

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

Nashville, Tennessee

**PETITION OF TENNESSEE)
WASTEWATER SYSTEMS, INC.)
FOR APPROVAL OF ADJUSTMENT) DOCKET NO. 16-00139
OF ITS RATES AND NEW TARIFF)**

**REBUTTAL TESTIMONY
OF
ROBERT T. BUCKNER**

ON BEHALF OF TENNESSEE WASTEWATER SYSTEMS, INC.

June 28, 2017

1 **Q. Please state your name, business name and address for the record.**

2 A. My name is Robert T. ("Terry") Buckner. I am operating as a sole
3 proprietorship¹, Robert T. Buckner CPA, 2783 Saundersville Ferry Road,
4 Mount Juliet, Tennessee 37122.

5
6 **Q. On whose behalf are you testifying in this docket?**

7 A. I am submitting rebuttal testimony on behalf of Tennessee
8 Wastewater Systems, Inc. ("the Company").

9
10 **Q. Have you filed Direct Testimony on behalf of the Company in this docket?**

11 A. No.

12
13 **Q. How long have you been employed in conjunction with the public utility
14 industry?**

15 A. I have been employed with the public utility industry for over thirty-
16 five years. Before my retirement from the Office of the Attorney General
17 for the State of Tennessee ("AG Office"), I was employed by the
18 Comptroller's Office for the State of Tennessee for nearly two years as the
19 Assistant Director responsible for public utility audits after approximately
20 eight years of prior employment with the AG Office. Formerly, I was
21 employed with the Tennessee Public Service Commission ("Commission") in
22 the Utility Rates Division as a financial analyst for approximately six years.
23 My responsibilities included testifying before the Commission as to the
24 appropriate cost of service for public utilities operating in Tennessee. Prior
25 to my employment with the Commission, I was employed by TDS Telecom

¹ Tennessee Registered Accounting Firm, #3998

1 for eight years and the First Utility District of Knox County for three years.

2
3 **Q. Have you previously testified in prior Dockets involving the Company?**

4 A. Yes. In the Company's last rate case, Docket No. 08-00202, I prepared
5 direct testimony, exhibits, and workpapers on behalf of the Consumer
6 Advocate. In Docket No. 14-00136, which was an application for a
7 certificate of convenience and necessity, I filed rebuttal testimony on the
8 behalf of the Company.

9
10 **Q. What is your educational background, and what degrees do you hold?**

11 A. I have a Bachelor's degree in Business Administration from the
12 University of Tennessee, Knoxville - with a major in Accounting.

13
14 **Q. What is the purpose of your rebuttal testimony?**

15 A. The purpose of my rebuttal testimony is to rebut the Consumer
16 Advocate's ("the Advocate") direct testimony.

17
18 **Q. What does the Advocate recommend in this docket?**

19 A. The Advocate recommends that "no rate changes be considered."²

20
21 **Q. Do you agree with the Advocate's recommendation?**

22 A. No. In my opinion, the Advocate's recommendation is flawed and
23 does not reflect the Company's current financial position, which will be
24 discussed later in my testimony.

25

² Direct Testimony of Hal Novak, Page 12, Lines 17-18.

1 **Q. What issues do you have with the Advocate's recommendation?**

2 A. My rebuttal testimony will address the following issues: (1) the
3 Advocate's forecast of Operating Revenues; (2) the Advocate's selective use
4 of varying, historical averages in forecasting Operating Expenses; and (3) the
5 Advocate's imputation of Developer Income without consideration of
6 related expenses.

7
8 **Operating Revenues**

9
10 **Q. Please describe the Company's issues with the Advocate's revenue forecast.**

11 A. The Advocate uses the growth from 2015 to 2016 in forecasting its
12 residential and commercial revenues. As a result the Advocate's revenue
13 forecast for the attrition year of 2018 is over 30% higher than the 2016 test
14 year revenue amount.³ This is not realistic in light of the seven-year revenue
15 history of the Company since the last rate case. Moreover, given the
16 volatility of the housing market, which is the primary determinate of
17 revenue growth, it is not reasonable to take a one-year snapshot during a
18 period of unusual growth in the housing market in the Middle Tennessee
19 area and assume that this growth will be sustained through 2018. A more
20 prudent approach would be to take the average growth rate over a longer
21 period. As the Advocate's own workpaper⁴ demonstrates, the Company's
22 total revenues have previously declined from year to year. It is not
23 reasonable to assume that the revenue growth rate used by the Advocate
24 can continue through the attrition year ended 2018.

³ Novak WP-1, Line No. 12.

⁴ Ibid.

1 By comparison, the Company has forecast that total Operating
2 Revenue during the attrition year will be \$2,297,333.⁵ This forecast is based
3 on the revenue in the revised test period (2016) and includes expenses and
4 revenues from the reserve (escrow) account, as explained below. This is a
5 reasonable estimate of Operations Revenue because it matches the
6 normalized test period (2016) Operating Expenses.
7

8 **Q. Is the Company proposing to treat Reserve receipts and expenditures**
9 **differently in the attrition year?**

10 A. Yes, while the Company has historically billed an escrow amount each
11 month to each residential Rate Classes 1-10⁶ customer and recorded the
12 amount to a balance sheet account #265 "Miscellaneous Operating
13 Reserves" ("Reserves"), the Company proposes to recording this amount as
14 Operating Revenues in the attrition year.⁷ During 2016, the expenditures of
15 approximately \$707,000 from the Reserves exceeded the receipts by
16 approximately \$256,000, as shown in the Company's report to the TPUC
17 detailing the activity within this account. The Company has included a \$2.64
18 escrow surcharge in its petition over a three year period to eliminate this
19 historical shortfall to the Reserves.
20
21
22

⁵ Rebuttal Exhibit 1. Column (C). Line 8.

