gas Purchasing Practices	06-0556
	Southwestern Public Service Co./New Mexico PRC	2010	Financial Audit of Fuel Costs for 2009 and 2010	09-00351-UT
	National Grid/New York PSC	2011	Audit of Affiliate Relationships and Transactions	10-M-0451
	Ohio-American Water Company/Ohio Consumers' Counsel	2010	Rate Case Audit - Class Cost of Service and Rate Design	09-0391-WS-AIR
	Vectren Energy Delivery of Ohio/Ohio Consumers' Counsel	2008	Rate Case Audit - Class Cost of Service and Rate Design	07-1080-GA-AIR
	Duke Energy-Ohio/Public Utilities Commission of Ohio	2009	Focused Management Audit of Fuel & Purchased Power (FPP Riders)	07-0723-EL-UNC
	Center Point Energy/Texas AG	2009	Rate Case Audit - Class Cost of Service and Rate Design	GUD 9902
	Aqua Utilities/PSS Legal Fund	2011	Rate Case Audit - Class Cost of Service and Rate Design	W-218_Sub-319
Washington DC	Washington Gas Light Co./Public Service Comm of DC	2011	Audit of Tariff Rider for Infrastructure Replacement Costs	1027

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

ATTACHMENT WHN-2

TAWC Response to CPAD Data Request 2-4

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 16-00126
SECOND DISCOVERY REQUEST OF THE
CONSUMER PROTECTION AND ADVOCATE DIVISION

Responsible Person: Linda C. Bridwell

Question:

4. Please refer to the Company's responses to CPAD1-5, CPAD1-6, CPAD1-7 and CPAD1-8 in this docket regarding the actual plant expenditure amounts in November 2015 and December 2015 for Business Units A, B, C and D. In addition, please refer to Table 1 and Table 2 below that summarize the November 2015 and December 2015 plant additions for Business Units A, B, C and D in this Capital Rider Budget Docket and in the 16-00022 Capital Rider Reconciliation Docket.

Table 1 – 16-00022 Plant		
Business Unit	Nov 2015	Dec 2015
A	\$0	\$67,251
B	223,756	337,840
C	103,929	110,053
D	-1,056	959,844

Table 2 – 16-00126 Plant		
Business Unit	Nov 2015	Dec 2015
A	\$35,979	\$10,743
B	109,119	92,341
C	103,929	109,644
D	12,033	64,679

- a. Admit or deny that the amounts included in Table 1 above represent the actual plant additions that were included by the Company in Docket 16-00022. If the Company denies that these are the amounts included in Docket 16-00022, then provide updated amounts with an explanation of the differences.
- b. Admit or deny that the amounts included in Table 2 above represent the actual plant additions that were included by the Company in Docket 16-00126. If the Company denies that these are the amounts included in Docket 16-00126, then provide updated amounts with an explanation of the differences.
- c. Please provide a reconciliation of the amounts included in Tables 1 and 2.
- d. Please provide an attestation from the Company's controller of the actual amounts of capital recovery plant additions recorded in the Company's ledger for November 2015 and December 2015 for Business Units A, B, C and D.

¹ Company workpapers in Docket 16-00022, "WKP 2015 Pivot Actuals" tab that was referenced in CPAD1-5, CPAD 1-6, CPAD 1-7 and CPAD 1-8 in this docket.

² Company workpapers in Docket 16-00126, "WKP 20 16 In-Serviced SCEP Proof" tab that was referenced in CPAD1-5, CPAD1-6, CPAD1-7 and CPAD1-8 in this docket.

