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February 13, 2017

**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 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, TRA Docket No. 16-00126**

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

clw

Enclosure

cc: Valoria Armstrong, President, Tennessee-American Water Company  
Daniel Whitaker, Assistant Attorney General, Consumer Protection and Advocate Division  
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**TENNESSEE-AMERICAN WATER COMPANY, INC.**

**DOCKET NO. 16-00126**

**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 Senior Manager  
5 of Rates and Regulation for Tennessee and Kentucky.

6 **Q. DID YOU FILE DIRECT AND SUPPLEMENTAL TESTIMONY IN THIS CASE?**

7 A. Yes. I submitted Pre-filed Direct Testimony in this case on November 4, 2016, on behalf  
8 Tennessee-American Water Company (“Tennessee American,” “TAWC” or “Company”).  
9 I also filed Supplemental Testimony in this case on December 6, 2016.

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. The purpose of my Rebuttal Testimony is to respond to the Pre-filed Testimony of William  
12 H. Novak, witness for the Consumer Protection and Advocate Division of the Tennessee  
13 Attorney General’s Office (“CPAD”), filed with the Tennessee Regulatory Authority  
14 (“TRA” or “Authority”) on February 3, 2017.

15 **Q. MR. NOVAK DISCUSSES IN HIS TESTIMONY HIS CONCERN WITH THE**  
16 **COMPANY’S USE OF MONTHLY “CONSTRUCTION EXPENDITURES” TO**  
17 **CALCULATE THE FORECASTED MONTHLY “PLANT ADDITIONS”.<sup>1</sup> DO**  
18 **YOU AGREE WITH MR. NOVAK’S CONCERNS?**

19 A. No, I do not. The CPAD asked about this issue during discovery and the Company  
20 addressed the issue in response<sup>2</sup> to those discovery requests.

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<sup>1</sup> See *Pre-filed Testimony of CPAD Witness William H. Novak*, pp. 5-9, TRA Docket No. 16-00126 (Feb. 3, 2017) (hereinafter “*Testimony of Novak*”).

<sup>2</sup> See *TAWC response to First Discovery Request by the CPAD*, Items 4, 5, 6, 7, and 8. Also see *TAWC Response to Second Discovery Request by the CPAD*, Item 4.

1 **Q. CAN YOU EXPLAIN THE DIFFERENCE BETWEEN PLANT ADDITIONS AND**  
2 **CAPITAL EXPENDITURES?**

3 A. Certainly. Construction expenditures, or capital expenditures, are the amount of expense  
4 related to capital construction. They are recorded all during the month as the bills are paid,  
5 labor charges are incurred, or other relevant overhead charges are applied to the projects.  
6 An individual project may have monthly construction expenditures for many months, or  
7 even years. While a project is under construction, all of the cumulative construction  
8 expenditures are held in the Construction Work in Progress (“CWIP”) account. Once the  
9 project is completed, it is “Placed In-Service” and the total cumulative value of all of the  
10 monthly construction expenditures is transferred from CWIP to the Utility Plant in Service  
11 (“UPIS”) account. The project is not considered complete until it is used and useful to the  
12 utility, although there may be final clean-up items that still occur. This step of placing the  
13 asset in-service is critical in adequately accounting for utility assets, as depreciation begins  
14 once the asset is placed in-service. At the time that the plant is placed in-service, the total  
15 value of the asset is considered a plant addition for the month in which it is placed in-  
16 service.

17 **Q. CAN YOU EXPLAIN HOW THE COMPANY FORECASTS THE PLANT**  
18 **ADDITIONS (CAPITAL EXPENDITURES) FOR THE CAPITAL RECOVERY**  
19 **RIDERS?**

20 A. Yes. As outlined in the Pre-filed Testimony of TAWC Witness Brent O’Neill, each year  
21 Tennessee American forecasts its monthly capital expenditures in its Strategic Capital  
22 Expenditures Plan. Once the monthly construction expenditures are forecasted, TAWC  
23 has to determine a way to forecast the monthly plant additions. Tennessee American has

1 a series of Business Units under its Recurring Projects section of its forecasted Capital Plan  
2 that involve projects that may take longer than one month. These Business Units are:

3 DV - Projects Funded by Others (not included in the Capital Recovery Riders)

4 A – Mains – New

5 B – Mains – Replaced/Restored

6 C – Mains – Unscheduled

7 D – Mains – Relocated

8 In order to estimate how much of the monthly capital expenditures is going to be placed  
9 in-service during any given month, Tennessee American has utilized a methodology where  
10 the amount of construction expenditures during that month is averaged with the previous  
11 two months' worth of construction expenditures on the above-referenced five recurring  
12 project items. Over the course of the year, it is easy to take a three-month average clearly  
13 using the data that is filed in the petition. For the months at the beginning of the year  
14 (January and February), Tennessee American must include the data from the last two  
15 months of the prior year. In order to do so, TAWC averages the actual construction  
16 expenditures that occurred from the prior months (November and December) with the  
17 forecasted monthly construction expenditures. For all other Business Units, the monthly  
18 construction expenditures are assumed to be the monthly plant additions.

19 For reconciliation purposes, the Company simply pulls from its accounting records the  
20 actual plant additions each month that occur, and compares the actual plant additions with  
21 the previously forecasted plant additions. The actual plant addition amounts are then  
22 compared to the previously forecasted plant additions, and the reconciliation includes an  
23 adjustment in the Capital Recovery Riders to account for any over or under collections of

1 revenues during the review period. Mr. Novak indicates that the Company “substituted  
2 ‘construction expenditures’ for plant additions and thereby changed the capital rider  
3 calculation.”<sup>3</sup> This is simply not the case.

4 **Q. WHEN DID TENNESSEE AMERICAN FIRST USE THIS METHODOLOGY TO**  
5 **FORECAST PLANT ADDITIONS?**

6 A. Tennessee American first used this methodology in its last general rate case, Docket No.  
7 12-00049.<sup>4</sup> As this approach was acceptable in Docket No. 12-00049, Tennessee American  
8 used this same methodology in filing its initial Capital Recovery Riders in TRA Docket  
9 No. 13-00130 and again in subsequent Capital Recovery Riders’ forecast, including Docket  
10 Nos. 14-00121 and 15-00111.

11 Contrary to the assertions of Mr. Novak, the Company has not “substituted” anything or  
12 changed anything, but is simply filing its Petition with the same methodology as applied  
13 before to develop the forecasted plant additions for the four Recurring Project Business  
14 Units. The Company has not, as Mr. Novak has alleged, “switched back and forth” because  
15 the annual reconciliation has no need for the use of forecasted construction expenditures,  
16 as the actual plant additions for each month are known. Mr. Novak’s concerns are  
17 misplaced.

18 **Q. MR. NOVAK RECOMMENDS THAT THE CAPITAL RECOVERY RIDERS**  
19 **CALCULATION BE REVISED TO ELIMINATE THE MULTI-MONTH**  
20 **AVERAGE OF CAPITAL EXPENDITURES, AND INSTEAD UTILIZE ONLY**  
21 **THE ACTUAL PLANT ADDITIONS FOR BOTH THE BUDGET AND**

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<sup>3</sup> *Testimony of Novak*, p. 6, LL. 14-15.

<sup>4</sup> *See* TRA Docket No. 12-00049, (Workpaper RB3.1 WP .3 12-16 BP for In Service), TAW\_R\_TRAFAQ\_13, page 1039 of 1236 (June 1, 2012).

1        **RECONCILIATION FILINGS.<sup>5</sup> DO YOU AGREE WITH THIS**  
2        **RECOMMENDATION?**

3        A. No, I do not agree with this recommendation. Tennessee American developed the  
4        methodology to address a specific concern with the calculation of plant additions. The  
5        underlying basis of utilizing the 3-month average is that Tennessee American recognizes  
6        there is a lag between construction expenditures, and placing assets in-service for these  
7        Business Units. This lag occurs because projects may take more than one-month to  
8        complete, and projects average about 3 months to complete. Further, the nature of  
9        construction tends to be highest during late summer and fall, with construction activity,  
10       and therefore expenditures, reducing significantly during the winter months. This means  
11       that the aforementioned lag is not evenly spread throughout the year, but can be heavier in  
12       late summer and fall. Consistent with its last rate case, Tennessee American proposed in  
13       Docket No. 13-00130 an appropriate methodology with the aim of fairly accounting for  
14       this lag. Mr. Novak does not indicate how Tennessee American is supposed to use actual  
15       plant additions for a forecast. Mr. Novak's recommendation is not practical because it  
16       would require the Company to use information not known at the time (actual plant  
17       additions in the forecasted period). While another approach might be that Tennessee  
18       American utilize only the monthly construction expenditures as the proposed plant  
19       additions, it would potentially overstate the plant additions placed in-service during those  
20       peak months, increase the overall 13-month average of plant additions and potentially  
21       increase the overall revenue requirement forecasted. Such overstatements and increases  
22       would have a detrimental impact on our customers. While the forecast methodology may