⁶ Tennessee Wastewater Systems, Inc. Tariff, Section 4, Eleventh Revised Page 1.

⁷ Tariff filed November 29, 2016, Section 4, Original Page 1.

Operating Expenses

Q. Please describe the Company's issue with the Advocate's operating expense forecast.

A. With the exception of the forecast of salaries and wages and related payroll matters, the Advocate used various average periods for determining most of the Operating Expense amounts. The length of the average period chosen for each account "was based on the professional judgment of Mr. Novak."⁸ The average period could be from one year to seven years for each Operating Expense line item which was not priced out such as salaries and wages, et.al. For example, the Advocate used a seven year average for the Lawn Maintenance account⁹ resulting in a forecast amount of approximately \$12,500 even though the last three historical years have an amount of approximately \$20,000 to \$22,000 per year. That is obviously an unreasonable result.

The Advocate's approach also violates the accounting principle of matching revenues and expenses, because the expense estimates are looking backwards, while the revenue estimate are looking forward. For example, if the Advocate's revenue forecast were to be adopted, then there should be corresponding incremental increases in salaries and wages, telemetry, purchased power, purchased water treatment, etc. Additionally, new customers will likely require new construction of facilities to provide service, making the Advocate's forecast of materials and supplies

⁸ Advocate response to Company Data Request No. 22.

⁹ Advocate WP-3, Workpaper Support for Schedule 5, Line 5, Rebuttal Exhibit 2.

1 understated as well.

2 The Advocate's most egregious error, however, is the fact that while
3 both the Advocate and the Company included escrow revenue in Operating
4 Revenue for the attrition period, the Company also included escrow
5 expenses in its forecast of Operating Expenses while the Advocate left them
6 out. Consequently, there is a substantial mismatch of revenues and
7 expenses for the attrition year. To illustrate the magnitude of the error, the
8 Company recorded over \$706,000 in expenditures to its Reserve ("Escrow")
9 account in the test year ended 2016. Since the Company has now included
10 the Escrow revenues and expenses in its income statement, the Company
11 has increased its 2016 test period Materials and Supplies operating expense
12 by \$500,000¹⁰ to normalize the expenditures for the attrition year. The
13 Advocate, however, has not made any adjustment in Operating Expenses to
14 reflect expenses from the Reserve account

15 Because of these two errors, the Advocate's inflated revenue forecast
16 and stunted operating expense forecast creates an illusory operating
17 margin.

18 19 Imputation of Developer Income

20
21 **Q. Please describe the Company's issue with the Advocate's imputation of**
22 **Developer Income in its forecast.**

23 **A.** To the best of my knowledge, this issue has never been examined by
24 the Tennessee Public Utility Commission ("Commission"). This issue was

¹⁰ Rebuttal Exhibit 1, Column (D), Line 17.

1 brought up in Docket No. 08-00202 and was addressed by me as a witness
2 for the Advocate on Page 16 of my Direct Testimony. The Authority was
3 aware then that not only the Company, but all other similar wastewater
4 utilities treated revenues paid by developers pursuant to private contracts
5 as well as company expenses incurred on behalf of developers as
6 unregulated, "below-the-line" operations. If the Commission now wants to
7 change its policy on that issue, it should do so but only after considering its
8 impact on the wastewater industry as a whole and on other utilities as well.
9 It is important to keep in mind that the Commission sets rates for the
10 provision of utility service to the end user, not for services provided to
11 developers and builders. For example, the Commission does not regulate
12 contract negotiations between gas, water, or electric utilities and housing
13 developers or home builders, nor does the Commission treat those revenues
14 and expenses as regulated operations. To put it another way, the
15 Commission sets rates charged to consumers for providing gas service, not
16 rates charged to developers for laying gas pipes to serve a new subdivision.
17 A change in policy could impact not only wastewater utilities but electric,
18 gas, and water utilities as well.

19
20 **Q. Please describe your view of this policy issue.**

21 **A.** When a new subdivision is built to be served by the Company, the
22 Company incurs significant expenses before the first customer is hooked up
23 for utility service. Those expenses are properly charged to the developer.
24 This Commission is not involved in that process. It is not clear to me why
25 the Advocate believes that this policy should be changed. The Advocate's
26 testimony does not indicate that any consumers complained about this

1 issue. Similarly, there is no indication that any developers or home builders
2 asked the Advocate to represent their interests in this case. Any change in
3 this area would impact not only the utilities but every home builder and
4 developer who deals with a Commission-regulated utility. This would
5 dramatically increase the role of government in the home-building business.
6 While there may well be policy reasons to debate such a change, it is
7 certainly not something that should be done in the context of one
8 company's rate case.