Response:

- a. Table 1 is the plant additions, or the amount of construction spend placed in-service (UPIS) for November 2015 and December 2015 that was eligible for the capital riders related to business units A-D with the exception of November 2015 business unit D. November 2015 business unit D was \$-1,016.
- b. Table 2 does not reflect the actual plant additions that were included by the Company for November 2015 and December 2015 in Docket 16-00126 and Table 2, as created by the CPAD is labelled incorrectly. The amounts reflected in Table 2 are the amount of actual construction expenditures (CWIP) that occurred during the months of November 2015 and December 2015 related to business units A-D. In the TAW's filing, on the Workbook TAW_APP_SCH1_2017, on the tab "WKP 2017 In-Serviced SCEP" and "WKP 2017 In-Serviced SCEP Proof" the columns are labelled *Prior Year Period 11 Spend* and *Prior Year Period 12 Spend* in an attempt to distinguish these from plant additions for the month. The charge details were provided in attachment file to Item 4 of the CPAD's First Discovery Request in this docket.
- c. As explained in part b of the response to Items 4, 5, 6, 7 and 8 of the CPAD's First Discovery Request, amounts placed in-service (UPIS), or plant additions, for a particular month in Table 1 above could contain amounts incurred on the company's books and records prior to November 2015. Construction expenditures incurred for November 2015 and December 2015 in Table 2 above may or may not be placed in-service based on the work order lifecycle for which it has been incurred. Please refer to attachment for the reconciliation between construction expenditures and plant additions for November and December 2015. In order to calculate the estimated amount of plant additions each month in the identified business units, in the previous Capital Recovery Rider Dockets Tennessee American has taken a three-month average of the construction expenditures and placed 1/3 of this amount in service. The purpose of using the November and December 2015 actual construction expenditures in this filing is simply to calculate the three-month average amount estimated to be placed in service during January and February 2016. The company believes that utilizing Table 1 above in the forecasted plant additions would create a scenario in which the company would essentially double count plant additions and therefore over-earn on the same capital dollars as they were already included in prior utility plant in-service balances.
- d. TAWC objects to this Request on the grounds that it is overbroad, unduly burdensome, duplicative, and seeks information that is neither relevant nor reasonably calculated to lead to the discovery of admissible evidence. TAWC further objects to this Request on the grounds that TAWC has identified the appropriate representatives with relevant information concerning this Request

and refers CPAD to the attestation(s) of Linda Bridwell and/or Brent E. O'Neil. TAWC reserves the right to supplement this response as information becomes available during the course of discovery, document review and investigation. Subject to and without waiving the foregoing objections, TAWC states as follows:

As explained in part c above, the plant additions for November 2015 and December 2015 are in the CPAD's Table 1 above, while the construction expenditures for November 2015 and December 2015 are in the CPAD's Table 2 above. The plant additions for November 2015 and December 2015, as reflected in the CPAD's Table 1 above, have been attested to and included in Docket No. 16-00022.

ATTACHMENT WHN-3

TAWC Response to CPAD Data Request 2-19

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 16-00126
SECOND DISCOVERY REQUEST OF THE
CONSUMER PROTECTION AND ADVOCATE DIVISION**

Responsible Person: Linda C. Bridwell

Question:

19. Please refer to the "TAW_APP_SCH1_2017" spreadsheet that was included with the Company's filing. Specifically refer to Column AY of the "WKP 2014 In-Serviced Actual" tab of this spreadsheet which calculates the 2014 depreciation expense. The Company has converted the original formulas in this spreadsheet to hard numbers that no longer tie to the product of average plant in service * the appropriate depreciation rates. Please answer the following:
- a. Explain why the Company removed the 2014 depreciation expense formulas and converted these amounts to hard numbers.
 - b. Explain why the Company has retained the original depreciation expense formulas on Column BG of the "WKP 2015 In-Serviced Actual" tab; Column BG of the "WKP 2016 In-Serviced SCEP" tab; and Column BG of the "WKP 2017 In-Serviced SCEP" tab while removing the depreciation expense formula from Column AY of the "WKP 2014 In-Serviced Actual" tab.
 - c. It would appear that either the plant in service or the depreciation expense amounts included on the "WKP 2014 In-Serviced Actual" tab are in error, since the plant in service recorded in Column AS cannot produce the depreciation expense included in Column AY at currently approved depreciation rates. If the Company believes that this calculation is an error, then please provide an updated calculation. If the Company believes that this calculation is not an error, then please provide explanation of the Company's rationale.
 - d. Please provide an attestation from the Company's controller of the actual amounts of capital recovery plant in service and depreciation expense by Business Unit recorded in the Company's ledger for 2014.