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<sup>5</sup> *Testimony of Novak*, p. 8, LL 20-23.

1 not be perfect, the actual amount of revenue requirement based on the actual plant additions  
2 is trued-up during the annual reconciliation. Despite Mr. Novak's use of terms and phrases  
3 like "substituted," "switching back and forth," and "haphazard[.]" there has been no  
4 credible demonstration that the underlying basis of the methodology employed is flawed.  
5 Moreover, and as I explained earlier, the replacement methodology option recommended  
6 by Mr. Novak is fraught with shortcomings disadvantageous to our customers.

7 **Q. MR. NOVAK FURTHER RECOMMENDS THAT THE CHANGE BE MADE**  
8 **RETROACTIVELY BACK TO THE START OF THE CAPITAL RECOVERY**  
9 **RIDERS.<sup>6</sup> DO YOU AGREE WITH THAT RECOMMENDATION?**

10 A. No, I do not. While Mr. Novak's recommendation to use his proposed methodology is not  
11 sound, his suggestion that the change should be made retroactively from the inception of  
12 the Capital Recovery Riders is not credible. The CPAD is essentially asking the TRA to  
13 go back and change the rates that were charged in 2014 for plant in service, retirements,  
14 depreciation and cost of removal in 2014 since those calculations are all based on plant  
15 additions. The CPAD is then asking the TRA to carry that change, and revise the  
16 calculations of both the forecast and reconciliation for 2015. And, the CPAD is further  
17 asking the TRA to carry that change forward into the forecast of 2016 and 2017. This  
18 would essentially require the re-calculation of each year's forecasted revenue requirement  
19 for 2014, 2015 and 2016, and then also revise each year's reconciliation amount because  
20 the reconciliation amount is based on the difference between the forecasted capital  
21 additions and the actual capital additions. While a correction of a previous error or  
22 improved methodology may warrant such an extensive correction, the CPAD has not

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<sup>6</sup> *Testimony of Novak*, p. 9, LL 1-2.



1 offered any specific evidence that this is an improvement to the calculation of the Capital  
2 Recovery Riders. Depending on the results of such calculations, it could effectively  
3 penalize customers in the current period by possibly increasing the revenue requirement  
4 based on such a revised methodology. Further, the cumulative numbers for the calculations  
5 would no longer tie to the final record of any of the previous dockets. The CPAD has not  
6 offered any specific reason for asking for this change to the methodology three years later,  
7 and the CPAD's recommended change is certainly not based on a correction of an error  
8 that has been detected at a later time, or an improvement to a specific issue in the  
9 calculation of the Capital Recovery Riders that Tennessee American failed to address. Mr.  
10 Novak's proposed retroactive approach would also be contrary to the spirit, and even the  
11 underlying principles, of Tennessee's alternative ratemaking mechanism statute. The TRA  
12 should not accept Mr. Novak's recommendation.

13 **Q. MR. NOVAK DISCUSSES HIS CONCERN WITH THE CALCULATION OF THE 2014**  
14 **DEPRECIATION EXPENSE.<sup>7</sup> DO YOU AGREE WITH THIS CONCERN?**

15 A. No I do not. This is not a new issue. The CPAD first questioned the source and support  
16 of the 2014 Depreciation amounts in Docket No. 15-00111.<sup>8</sup> Mr. Novak then raised this  
17 exact issue again in TRA Docket No. 16-00022.<sup>9</sup> Mr. Novak indicates that "[t]ypically,  
18 depreciation expense is calculated by multiplying the average plant in service by the TRA  
19 approved depreciation rates."<sup>10</sup> The Company agrees with that statement for forecasted  
20 depreciation calculations. However, Mr. Novak goes on to indicate that "the 2014  
21 depreciation expense that the Company has included with their filing in this docket must

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<sup>7</sup> *Testimony of Novak*, pp. 9-11.