9 Second, even if one were to go down this road and begin counting
10 revenues and expenses related to developers as regulated operations, it
11 would be unfair to count all the revenue that the Company receives from
12 developers as regulated revenue but not consider any of the expenses that
13 the Company incurs. That, however, is what the Advocate has done. They
14 have counted all the developer revenue and ignored all the related
15 expenses. The Advocate says that they excluded those expenses because
16 the Company could not provide them. As the Company orally explained to
17 the Advocate, it could not provide them because these are unregulated
18 operations and, the Company does not identify these expenses with
19 sufficient detail to assign an appropriate expense to a specific project. Of
20 course, if the Commission changes its policy and decides to regulate these
21 expenses and revenues, the Company will track them just as it does other,
22 regulated revenues and expenses. But for the Advocate's witness to
23 recommend that the Commission change its policy in this rate case and
24 penalize the Company by counting all developer revenue and ignoring all
25 developer-related expenses is so obviously unfair that I am surprised that
26 the Advocate's Office would sponsor this testimony.

1 Accounting Standards Codification 980 ("ASC Topic 980") states "the
2 regulated rates are designed to recover the specific enterprise's costs of
3 providing the regulated services or products."¹¹ Emphasis added. Counting
4 Developer Income as regulated revenue, but not counting the associated
5 costs violates this principle.

6 Finally, it is important to remember that there are other wastewater
7 companies operating in Tennessee who also desire to provide wastewater
8 systems to developers. It would be entirely inappropriate for the
9 Commission to regulate this activity for this Company and not for the other
10 wastewater companies regulated by the Commission.

11 If the Commission desires to regulate Developer Revenue and
12 Expenses, then it should be done in a generic docket for all wastewater
13 companies regulated by the Commission.

14 Therefore, the Advocate's recommended handling of this issue in this
15 rate case docket should be rejected by the Commission.

16 17 **Company's Financial Position**

18
19 **Q. Please describe the Company's current financial position.**

20 A. The Company reported to the Commission in its 2016 Annual Report a
21 Net Operating Loss of (\$131,605), in its 2015 Annual Report a Net Operating
22 Loss of (\$382,470), and in its 2014 Annual Report a Net Operating Income
23 of \$18,473. To say the least, the Company's current financial position is not
24 a robust picture.

¹¹ Accountant's Handbook, Volume 2 Special Industries and Specific Topics, [Hoboken: Wiley, 2012], Chapter 36, page 16.

1 Given the financial position of the Company, the Advocate's forecast
2 is not reasonable and ignores the empirical financial reporting by the
3 Company to the Commission. Further, if the Advocate's forecast were to be
4 adopted by the Commission, the Company has no opportunity to earn a just
5 and reasonable return in provision of utility service to its customers. While
6 the perception of a rate increase is not appealing, the financial reality is the
7 Company has not had its rates increased since Docket No. 08-00202.

8 Therefore, the Company petitions the Commission to authorize a just
9 and reasonable rate increase to improve its financial position in providing
10 service to its customers.

11 12 Summary of Company Forecast

13
14 **Q. Please summarize the Company's forecast in this docket.**

15 **A.** When the Company filed its case, it initially used 2015 as a test period
16 in this docket. Attached is Rebuttal Exhibit 1 using 2016 as a test year,
17 normalized for known changes. If the Company is granted a rate increase of
18 \$492,915¹² as requested in the Company's petition, the Company is
19 projecting total Operating Revenue of \$2,790,248¹³. Normalized Operating
20 Expenses for the attrition year amount to \$2,584,471.¹⁴ This results in an
21 operating margin of \$205,777¹⁵ or an operating margin percentage of

¹² Company Petition filed November 29, 2016, Section 8.

¹³ Rebuttal Exhibit 1, Column (E), Line 8.

¹⁴ Rebuttal Exhibit 1, Column (E), Line 60.

¹⁵ Rebuttal Exhibit 1, Column (E), Line 61.
Buckner Rebuttal Testimony

1 7.93%¹⁶, which is within the range of the 8% as requested by the Company
2 in its petition.
3

4 **Q. Do you think that a revenue increase as proposed in the Company's**
5 **petition will result in a just and reasonable result?**

6 A. Yes. In my opinion, the Company's forecast of matching known
7 Operating Revenues from the test period ending 2016 with normalized
8 Operating Expenses for the test period ending 2016 nets a result, which is
9 far more likely to occur in the future and with a Commission approved rate
10 increase gives the Company an opportunity to achieve a just and reasonable
11 return.
12

13 **Q. Please comment on the Advocate's claim that there are "deficiencies in**
14 **TWSI's processes for recording revenues and expenses¹⁷?**

15 A. Attached as Exhibit 2 is a draft report from the Company's
16 independent CPA firm, which states there are no material deficiencies in the
17 Company's recording of revenues and expenses. A final report will be
18 available shortly. A representative from the CPA firm will be available at the
19 public hearing to answer questions.
20
21
22
23
24

¹⁶ Rebuttal Exhibit 1, Column (E), Line 62.

¹⁷ Direct Testimony, Hal Novak, Page 3, Lines 15-16.

1 **Q. Please comment on the Advocate’s claim that the Company was “applying**
2 **charges to some of its commercial customers that were not authorized in**
3 **their tariff¹⁸?**

4 **A.**The Company’s CPA firm has also reviewed the Company’s billing
5 records. Again, there is a representative from that CPA firm available to
6 answer questions. I would note that the draft report states that billing
7 variances as a percentage of total billings are .09% in Middle Tennessee and
8 .23% in East Tennessee. In my opinion such low variances are immaterial
9 and not of concern.

10
11 **Q. Does this conclude your testimony?**

12 **A.**Yes.
13
14

¹⁸ Direct Testimony, Hal Novak, Page 3, Lines 21-23.