Response:

- a. The 2014 depreciation expense agrees to the final version of depreciation expense filed in Docket No. 15-00029. This amount has been carried forward through Dockets No. 15-00111 and No. 16-00022. As explained in my rebuttal testimony in Docket No. 16-00022, at page 3, line 13, Tennessee American hard coded the numbers for 2014 in previous Dockets to simplify the presentation and has copied them into the file.
- b. The actual 2014 depreciation expense calculation in Docket No. 15-00029 was

part of an even more complex spreadsheet utilized to compare actual to budget for reporting purposes. Tennessee American does not break its depreciation expense down by business unit, and a calculation of depreciation expense for these plant additions must be made for the purposes of this filing. However, the formulas could not simply be included in one cell in 2015. Further, the spreadsheet was extremely challenging to follow. In order to simplify the presentation, in 2015 (Docket No. 15-00111) Tennessee American hard-coded the 2014 depreciation expense numbers in the spreadsheet and revised the methodology for the calculation. In 2015, Tennessee American began simply calculating the depreciation based on the amount of the 13-month average plant additions multiplied by the depreciation rate for the appropriate utility plant account. The 2015 depreciation expense amount in this Docket also agrees to the final version of depreciation expense in Docket No. 16-00022. This amount has been carried forward in this Docket. The 2016 depreciation expense has been re-calculated for this Docket based on the actual amounts approved in Docket No. 16-00022 for 2015 and carried forward through 2017.

- c. The Company does not believe it is in error. Please refer to part b of this same Data Request.
- d. TAWC objects to this Request on the grounds that it is overbroad, unduly burdensome, duplicative, and seeks information that is neither relevant nor reasonably calculated to lead to the discovery of admissible evidence. TAWC further objects to this Request on the grounds that TAWC has identified the appropriate representatives with relevant information concerning this Request and refers CPAD to the attestation(s) of Linda Bridwell and/or Brent E. O'Neill. TAWC reserves the right to supplement this response as information becomes available during the course of discovery, document review and investigation. Subject to and without waiving the foregoing objections, TAWC states as follows:

2014 actual depreciation expenses reflected in the filing have been attested to and included in prior Capital Recovery Rider Dockets. Please refer to part b of this same data request. The company does not record depreciation expense by project business unit in the company's ledger and a calculation of depreciation expense for these plant additions must be made for the purposes of the Capital Recovery Riders filings. The company utilizes the group depreciation method by utility account and district to record depreciation expense. In the reconciliation of 2014 actual expenditures in Docket No. 15-00029, the Company calculated the depreciation for plant additions for each month and summed the total. The calculation of the 2014 depreciation was part of a larger spreadsheet that was extremely complex, making any effort to review the calculations very challenging. Therefore in Docket No. 15-00111, Tennessee American hard-coded the 2014 depreciation expense that had been included in the final version of the reconciliation in Docket No. 15-00029. This issue was also discussed in the reconciliation of 2015 Capital Recover Riders (Docket No.

16-00022) and a copy of the 2014 In-Serviced Actual including 2014 depreciation expense calculations was provided in response to Item 3 of the CPAD's Third Discovery Request in Docket No. 16-00022.