<sup>8</sup> *See TAWC response to CPAD First Discovery Request*, Item 1 and *TAWC response to CPAD Second Discovery Request*, Item 1, *TRA Docket No. 15-00111*.

<sup>9</sup> *Pre-filed Testimony of William H. Novak*, p. 5, LL 3-7, *TRA Docket No. 16-00022* (July 19, 216).

<sup>10</sup> *Testimony of Novak*, p. 9, LL. 12-14.

1 be in error...either the 2014 plant in service that the Company has included is in error or  
2 the 2014 depreciation expense is in error – both cannot be correct.”<sup>11</sup> I disagree with that  
3 conclusion and am happy to explain that both the 2014 plant in-service and the 2014  
4 depreciation expense included in the filing are correct.<sup>12</sup>

5 Tennessee American does not book depreciation by project or asset each month. Instead,  
6 Tennessee American takes the total value of all of the plant asset in a utility plant account,  
7 multiplies it by the depreciation rate, and then records the total group asset depreciation  
8 amount. For this reason, the Company had to develop a reasonable and supportable method  
9 of identifying actual depreciation expenses based on only the amount of the actual plant  
10 additions for the Capital Recovery Riders. In Docket No. 15-00029, Tennessee American  
11 presented the reconciliation of the actual 2014 Capital Recovery Riders. Tennessee  
12 American calculated 2014 actual depreciation expense in its reconciliation of 2014 monthly  
13 by multiplying the TRA approved depreciation rate by each month’s cumulative, actual  
14 plant additions. Tennessee American then summed the monthly 2014 depreciation expense  
15 to arrive at the actual, annual depreciation expense for the 2014 actual plant additions.<sup>13</sup> It  
16 was clear during Docket No. 15-00029 that the calculations in general were challenging  
17 for the CPAD to follow. Tennessee American further realized that the method used in  
18 Docket No. 15-00029 was somewhat cumbersome and did not produce a resulting  
19 depreciation expense that necessarily provided any greater accuracy of depreciation  
20 expense than simply taking the 13-month average of plant additions, and multiplying that

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<sup>11</sup> *Testimony of Novak*, p. 10, LL. 3-6.

<sup>12</sup> For previous explanations, see *TAWC response to CPAD First Discovery Request*, Item 1 and *TAWC response to CPAD Second Discovery Request*, Item 1, TRA Docket No. 15-00111. See also *TAWC response to CPAD First Discovery Request*, Item 2 and *TAWC response to CPAD Third Discovery Request*, Item 1 in TRA Docket No. 16-00022. See also *TAWC response to CPAD Second Discovery Request*, Item 19 in TRA Docket No. 16-00126.

<sup>13</sup> *In Re: Petition of Tennessee-American Water Company for the 2015 Capital Riders*, TRA Docket No. 15-00029 (TAW\_TRA\_2014\_CapRider\_Recon.xlsx, tab WKP-Net Invest Results) (February 27, 2015).

1 amount by the TRA-approved depreciation rate. Because the calculation of the 2014  
2 depreciation expense was so cumbersome and difficult for the CPAD to follow, in the next  
3 filing (Docket No. 15-00111), Tennessee American simply copied or hard-coded the final  
4 depreciation expense amounts that had been previously calculated for each utility plant  
5 account for 2014. When the CPAD asked for the source and support of the numbers in  
6 discovery in Docket No. 15-00111, Tennessee American referred the CPAD back to the  
7 final calculations in Docket No. 15-00029<sup>14</sup> that supported the overall revenue requirement  
8 that was approved by the TRA. TRA Docket No. 16-00022 was the reconciliation of the  
9 2015 actual Capital Recovery Riders. In that Docket, Tennessee American revised the  
10 methodology to calculate the actual annual 2015 depreciation expense by taking a 13-  
11 month average of the actual plant additions and multiplying that amount by the TRA  
12 approved depreciation rate.<sup>15</sup> The CPAD identified the change, and asked Tennessee  
13 American about the change in discovery.<sup>16</sup>