	(A)	(B)	(C)	(D)	(E)
	Test Period 2016	Adjustments	Attrition Period	Rate Adjustments	Attrition Period with New Rates
Operating Revenues					
521.1 · Residential-Flat Sewer	\$ 846,664	\$ 224,070	\$ 1,070,735	\$ 193,605	\$ 1,264,340
Residential Cabin	15,550	4,612	20,163	37,362	57,525
521.2 · Commercial Sewer	274,633	75,555	350,187	49,417	399,605
Commercial Cabin Sewer	490,445	147,117	637,562	212,531	850,093
536.1 · Sewer Access Fees	198,628		198,628		198,628
536.9 · Penalty Fees	16,403		16,403		16,403
421 · Nonutility Income - Other	3,655		3,655		3,655
	<u>\$ 1,845,978</u>	<u>\$ 451,355</u>	<u>\$ 2,297,333</u>	<u>\$ 492,915</u>	<u>\$ 2,790,248</u>
Operating Expenses					
701 · Salaries and Wages - Employees	\$ 450,489	\$ (450,489)	\$ -	\$ 556,473	\$ 556,473
703 · Salaries and Wages - Officers	875		875		875
704.2 · Life Insurance	1,917		1,917		1,917
704.1 · Worker's Compensation	16,100	(16,100)	-	18,793	18,793
705 · Simple IRA	6,321	(6,321)	-	5,400	5,400
710 · Purchased Wastewater Treatment	107,924		107,924		107,924
715 · Purchased Power	132,977		132,977		132,977
716 · Telemetry Monitoring	157,838		157,838		157,838
720 · Materials and Supplies	67,970		67,970	500,000	567,970
731 · Contractual Svc - Professional	48,271		48,271		48,271
735 · Contractual Svc - Testing	12,305		12,305		12,305
736.02 · Contract Maintenance	48,725		48,725		48,725
736.03 · Contractual Svc	376		376		376
736.08 · Lawn Mowing	21,891		21,891		21,891
736.10 · One-Call Expenses	5,520		5,520		5,520
736.12 · AUG - MGMT Fees	223,460		223,460	(111,125)	112,335
736.13 · IT Expenses	41,502		41,502		41,502
740 · Rent	60,945		60,945		60,945
750.3 · Registration Renewal	288		288		288
750.1 · Fuel	37,055		37,055		37,055
750.2 · Vehicle Maintenance	30,198		30,198		30,198
755 · Insurance	17,744		17,744		17,744
765.1 · Rate Case Work	2,810		2,810		2,810
765.2 · Filing Fee	175		175		175
765.3 · Inspection Fee	7,299		7,299		7,299
770 · Bad Debt	-		-	7,758	7,758
775.21 · Website & Internet Hosting	10,951		10,951		10,951
775.27 · Equipment Maintenance	6,228		6,228		6,228
775.26 · Equipment Rental	5,755		5,755		5,755
775.25 · Small Equipment Purchases	47,141		47,141		47,141
775.1 · Telephone	13,241		13,241		13,241
775.10 · Office Supplies	435		435		435
775.12 · Depreciation Expense	111,639		111,639		111,639
775.18 · Interest Expense	118		118		118
775.2 · Postage	8,667		8,667		8,667
775.20 · Software Licenses	12,630		12,630		12,630
775.3 · Licenses & Permits	77,053		77,053	(32,880)	44,173
775.4 · Membership Dues	690		690		690
775.9 · Billing Costs	720		720		720
775 · Misc Expense	860		860		860
408.1 · Property Taxes	77,933		77,933	(16,512)	61,421
408.3 · Franchise & Excise	40,240		40,240	21,590	61,830
408.12 · Payroll Taxes	37,956	(37,956)	-	43,831	43,831
409 · Income Tax	-		-	104,102	104,102
426.9 · Lodging	266		266		266
426.9 · Meals & Entertainment	2,774		2,774		2,774
426.1 · Dues and Subscriptions	939		939		939
426.2 · Bank & NSF Fees	5,378		5,378		5,378
426.3 · Miscellaneous	3,183		3,183		3,183
426 · Misc. Nonutility Expense	16,710		16,710		16,710
427 · Interest Expense	13,238		13,238	2,189	15,427
Total Operating Expenses	<u>\$ 1,995,717</u>	<u>\$ (510,865)</u>	<u>\$ 1,484,852</u>	<u>\$ 1,099,619</u>	<u>\$ 2,584,471</u>
Net Income	<u>\$ (149,739)</u>	<u>\$ 962,220</u>	<u>\$ 812,480</u>	<u>\$ (606,703)</u>	<u>\$ 205,777</u>
Operating Margin Percentage					7.93%

Rebuttal Exhibit 2



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June 28, 2017

Mr. Charles Hyatt

Tennessee Waste Water Systems, Inc.

849 Aviation Parkway

Smyrna, TN 37167

Dear Charles:

Attached is the DRAFT of our Agreed Upon Procedures Report for the billing system of Tennessee Waste Water Systems, Inc. for the year ended December 31, 2016. I understand our final report should be completed next week so that it can be presented the following week for review.

Let me know if you have any further questions or comments on the draft of our report.

Sincerely,



Mike Hallum, CPA

DRAFT

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

TENNESSEE WASTEWATER SYSTEMS INC.