ATTACHMENT WHN-4

Calculation of 2014 Depreciation Expense

TAWC Hard-Number Presentation												
Line #	Business Unit No.	Project Title	Account	Account Description	Surcharge	Dep Rate	Average Plant In Service	Average Retires (Replacement Projects Only)	Average CIAC	Depreciation Expense	WHN Depreciation Calculation	Difference
1		RECURRING PROJECTS										
2	TN	DV	331001	Transmission & Distribution Mains		1.25%	\$0	\$0		\$0	\$0	\$0
3	TN	DV	333000	Services		1.11%	0	0		0	0	0
4	TN	DV	335000	Hydrants		2.30%	0	0		0	0	0
5												
6	TN	A	331001	Transmission & Distribution Mains	EDI	1.25%	0	0		0	0	0
7												
8	TN	B	331001	Transmission & Distribution Mains	QIIP	1.25%	287,327	0		2,753	3,592	-839
9	TN	B	333000	Services	QIIP	1.11%	2,127	0		3	24	-21
10	TN	B	335000	Hydrants	QIIP	2.30%	2,359	0		2	54	-52
11												
12	TN	C	331001	Transmission & Distribution Mains	QIIP	1.25%	535,227	-2,987		5,637	6,653	-1,016
13												
14	TN	D	331001	Transmission & Distribution Mains	QIIP	1.25%	43,214	0		468	540	-72
15	TN	D	333000	Services	QIIP	1.11%	49	0		0	1	0
16	TN	D	335000	Hydrants	QIIP	0.023	0	0		0	0	0
17												
18	TN	E	331001	Transmission & Distribution Mains	EDI	1.25%	13,669	0		146	171	-25
19	TN	E	335000	Hydrants	EDI	2.30%	23,616	0		469	543	-74
20												
21	TN	F	331001	Transmission & Distribution Mains	QIIP	1.25%	3,235	0		18	40	-22
22	TN	F	335000	Hydrants	QIIP	2.30%	111,876	0		2,153	2,573	-420
23												
24	TN	G	333000	Services		1.11%	383,565	0		3,379	4,036	-656
25												
26	TN	H	333000	Services	QIIP	1.11%	235,091	0		2,200	2,610	-409
27												
28	TN	I	334100	Meters		7.47%	97,501	0		6,433	7,283	-851
29	TN	I	334200	Meter Installations		2.73%	95,487	0		1,458	1,788	-330
30												
31	TN	J	334100	Meters	QIIP	7.47%	34,755	0		2,328	2,596	-268
32	TN	J	334200	Meter Installations	QIIP	2.73%	232,746	-1,603		4,908	6,310	-1,402
33										0	0	0
34	TN	K	340200	Computer & Peripheral Equipment		2.19%	0	0		0	0	0
35												
36	TN	L	320100	WT Equip Non-Media	SEC	1.09%	186,195	-6,182		1,730	1,962	-233
37												
38	TN	L	340200	Computer & Peripheral Equipment	SEC	2.19%	5,748	0		94	126	-31
39	TN	L	346100	Comm Equip Non-Telephone	SEC	4.21%	19,407	0		616	817	-201
40										1,494	2,002	-508
41	TN	M	304500	Structures & Improvement - General	SEC	1.13%	516	0		0	6	-6
42												
43	TN	N	304500	Structures & Improvement - General		1.13%	0	0		0	0	0
44												
45	TN	O	341100	Transportation Equip Lt Duty Trucks		16.00%	0	0		0	0	0
46	TN	O	341200	Transportation Equip Hvy Duty Trucks		16.62%	0	0		0	0	0
47	TN	O	341300	Transportation Equip Autos		11.38%	0	0		0	0	0
48												
49	TN	P	343000	Tools, Shop, Garage Equipment		6.89%	0	0		0	0	0
50												
51	TN	Q	320200	Water Trmt Equip Filter Media	SEC	33.69%	0	0		0	0	0
52												
53	TN	Q	311520	Pumping Equipment SOS	SEC	1.83%	75,282	-5,200		1,157	1,282	-125
54	TN	Q	340200	WT Equip Non-Media	SEC	1.98%	0	0		0	0	0
55	TN	Q	304100	Struct & Imp-Supply	SEC	1.98%	36,165	0		498	716	-218
56	TN	Q	304300	Struct & Imp-Treatment	SEC	4.11%	0	-1,881		-55	-77	22
57	TN	Q	309000	Supply Mains	SEC	1.87%	4,931	0		77	92	-15
58	TN	Q	310000	Power Generation Equip	SEC	12.33%	18,931	0		2,077	2,334	-258
59	TN	Q	311200	Pump Equip Electric	SEC	2.45%	0	-3,905		12	-84	96
60	TN	Q	320100	WT Equip Non-Media	SEC	1.09%	56,358	-8,876		210	539	-330
61										-126	-250	124
62	TN	R	330003	Tank Repainting	QIIP	11.08%	0	0		0	0	0
63												
64	TN	R	320100	WT Equip Non-Media	QIIP	1.09%	1,184,498	0		10,788	12,911	-2,123
65	TN	R	330000	Diat Reservoirs & Standpipes	QIIP	2.08%	12,733	0		225	265	-40
66										-6	-7	1
67	TN	S	331001	Transmission & Distribution Mains		1.25%	0	0		0	0	0