14 **Q. DO YOU AGREE WITH MR. NOVAK'S RECOMMENDATION THAT THE 2014**  
15 **DEPRECIATION EXPENSE BE REVISED AND THE CHANGE BE MADE**  
16 **RETROACTIVELY?**<sup>17</sup>

17 A. No, I do not. First, Tennessee American considered the option of re-calculating the 2014  
18 depreciation expense when it elected to prepare the 2015 reconciliation in Docket No. 16-  
19 00022. The TRA had already authorized the rates for 2014 in Docket No. 15-00029 based  
20 on the original methodology. While Tennessee American realized that there was an

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<sup>14</sup> See TAWC response to CPAD First Discovery Request, Item 1, also see TAWC response to CPAD Second Discovery Request, Item 1, TRA Docket No. 15-00111.

<sup>15</sup> Petition filing, TAW\_TRA\_2015\_CapRider\_Recon\_030116.xlsx, TRA Docket No. 16-00022, (March 1, 2016).

<sup>16</sup> See, TAWC response to CPAD First Discovery Request, Item 2, also see TAWC response to CPAD Third Discovery Request, Item 3 and Item 4, TRA Docket No. 16-00022.

<sup>17</sup> Testimony of Novak, p. 11, LL. 4 – 8.

1 improvement to the methodology to calculate the depreciation, the improvement would not  
2 have such a material impact to warrant re-working the previously approved 2014  
3 depreciation. There was simply not an error in the 2014 depreciation expense calculation,  
4 but a better methodology going forward. The correct approach would be to improve the  
5 methodology going forward.

6 Second, the 2014 depreciation expense was not only approved as part of the overall  
7 calculations supporting the TRA's approved reconciliation in Docket No. 15-00022, the  
8 2014 depreciation expense was utilized in Docket 15-00111, Docket No. 16-0022 and now  
9 Docket 16-00126. For a third time, the CPAD is essentially asking the TRA to go back  
10 and change the rates that were charged in 2014 for depreciation expense and accumulated  
11 depreciation 2014 and carry that change into a reconciliation for 2015, as well as the  
12 forecasts for 2016 and 2017. The CPAD has not offered any specific reason for asking for  
13 this change three years later, and the CPAD's recommended change is certainly not based  
14 on a correction of an error that has been detected at a later time. Tennessee American has  
15 demonstrated its willingness and belief that improvements to the methodology should be  
16 included on a prospective basis as they are discovered. However, Mr. Novak has not  
17 suggested a change to the current methodology. The TRA has already twice rejected the  
18 CPAD's recommendations to recalculate the previously authorized 2014 depreciation  
19 amounts and the CPAD has offered nothing new in this Docket. The TRA should not  
20 accept Mr. Novak's recommendation in this proceeding.

21 **Q. MR. NOVAK FURTHER DESCRIBES HIS CONCERNS WITH THE USE OF "HARD-**  
22 **CODED" DATA, INDICATING "THE COMPANY HAS INCLUDED HARD-CODED**

1           **DATA IN THEIR FILING WITHOUT ANY SUPPORT.”<sup>18</sup> DO YOU BELIEVE THESE**  
2           **CONCERNS ARE REASONABLE?**

3    A.    No, I do not. Mr. Novak has previously expressed his concern over the use of hard-coded  
4           data and Tennessee American has been receptive to making changes that minimize the use  
5           of hard-coded data. As I described in my Direct Testimony filed in this Docket<sup>19</sup>, as part  
6           of improving the Petition filing in this Docket, Tennessee American went through the entire  
7           excel spreadsheet and changed the color of any numbers to blue to represent “hard-coded”  
8           data. Tennessee American further provided references in each worksheet in the file to  
9           identify the source of the hard-coded data, which in some instances was information  
10          calculated in previous Capital Recovery Rider or reconciliation Dockets. Tennessee  
11          American certainly respected the language in the Order from Docket 15-00111 that charged  
12          TAWC to include all sources and support (including footnotes) for all calculations in all  
13          future capital rider filings.<sup>20</sup> The excel spreadsheet that calculates the alternative rate  
14          mechanism now has over 36,000 cells of information and calculations, and Tennessee  
15          American worked diligently to provide adequate source, support and clarification to the  
16          entire spreadsheet, including filing an initial petition filing of 409 pages. When the CPAD  
17          asked for additional source and support information in discovery in this Docket by the  
18          CPAD, Tennessee American, in a collaborative and cooperative spirit, provided four  
19          additional files in responses to three different discovery requests<sup>21</sup> to provide support for  
20          numbers used within the spreadsheet in response. To suggest that the Company is

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<sup>18</sup> *Testimony of Novak*, p. 12, LL. 6-7.