June 26, 2017

DRAFT

June 28, 2017

The Stockholders and Management
Tennessee Wastewater Systems Inc.
Murfreesboro, TN

We have performed the procedures enumerated below, which were agreed to by Tennessee Wastewater Systems Inc. (TWSI), to assist you with respect to the analysis of your billings for services and related accounting systems of Tennessee Wastewater Systems Inc. for the year ended December 31, 2016. Tennessee Wastewater Systems Inc.'s management is responsible for the company's accounting records and systems. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specific in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purposes for which this report has been requested or for any other purpose.

Our procedures and findings are summarized in the attached schedules A through C.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Tennessee Wastewater Systems Inc. and is not intended to be and should not be used by anyone other than those specified parties.

Dempsey Vantrease and Follis PLLC

June 26, 2017

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**Tennessee Wastewater Systems Inc.
Schedule A - Schedule of agreed-upon procedures
For the year ended December 31, 2016**

1. Obtain an understanding of Tennessee Wastewater Systems Inc. (TWSI) accounting processes, procedures, and internal controls related to the billing for wastewater treatment services¹.
2. Analyze the accounting processes, procedures, and internal controls related to the billing for wastewater treatment services for indications of control deficiencies¹.
3. Design and execute a detailed substantive analytical procedure to agree all of the recorded billings for 2016 to the effective wastewater treatment tariff approved by the Tennessee Public Utility Commission (TPUC).
4. Provide summary comments and results of the analytical procedure.
5. Obtain all commercial customer contracts, excluding the population of commercial cabins, and agree the following to the billing for wastewater treatment services:
 - a. The terms of the contract
 - b. The water usage, where applicable
 - c. The customer's name
 - d. Location
6. Obtain contracts or agreements for a test sample of the population of commercial cabins and residential customers and agree the attributes below to the billing for wastewater treatment services:
 - a. The terms of the contract
 - b. The water usage, where applicable
 - c. The customer's name
 - d. Location
7. Trace the system reports utilized by TWSI to reconcile month end billing charges to the general ledger and to the financial statements.
8. Design, modify as needed, and execute all procedures in order to provide report in time for review and use as discussed with management; on or before June 27, 2017.

¹ Specific to billing for waste water related billings and associated revenue recognition and reporting; excludes all other components of the revenue cycle (ie other income, fees, penalties, collection process, allowance for uncollectible accounts, allowable costs, reimbursements, rate design etc.)

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**Tennessee Wastewater Systems Inc.
Schedule B - Schedule of agreed-upon procedures
Findings and Recommendations
For the year ended December 31, 2016**

1. We obtained an understanding of TWSI's accounting processes, procedures, and internal controls related to the billing for wastewater treatment services¹ through interviews and review of the accounting and billing programs as well as review of our historical files related to the annual review of the financial statements of the parent company and the 2016 review of Tennessee Wastewater Systems Inc.. See internal control narrative memo provided to the stockholders and management in a separate communication.
2. We analyzed the accounting processes, procedures, and internal controls related to the billing for wastewater treatment services for indications of control deficiencies¹.
 - a. We noted no apparent material weakness related to the accounting processes, procedures, and internal controls related to the billing for wastewater treatment services during our procedures.
 - b. We noted items that indicated or might indicate that certain significant weaknesses, deficiencies, and best practices potentially exist related to the accounting processes, procedures, and internal controls related to the billing for wastewater treatment services during our procedures. See management comment letter provided to the stockholders and management in a separate communication.
 - c. We noted items we consider deficiencies and best practices related to the accounting processes, procedures, and internal controls related to the billing for wastewater treatment services during our procedures. See management comment letter provided to the stockholders and management in a separate communication.
3. We designed and executed a detailed substantive analytical procedure to agree all of the recorded billings for 2016 to the effective wastewater treatment tariff approved by the Tennessee Public Utility Commission (TPUC). The analytic was designed and executed as follows.
 - a. We obtained direct access to the TWSI's Utility Management System (UMS).
 - b. We extracted all bills for 2016 by running Monthly "Billing Register" reports using excel.
 - c. We extracted the Monthly "Billing Register" reports into a separate excel data file.
 - d. We utilized the effective wastewater treatment tariff approved by the Tennessee Public Utility Commission (TPUC) to agree individual components of the "rate table" in all bills for 2016.
 - e. We developed independent variable formulas to recalculate the various rate classes.
 - f. We developed specific formulas for select customers based on the agreed contracts and applied those to the specific rate classes.

¹ Specific to billing for waste water related billings and associated revenue recognition and reporting; excludes all other components of the revenue cycle (ie other income, fees, penalties, collection process, allowance for uncollectible accounts, allowable costs, reimbursements, rate design etc.)

