

PETITIONER'S EXHIBIT LCB-1

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 16- 00148

DIRECT TESTIMONY

OF

LINDA C. BRIDWELL

ON

CHANGES TO THE PRODUCTION COSTS AND OTHER PASS-THROUGHS RIDER

SPONSORING PETITIONER'S EXHIBITS:

PETITIONER'S EXHIBIT – PCOP CALC – LCB

PETITIONER'S EXHIBIT – 2017 PCOP AVG IMPACT – LCB

PETITIONER'S EXHIBIT – CURRENT TARIFF SHEET NO. 12 – RIDERS – LCB

PETITIONER'S EXHIBIT – PENDING TARIFF SHEET NO. 12 – RIDERS - LCB

PETITIONER'S EXHIBIT – PROPOSED TARIFF SHEET NO. 12 – RIDERS - LCB

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** My name is Linda C. Bridwell and my business address is 2300 Richmond Road,
3 Lexington, Kentucky 40502.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

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

7 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS OR ANY**
8 **OTHER COMMISSION?**

9 **A.** Yes. I provided written testimony before the Tennessee Regulatory Authority (“TRA” or
10 “Authority”) in TRA Docket No. 12-00049, TRA Docket No. 15-00001, and TRA
11 Docket No. 16-00126. I have provided both written and oral testimony in TRA Docket
12 Nos. 14-00121, 15-00029, 15-00111, 15-00131, and 16-00022. I have also provided both
13 written and oral testimony in at least sixteen different proceedings before the Kentucky
14 Public Service Commission (“PSC”) including rate cases, special investigations, and
15 applications for a Certificate of Public Convenience and Necessity.

16 **Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL**
17 **BACKGROUND.**

18 **A.** I received a B.S. degree in Civil Engineering from the University of Kentucky in 1988
19 and I received a M.S. degree in Civil Engineering from the University of Kentucky in
20 1992 with an emphasis in water resources. I completed a Masters of Business
21 Administration from Xavier University in Cincinnati, Ohio in 2000. I am a registered
22 Professional Engineer in the Commonwealth of Kentucky.

1 I have been employed by AWW since 1989. I began as a distribution supervisor for
2 Kentucky American Water ("KAWC") until 1990 when I was promoted to Planning
3 Engineer, then Engineering Manager, and later Director of Engineering in 1998. In July
4 2004, I accepted the position of Project Delivery and Developer Services Manager for the
5 Southeast Region of AWW, responsible for Kentucky, Tennessee, and West Virginia. In
6 2008, I became the KAWC Project Delivery Manager for the construction of a new water
7 treatment plant, booster station, and transmission main in Kentucky. This project was the
8 largest project completed by American Water, in any of its regulated businesses, at \$164
9 million. Upon completion of the project in October 2010, I became the Director of
10 Environmental Compliance and Water Quality for KAWC and in February of 2012 I
11 accepted the role of Rates and Regulation Manager for Kentucky and Tennessee. I was
12 recently promoted to my current position. I am an active member of the American Water
13 Works Association (AWWA), served as president of the local chapter and state section of
14 the American Society of Civil Engineering (ASCE), and served as an officer in the local
15 chapter of the National Society of Professional Engineers (NSPE) and as a State officer.
16 I have served periodically as an Adjunct Professor at the University of Kentucky in the
17 Civil Engineering Department, teaching "Water Quality and Pollution Control" and the
18 "Introduction to Environmental Engineering." I served as a member of the
19 Civil Engineering Industrial Advisory Committee at the University of Kentucky from
20 2005 until 2012. I served as a Commissioner on the Kentucky Water Resources
21 Development Commission established by Governor Patton and on the Kentucky State
22 Board of Licensure for Professional Engineers and Land Surveyors. I currently serve as
23 Vice Chairman of the Board of Directors for the Kentucky Infrastructure Authority.

1 **Q. WHAT ARE YOUR DUTIES AS SENIOR MANAGER OF RATES AND**
2 **REGULATION?**

3 A. My primary responsibilities encompass the coordination of regulatory issues in
4 Tennessee and Kentucky. This includes coordinating all reports and filings, working
5 with regulatory staff to make sure that all information produced addresses the
6 requirements or requests, and overseeing the preparation and filing of rate cases and tariff
7 changes. I work with the senior management in both states on planning. I am also
8 responsible for keeping abreast of changes in regulation, or trends in regulatory oversight
9 across the United States that may impact our local operations. I report to the Presidents
10 of KAWC and Tennessee American Water ("Tennessee American," "TAWC," or
11 "Company"). I am located in Kentucky, but work closely with the TAWC staff in
12 Tennessee as well.