<sup>19</sup> *Pre-Filed Testimony Bridwell*, p. 10, LL.1-4.

<sup>20</sup> TRA Order, Docket 15-00111, p. 10 (May 26, 2016).

<sup>21</sup> *See TAWC Response to CPAD First Discovery Request, Items 1, 3 and 4*, TRA Docket No. 16-00126 (December 20, 2016).

1 “consistently [providing] incomplete filings”<sup>22</sup> is both simply a misrepresentation of what  
2 has been filed, as well as an unfortunate refusal to acknowledge the significance of the  
3 additional information provided in support of the Petition and in the discovery phase. To  
4 further request that the TRA consider developing what Mr. Novak refers to as “a clear set  
5 of consequences” for what the CPAD describes as “the Company’s consistently incomplete  
6 filings” wrongly ascribes a failure to cooperate and a lack of good faith to the Company’s  
7 efforts. The Company has attempted to anticipate all of the necessary source, support and  
8 clarification to help streamline an efficient review process. Further, when asked, the  
9 Company has provided additional source and support information on the data and  
10 calculations. The TRA should reject the Mr. Novak’s recommendation.

11 **Q. MR. NOVAK ALSO DESCRIBES HIS CONCERNS TO CHANGES TO THE**  
12 **FORMULAS IN THE CAPITAL RECOVERY RIDERS.<sup>23</sup> DO YOU BELIEVE**  
13 **THESE CONCERNS ARE APPROPRIATE?**

14 A. No, I do not. In Docket No. 15-00111, the Company committed to providing notification  
15 and rationale, in testimony, for any changes made in the filing from previous filings. The  
16 Company took that commitment very seriously and continues to stand by its commitment.  
17 As part of my direct testimony filed in Docket 16-00126 on November 4, 2016, I identified  
18 6 changes and updates to the files, not just calculation changes. Some of these were fairly  
19 minor in nature, but the Company felt that the changes enhanced the ability of others to  
20 review the files, and certainly wanted to make sure those changes, no matter how minor,  
21 were identified. After filing the Direct Testimony in Docket No. 16-00126, Tennessee  
22 American realized that there was an additional change that it had inadvertently omitted and

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<sup>22</sup> *Testimony of Novak*, p. 12, L. 26.

<sup>23</sup> *Testimony of Novak*, p. 13, LL. 1-16.

1 timely filed Supplemental Direct Testimony on December 6, 2016 to identify and explain  
2 that change. Over the course of its review of the Petition and supporting documentation in  
3 Docket No. 16-00126, the CPAD also discovered one other change that the Company had  
4 made, that was not identified in Direct or Supplemental Testimony.<sup>24</sup> The change actually  
5 had no impact at all on calculated revenue requirement, but was simply a revision to the  
6 method in which the same amount of Retirements was allocated across the various utility  
7 plant accounts. The Company immediately admitted that it was a change that had  
8 inadvertently not been identified in testimony, and provided the rationale for the change,  
9 which the CPAD has not expressed any disagreement about.

10 Notwithstanding the foregoing, Mr. Novak is now recommending that the TRA consider  
11 developing consequences for “the Company’s consistently altered filing calculations.”<sup>25</sup> In  
12 the Capital Recovery Rider dockets, the Company has owned its errors and moved quickly  
13 to correct them. Equally as important, the Company has respected the identification of  
14 errors by the CAPD and the TRA, learned from its errors, and instituted always-improving,  
15 internal checks and balances to develop a better overall review process. The Company  
16 works diligently to provide accurate, complete, robust and transparent information as part  
17 of these petition filings, but there have been mistakes and oversights along the way. The  
18 Company has committed to minimizing any mistakes or errors, or lack of providing  
19 information, and continues to stand by that commitment. The Company is confident that  
20 its good faith and cooperative efforts are evidenced in its filings. The record simply does  
21 not credibly support penalizing the Company. The TRA should reject Mr. Novak’s  
22 recommendation.