DRAFT

Tennessee Wastewater Systems Inc.
Schedule B - Schedule of agreed-upon procedures (continued)
Findings and Recommendations
For the year ended December 31, 2016

- g. We summarized the variances.
- 4. See Schedule C "summary comments and results of the analytical procedure."
- 5. We requested all customer contracts 72. We obtained and examined 43 commercial customer contracts, excluding the population of commercial cabins, and agreed the following to the billing system for wastewater treatment services and noted no significant variances. There were 29 requested contracts or agreements that we were unable to locate and examine.
 - a. The terms of the contract
 - a. We tested 43 contracts and noted no exceptions
 - b. The water usage, where applicable
 - a. We tested 81 billings with metered charges and noted no exceptions
 - c. The customer's name
 - a. We tested 43 contracts and noted no exceptions
 - d. Location
 - a. We tested 43 contracts and noted no exceptions
 - e. Billing for February, July, and December for 2016
 - a. We tested 207 billings; and noted 185 agreed without exception; 22 require further documentation or investigations to resolve variances
- 6. We requested contracts or agreements for a test sample of 25 per class; (75 total) customers from the population of commercial cabins and residential customers and obtained 72. We agreed the attributes below to the billing system for wastewater treatment services and noted no significant variances. There were 3 requested contracts or agreements that we were unable to locate and examine.
 - a. The terms of the contract
 - a. We tested 72 contracts and noted no exceptions
 - b. The water usage, where applicable
 - a. We tested 21 billings with metered charges and noted 3 items require further documentation or investigations to resolve variances
 - c. The customer's name
 - a. We tested 72 contracts and noted no exceptions
 - d. Location
 - a. We tested 72 contracts and noted no exceptions
 - e. Billing for February, July, and December for 2016
 - a. We tested 225 billings; and noted 223 agreed without exception; 2 require further documentation or investigations to resolve variances
- 7. We obtained TWWSI's billings reports for the month end journal entries for February, July, and December of 2016 and traced them to the general ledger and to the financial statements without exception.

We also obtained and reviewed TWWSI's month end reconciliation of the charges to the general ledger for February, July, and December of 2016 and traced them to the billings reports without material exception.

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**Tennessee Wastewater Systems Inc.
Schedule B - Schedule of agreed-upon procedures (continued)
Findings and Recommendations
For the year ended December 31, 2016**

8. We designed, modified, and executed all procedures in order to provide report in time for review and use as discussed with management; on or before June 27, 2017.

In discussions with management this date has been extended to allow for additional procedures. To be completed by July 5, 2017.

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TWSI - Mid TN

Schedule C - Analytical test - Summary of comments and findings
For the year ended December 31, 2016

Rating	Comment	Comment count	%	Comment Amount	Comment (over) under charge Variance	Variance rate	TM#1	TM#2
1	Charges net	25,504.00	25.31%	\$ 415,740.66	\$ (0.00)	0%	3	P/F/P
1	Lawn mowing not specified but is consistent	570.00	0.57%	\$ 3,596.70	\$ -	0%	3	P/F/P
1	Charges net within .01	463.00	0.46%	\$ 10,875.34	\$ (0.47)	0%	3	P/F/P
1	Net within .02	2.00	0.00%	\$ 24.10	\$ (0.02)	0%	3	P/F/P
1	Rate agreed to Tariff w/o/e	59,291.00	58.84%	\$ 423,048.17	\$ (0.08)	0%	3	P/F/P
1	Rate agreed to 9/16 tariff w/o/e	6,317.00	6.27%	\$ 7,643.57	\$ -	0%	3	P/F/P
1	Rate agreed to Tariff/contract w/o/e	890.00	0.88%	\$ 137,629.85	\$ -	0%	3	P/F/P
1	Southridge - agreed to MP calc and CH Rate w/o/e	1,767.00	1.75%	\$ 89,708.70	\$ (0.05)	0%	3	P/F/P
2	More research needed to resolve or classify variance	17.00	0.02%	\$ 735.35	\$ 871.55	119%	3	P/F/P
2	3 years access fee?	1.00	0.00%	\$ 360.00	\$ (240.00)	-67%	3	P/F/P
2	Appears two years access charge	43.00	0.04%	\$ 10,320.00	\$ (5,160.00)	-50%	3	P/F/P
2	Charges multiples of bonding	105.00	0.10%	\$ 461.82	\$ (342.12)	-74%	3	P/F/P
2	Charges for multiples of billing	107.00	0.11%	\$ 585.00	\$ (424.50)	-73%	3	P/F/P
2	Charges for multiples of mowing	3.00	0.00%	\$ 37.86	\$ (18.93)	-50%	3	P/F/P
2	Double billed during Oct. for Sept.; contract 10/4/16	5.00	0.00%	\$ 1,971.18	\$ (461.46)	-23%	3	P/F/P
2	Southridge var. after - meter calc breakdown	136.00	0.13%	\$ 10,752.39	\$ 4,525.64	42%	3	P/F/P
5	Need contract to substantiate charge	164.00	0.16%	\$ 29,186.40	\$ -	0%	5	P/F/P
5	Rate agreed to Tariff w/o/e - Contracted - on 6/23 request - SK	580.00	0.58%	\$ 18,160.92	\$ -	0%	5	P/F/P
5	Contracted rate - non commercial; appears reasonable	112.00	0.11%	\$ 40,592.88	\$ -	0%	5	P/F/P
5	Contracted - on 6/23 request - SK	324.00	0.32%	\$ 98,729.28	\$ -	0%	5	P/F/P
4	southridge - summer pass due to avg.	457.00	0.45%	\$ 23,393.58	\$ 14,057.96	60%	4	P/F/P
P/F/P	Appears no usage	3,911.00	3.88%	\$ -	\$ -	0%	P/F/P	P/F/P
Total		100,769	100.00%	\$ 1,323,553.75	\$ 12,807.53	1%		
Variance from Data		[269]						
Total - Adjusted for data with no apparent charge - P/F/P		96,858		\$ 1,323,553.75	\$ 12,807.53	1%		
Southridge var. after - meter calc breakdown					\$ (14,057.96)			
4	Total error less southridge known error - removed from error rate				\$ (1,250.43)		4	P/F/P
1	Total "good" comments	94,804		\$ 1,088,267.09	\$ (0.62)			
	Charges with good comments	98%		82%	0%			
	Comments requiring additional research/review	2,054		\$ 235,286.66	\$ (1,249.82)			
		2%		18%	100%			
(over) under Charged Variance as a percentage of total billings						-0.09%		