Line #	Business Unit No.	Project Title	Account	Account Description	Surcharge	Dep Rate	TAWG Hard-Number Presentation							
							Average Plant in Service	Average Retires (Replacement Projects Only)	Average CIAC	Depreciation Expense	WHN Depreciation Calculation	Difference		
68		Total Recurring Projects												
69		ACQUISITIONS												
70		Total Acquisitions												
71		CENTRALLY SPONSORED PROJECTS												
72														
73														
74	TN T28-0202		340315	Computer Software Special Deprec Rate		10.00%								
75	TN T28-0203		340315	Computer Software Special Deprec Rate		10.00%								
76		Total Centrally Sponsored Projects												
77		INVESTMENT PROJECTS												
78														
79	TN T26-020016	Meier shop Building Additions												
80	TN T26-020017	Electrical Motor Efficiency Enhancement (\$2.9)												
81	TN T26-030019	Interconnects Adjacent Water UD (\$0.5)												
82	TN T12-020024	Install New Hill City Pumps (\$0.7)												
83	TN T26-020025	Install 5,700 or 16" - East Braine (\$1.0)												
84	TN T26-020026	5800'-16" Main in Navajo Cr. (\$1.0)												
85	TN T26-020027	Construct 1.0MG Tank & 2500'-16" ER (\$1.0)												
86	TN T26-020030	5933 lf or 20" Ringgold Rd. at I-75 (\$2.1)												
87	TN T26-020031	Citico Plant Improvements Phase 1B (\$8.6)												
88	TN T26-020032	Wastewater Treatmt & Handling Impr (\$4.5)												
89	TN T26-020033	Convert ER Reservoir to Pump Storage (\$0.25)												
90	TN T26-020034	3000'-24" Tennessee River Crossing (\$0.5)												
91	TN T26-020035	Repl Likout Min Pump #4 (\$0.9)												
92	TN T26-020036	New Office Building												
93	TN T26-020036	Post Acquisition BD Capex												
94	TN T26-020022	IP Project Unbudgeted Capital												
95	TN T26-000001	Whitwell Acquisition Capital Investment	331001	Transmission & Distribution Mains	QIIP	1.25%	0			0	0			
96	TN T26-000001		320200	Water Trmt Equip Filler Media	QIIP	33.65%	0			0	0			
97	TN T26-000001		311520	Pumping Equipment SOS	QIIP	1.83%	0			0	0			
98	TN T26-000001		304200	WT Equip Non-Media	QIIP	1.98%	0			0	0			
99	TN T26-000001													
100		Total DV Included:							3,700,168	-53,676	0	51,050	61,436	-10,386
101		Total DV Excluded:							3,700,168	-53,676	0	51,050	61,436	-10,386
102		Total Surcharge Amt:							3,173,604	-53,676	0	39,780	48,329	-8,550
103		SEC Total:							451,081	-48,817	0	7,886	9,454	-1,767
104		EDI Total:							37,285	0	0	615	714	-99
105		QIIP Total:							2,685,237	-4,860	0	31,478	38,161	-6,683