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<sup>24</sup> See *TAWC Response to CPAD Second Discovery Request*, Item 10.

<sup>25</sup> *Testimony of Novak*, p. 13, LL. 15-16.

1   **Q.   MR. NOVAK DESCRIBES HIS CONCERN REGARDING THE COMPANY’S**  
2       **OBJECTION TO PROVIDING AN ATTESTATION BY THE COMPANY CONTROLLER**  
3       **OF COSTS RECORDED ON THE LEDGER.<sup>26</sup> CAN YOU EXPLAIN THE COMPANY’S**  
4       **OBJECTION TO THIS ATTESTATION?**

5   **A.**   Yes, I can. First, I should note that the Company’s objections are contained within the  
6       agency’s official record in this matter and speak for themselves. Mr. Novak indicates  
7       “[w]ith all due respect to the two engineering witnesses in this case that have been provided  
8       by the Company, this docket primarily concerns the calculation of plant costs and plant  
9       cost recovery.”<sup>27</sup> The description of both Mr. O’Neill and me as “engineering witnesses”  
10      is misleading, as it does not fully capture our credentials and thus understates our work  
11      experience and expertise. As set forth in his pre-filed testimony in this docket, Mr. O’Neill  
12      has an undergraduate degree in engineering, but also has a Master’s in Business  
13      Administration. He has over 20 years of experience with American Water, including  
14      capital budgeting, providing accounting details for regulatory proceedings, and overseeing  
15      capital accounting. While I have both an undergraduate and graduate degree in  
16      engineering, I also graduated with a Master’s in Business Administration from Xavier  
17      University in Cincinnati, OH in 2000. In my work with American Water, I began preparing  
18      plant costs and plant cost recovery information for rate cases in 1992 and have consistently  
19      provided that information, as well as other financial information, for regulatory  
20      proceedings, budgets, audits, tax filings, IRS bond filings and SEC filings. Since beginning  
21      my role in 2012 as manager of rates and regulation for Kentucky American Water and  
22      TAWC, I have been the primary person responsible for filing 3 separate rate cases, all of

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<sup>26</sup> *Testimony of Novak*, p. 13-14.

<sup>27</sup> *Testimony of Novak*, p. 14, L 7-9.



1 the TAW alternative regulatory mechanism filings, and countless other regulatory filings  
2 based on financial information, not limited to plant costs and plant cost recovery items. I  
3 work with an extensive team of financial analysts, accountants, and even engineers to  
4 provide the most accurate information for representation by the Company. Because of my  
5 background in engineering and experience in engineering roles within the Company, I have  
6 a unique knowledge of the Company's plant cost accounting and have experience in  
7 accurately translating it into necessary financial reporting information. I have attested to  
8 the numbers and calculations in each of my testimony filings, and discovery request  
9 responses in this proceeding. The Company has determined that I, along with Mr. O'Neill,  
10 are the appropriate witnesses to confirm that the costs are accurate and recorded on the  
11 Company's ledger.

12 In addition to our attestations, each of the three Capital Recovery Rider tariffs requires  
13 "[t]he Annual QIIP (EDI, SEC) Percentage Rate Filing shall be verified by an Officer of  
14 the Company."<sup>28</sup> Ms. Armstrong, as President of Tennessee American and an Officer of  
15 the Company completed that verification as part of developing the filing. Ms. Armstrong  
16 both signed the proposed tariff page and the Board of Directors, of which she is a member,  
17 unanimously approved the rate for the filing. The company believes the qualified  
18 personnel have provided the necessary attestations and verification.

19 **Q. DOES THE COMPANY HAVE FURTHER CONCERNS WITH THE REQUEST**  
20 **FOR ADDITIONAL ATTESTATIONS?**

21 A. Yes. Mr. Novak states "[T]here are instances where I will need to seek confirmation that  
22 these costs are in fact recorded on the Company's Ledger."<sup>29</sup> As I noted in my Pre-filed

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<sup>28</sup> First Revised Sheet No. 12-QIIP-9, First Revised Sheet No. 12-EDI-9, Original Sheet No. 12-SEC-9.

<sup>29</sup> *Testimony of Novak*, p. 14, LL. 9-10.