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TWSI - Mid TN	
Schedule C - Analytical test - Summary of comments and findings (continued)	
For the year ended December 31, 2016	
Tickmark Summary	
@	Agreed to tariff rate; but should it be w/o food These agrees to COMMERCIAL W/ FOOD** Tier 1 (0-300GPD) \$137.29 (D) \$29.00 but is coded to w/o food rate codes see rate table
*	All amounts within +/- \$.00
1	Comment notes charge appears agrees to tariff w/m/o or is "good".
2	Analytics not sufficient to support charge further information needed.
3	Considered an exception to the analytical test.
4	Known variance not considered to apply to the analytical test - Southridge customer found to use a separate rate during the summer months; based on winter averages. The billing register only provides the current reading. The data was not readily accessible in the desired timeframe.
5-	Analytics not sufficient to support charge further information needed. No variance is listed as rates appear reasonable based on review of similar charges
W/O/E	With out exception
W/O/M/E	With out material exception
P/F/P	Pass further procedures

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TWSI - E TN								
Schedule C - Analytical test - Summary of comments and findings								
For the year ended December 31, 2016								
Rating	Comment	Comment count	%	Comment Amount	Comment (over) under charge Variance	Variance rate	TM#1	TM#2
1	Rate agreed to tariff w/o/e	59,203.00 *	81.85%	\$ 841,681.74	\$ (0.07)	0%	3	P/F/P
1	Rate agreed to 9/16 tariff w/o/e	4,438.00	6.14%	\$ 5,369.98	-	0%	3	P/F/P
1	Rate agreed to tariff/cabins w/o/e	56.00	0.08%	\$ 838.92	-	0%	P/F/P	P/F/P
1	Rate agreed to tariff/contract w/o/e	1,555.00	2.15%	\$ 24,152.43	\$ (0.01)	0%	3	P/F/P
1	Charge within .01	28.00	0.04%	\$ 365.31	\$ (0.14)	0%	3	P/F/P
1	Net within .01 - cabin variable calc	1,455.00	2.01%	\$ 54,159.62	\$ 0.01	0%	3	P/F/P
1	Variable calc only .47 off (CS1F, CE1F,CM1F)	111.00	0.15%	\$ 15,180.12	\$ (0.40)	0%	3	P/F/P
1	Variable calc only .47 off (CS1F, CE1F,CM1F) - agreed to contract w/o/e	15.00	0.02%	\$ 1,870.49	\$ (0.07)	0%	3	P/F/P
1	Variable calc only .90 off (CS2F, CE2F,CM2F)	213.00	0.29%	\$ 15,353.90	\$ 0.06	0%	3	P/F/P
1	Variable calc only .90 off (CS2F, CE2F,CM2F)-agreed to contract w/o/m/e	36.00	0.05%	\$ 8,314.56	\$ 0.84	0%	3	P/F/P
1	Items noted within a few days of full mth charged full month (+/-5)	123.00	0.17%	\$ 4,068.10	\$ (0.00)	0%	4 -W/O/M/E	P/F/P
2	Appears multiple access fees	1.00	0.00%	\$ 840.00	\$ (720.00)	-86%	3	P/F/P
2	Appears two yrs charged	4.00	0.01%	\$ 960.00	\$ (480.00)	-50%	3	P/F/P
2	More research needed to resolve or classify variance	79.00	0.11%	\$ 1,687.19	\$ (90.83)	-5%	3	P/F/P
2	Charged multiples of bonding	36.00	0.05%	\$ 110.00	\$ (64.40)	-59%	3	P/F/P
2	Charge for multiples of billing	47.00	0.06%	\$ 211.50	\$ (141.00)	-67%	3	P/F/P
2	Variable calc	27.00	0.04%	\$ 822.24	\$ (425.36)	-52%	3	P/F/P
2/4	Current vs historical Coding issue	56.00 @	0.08%	\$ 1,642.92	\$ (381.16)	-23%	3	P/F/P
5	Need contract to substantiate charge	112.00	0.15%	\$ 35,568.72	-	0%	5	P/F/P
P/F/P	No service charged	4,737.00	6.55%	\$ -	\$ -	0%	P/F/P	P/F/P
Total		72,332	100.00%	\$ 1,013,197.74	\$ (2,302.54)	0%		
Variance from Data		-						
Total - Adjusted for data with no apparent charge - P/F/P		67,595		\$ 1,013,197.74	\$ (2,302.54)	0%		
1	Total "good" comments	67,233		\$ 971,355.17	\$ 0.21			
	Charges with good comments	99%		96%	0%			
	Comments requiring additional research/review	362		41,843	(2,303)			
		1%		4%	100%			
(over) under Charged Variance as a percentage of total billings						-0.23%		

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TWSI - E TN	
Schedule C - Analytical test - Summary of comments and findings (continued)	
For the year ended December 31, 2016	
Tickmark Summary	
@	Agreed to tariff rate; but should it be w/o food These agrees to COMMERCIAL W/ FOOD** Tier 1 (0-300GPD) \$137.29 (D) \$29.00 but is coded to w/o food rate codes see rate table
*	All amounts within +/- \$.00
1 -	Comment notes charge appears agrees to tariff w/m/e or otherwise appears to be a "good charge"
2 -	Analytics not sufficient to support charge further information needed.
3 -	Considered an exception to the analytical test.
4 -	Known variance not considered to apply to the analytical test
5 -	Analytics not sufficient to support charge further information needed. No variance is listed as rates appear reasonable based on review of similar charges
W/O/E	With out exception
W/O/M/E	With out material exception
P/F/P	Pass further procedures

Terry Buckner, CPA

Personal Information

Home Address: 2783 Saundersville Ferry Road, Mt. Juliet, TN 37122

Phone Contact: 615-425-6683

Internet Address: robert.buckner@comcast.net

Education

B. S. in Business Administration, University of Tennessee, Knoxville
CPA,

Work Experience

Thirty-five years of experience with the Public Utility industry:

1975 – 1978 First Utility District of Knox County

1980 - 1988 TDS Telecom - Region Accounting Manager

1989 - 1994 Tennessee Public Service Commission (“TPSC”) - Regulatory Analyst

1995 - 2001 Office of the Attorney General for the State of Tennessee - Consumer Advocate and Protection Division - Regulatory Analyst

2001- 2004 Comptroller’s Office for the State of Tennessee - Public Utility Audit - Assistant Director

2004 - 2012 Office of the Attorney General for the State of Tennessee - Consumer Advocate and Protection Division - Regulatory Analyst
Oral and written testimony in numerous rate proceedings before the TPSC and the Tennessee Regulatory Authority. Including the following dockets and/or Companies

2012 – 2017 Utility Consultant

Regulatory Dockets

Revenues

TRA #08-00039 Tennessee American Water

Direct Testimony: <http://www.state.tn.us/tra/dockets/0800039.htm>

Other

TRA # 08-00021 Citizens Telecommunications Company Of Tennessee, LLC
D/B/A Frontier Communications of Tennessee, LLC

Testimony on Directory Assistance

Direct Testimony: <http://www.state.tn.us/tra/dockets/0800021.htm>

TRA #07-00224 Chattanooga Gas Company

Testimony on Gas Asset Management

Direct Testimony: <http://www.state.tn.us/tra/dockets/0700224.htm>

TRA # 07-00269 United Telephone-Southeast, Inc. D/B/A Embarq Corporation

Testimony on Directory Assistance

Direct Testimony: <http://www.state.tn.us/tra/dockets/0700269.htm>

TRA#03-00391 BellSouth

Testimony on PRI-ISDN Regulation Exemption

Rebuttal: <http://www.state.tn.us/tra/orders/2003/0300391ci.pdf>

Rebuttal Exhibits: <http://www.state.tn.us/tra/orders/2003/0300391ch.pdf>

TRA #99-00244 BellSouth Telecommunications, Inc.

(Copy of Testimony Not Available)

TRA #99-00210 BellSouth Telecommunications, Inc.

(Copy of Testimony Not Available)

TRA #98-00626 UTSE

Direct Testimony: <http://www.state.tn.us/tra/dockets/9800626.htm>

TRA #98-00559 BellSouth Telecommunications, Inc.

Testimony on Contract Service Agreements

<http://www.state.tn.us/tra/dockets/9800559.htm>

<http://www.state.tn.us/tra/orders/1999/990099522.pdf>

Cost of Service

TRA #07-00105 Atmos Energy Corporation

Direct Testimony: <http://www.state.tn.us/tra/orders/2007/0700105cg.pdf>

TRA # 06-00290 Tennessee American Water Company

Direct Testimony: <http://www2.state.tn.us/tra/dockets/0600290.htm>

TRA # 06-00175 Chattanooga Gas Company

Direct Testimony: <http://www2.state.tn.us/tra/dockets/0600175.htm>

TRA # 05-00258 Atmos Energy Corporation

Direct Testimony: <http://www2.state.tn.us/tra/dockets/0500258.htm>

TRA #04-00288 Tennessee American Water Company

Direct Testimony: <http://www.state.tn.us/tra/orders/2004/0400288bm.pdf>

TRA #02-00383 Chattanooga Gas Company

Direct Testimony: <http://www.state.tn.us/tra/orders/2002/0200383m.pdf>

TRA #01-00451 United Telephone Company

Direct Testimony: <http://www.state.tn.us/tra/orders/2001/0100451w.pdf>

TRA #00-00523 Rural Universal Service

Testimony on Rural Universal Service

Direct Testimony: <http://www.state.tn.us/tra/orders/2000/000052316.pdf>

TRA #99-00995 TEC Companies

<http://www.state.tn.us/tra/orders/1999/990099522.pdf>

TRA #97-00982 Chattanooga Gas Company

(Copy of Testimony Not Available)

TRA #96-00977 Nashville Gas Company

(Copy of Testimony attached)

TPSC #95-02258 United Cities Gas Company

(Copy of Testimony Not Available)

AFFIDAVIT

My name is Robert T. ("Terry") Buckner and the attached is direct testimony and is true and correct to the best of my knowledge.

Robert T. ("Terry") Buckner

[illegible]

On this 28th day of June, 2017, personally appeared before me, the above-named Robert T. ("Terry") Buckner known to me personally who was duly sworn and on oath executed the above Affidavit.



Notary

My commission expires: 3/3/20