1 Direct Testimony and in the responses to discovery, the data and financial information used  
2 to prepare the exhibits was acquired from the books of account and business records of  
3 Tennessee American.<sup>30</sup> This means simply that the data and financial information in this  
4 filing tie back to the Company's General Ledger. The CPAD, over the course of this  
5 proceeding, has requested three different types of attestation. First the CPAD asked for an  
6 additional attestation by the Company Controller.<sup>31</sup> Then the CPAD asked for the  
7 attestation of an accountant or similar representative from the controller's office to verify  
8 the accounting.<sup>32</sup> Now in Mr. Novak's testimony the CPAD has further revised the request  
9 to ask for an attestation from the Company's Chief Financial Officer<sup>33</sup>. The CPAD is  
10 attempting to reach well beyond the Capital Recovery Rider tariffs' requirements and is  
11 demanding unrequired and unnecessary additional attestations. The request of the  
12 attestation originated in the belief by the CPAD that it had determined a mistake in the  
13 filing of the Company using capital expenditures instead of plant additions, which the  
14 Company explained is actually not a mistake nor an error. The TRA should reject Mr.  
15 Novak's recommendation to re-write or expand the Capital Recovery Rider tariffs'  
16 requirements to require additional attestations. Accepting this recommendation could  
17 result in additional attestation requests by the CPAD in future Capital Recovery Rider  
18 filings when, like in this case, the CPAD disagrees with a methodology that has been  
19 accepted by the Authority.

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<sup>30</sup> *Pre-filed Direct Testimony of Bridwell*, p. 4, LL. 25-26.

<sup>31</sup> See CPAD Second Discovery Request, Item 10.

<sup>32</sup> See CPAD Motion to Compel, filed 1-24-17, Page 10, (January 24, 2017).

<sup>33</sup> *Testimony of Novak*, p. 14, L. 17.

1 **Q. IS THIS THE FIRST TIME THAT THE AUTHORITY HAS BEEN ASKED TO**  
2 **ADD ADDITIONAL CERTIFICATION REQUIREMENTS TO THE CRR**  
3 **TARIFFS?**

4 A. No, it is not. For instance, the Authority rejected similar efforts in TRA Docket No. 14-  
5 00121.<sup>34</sup>

6 **Q. AS PART OF THE DISCOVERY, HAS TAWC MADE ANY CORRECTIONS OR**  
7 **CHANGES TO THE CALCULATION OF THE CAPITAL RECOVERY RIDERS?**

8 A. No, Tennessee American has not made any revisions to the calculations in this filing.

9 **Q. DO YOU BELIEVE THE CAPITAL RECOVERY RIDERS ARE STILL IN THE PUBLIC**  
10 **INTEREST?**

11 A. Yes, I do. I discussed the reasons for this in my Pre-filed Direct Testimony,<sup>35</sup> and I don't  
12 believe those have changed. Further, I believe that the process of improving the  
13 calculations of the Capital Recovery Riders is an efficient, streamlined process.

14 **Q. WHAT DO YOU RECOMMEND?**

15 A. I recommend that the TRA approve the 2017 reconciliation of the Capital Riders, as filed  
16 by Tennessee American.

17 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

18 A. Yes.  
19

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<sup>34</sup> See *Pre-Hearing Brief of the City of Chattanooga*, In Re: Petition of Tennessee-American Water Company Regarding the 2015 Investment and Related Expenses Under the Qualified Infrastructure Investment Program Rider, the Economic Development Investment Rider, and the Safety and Environmental Compliance Rider, TRA Docket No. 14-00121, pp. 17-18 (April 15, 2015).

<sup>35</sup> *Direct Testimony Bridwell*, p. 28, L. 5 through p. 30, L.8.

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

Sworn to and subscribed before me  
this 13th day of February, 2017.

  
Notary Public

My Commission Expires: 7/25/2020

**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:

Daniel Whitaker III, Esq.  
Assistant Attorney General  
Office of the Tennessee Attorney General  
Consumer Protection and Advocate Division  
P.O. Box 20207  
Nashville, TN 37202-0207

This the 13<sup>th</sup> day of February, 2017.

A handwritten signature in dark ink, appearing to read 'Melvin J. Malone', is written above a horizontal line.

Melvin J. Malone