13 **Q. WHAT IS THE PURPOSE OF THE PETITION TAWC HAS FILED?**

14 A. On April 14, 2014, the Tennessee Regulatory Authority approved four new alternative
15 rate mechanisms for TAWC in TRA Docket No. 13-00130, effective April 15, 2014.
16 Three of these alternative rate mechanisms were capital program riders and one was for a
17 rider for production costs and other pass-throughs. The three Capital Recovery Riders
18 are a Qualified Infrastructure Investment Program ("QIIP") Rider, an Economic
19 Development Investment ("EDI") Rider, and a Safety and Environmental Compliance
20 ("SEC") Rider. The QIIP Rider, the EDI Rider and the SEC Rider are commonly
21 referred to as the Capital Recovery Riders. The Capital Recovery Riders are based on
22 certain categories of forward-looking capital expenditures that are projected or forecasted
23 annually for the upcoming investment period. The Production Costs and Other Pass-

1 throughs Rider ("PCOP"), on the other hand, is based on a historical annual review
2 period.

3 The purpose of TAWC's Petition, which this testimony accompanies (the "Petition"), is
4 to provide the required information and supporting documentation for the 2016 historical
5 review period of December 1, 2015 through November 30, 2016 to comply with the
6 previously approved PCOP rider tariff, which as noted above was approved in TRA
7 Docket No. 13-00130 and adjusted in Docket Nos. 15-00001 and 15-00131. The
8 information provided in my testimony is consistent with Tenn. Code Ann. § 65-5-103 *et*
9 *seq.*, the decisions made in TRA Docket No. 13-00130 and the adjustments ordered by
10 the Authority in TRA Docket Nos. 15-00001 and 15-00131.

11 **Q. CAN YOU ELABORATE ON THE PRODUCTION COSTS AND OTHER PASS-**
12 **THROUGHS RIDER TARIFF THAT WAS APPROVED BY THE TRA ON**
13 **APRIL 14, 2014?**

14 **A.** Yes. The previously approved PCOP Rider included the concept of an annual review of
15 certain categories of operational expenses during the historical review period. The PCOP
16 differs from the Capital Recovery Riders in that the PCOP is based upon actual historical
17 expenses, rather than forward-looking projections. The PCOP is a tariff rate adjustment
18 mechanism for recovery from, or crediting to, customers incremental changes in
19 essential, non-discretionary expenses, including purchased power expense, purchased
20 chemical expense, purchased water expense, wheeling charge expense, waste disposal
21 expense and TRA inspection fees that are above or below the level authorized for
22 recovery in the most recent rate case. At the end of a 12-month period, the PCOP looks
23 at that historical period and compares the actual production expenses to the amount of

1 production expenses authorized in the most recent rate case, which for TAWC is TRA
2 Docket No. 12-00049. The “initial” PCOP Rider year or review period pursuant to the
3 April 14, 2014, approval of the agency was the attrition year period from that previous
4 rate case of December 1, 2012 through November 30, 2013, as compared to the actual
5 amount of production expenses that occurred between December 1, 2012 through
6 November 30, 2013. The approved tariff in Docket No. 13-00130 then identified each
7 following review period as subsequent 12-month periods. In Docket No. 15-00001,
8 TAWC used the review period of December 1, 2013 through November 30, 2014 to
9 calculate the PCOP percentage rate for an adjustment to the PCOP as the second
10 proposed adjustment. Last year, in Docket No. 15-00131, TAWC used the review period
11 of December 1, 2014 through November 30, 2015 to calculate the PCOP percentage rate
12 for an adjustment to the PCOP as the third proposed adjustment. The “current” review
13 period that is the subject of this Petition is from December 1, 2015 through November 30,
14 2016. This Petition includes the current review period expenses, compared to the
15 amounts approved in TAWC’s last general rate case.

16 **Q. IS THERE A SECOND STEP TO THE PCOP RECONCILIATION PROCESS?**

17 **A.** Yes. The first step is a reconciliation adjustment of the authorized expenses to the actual
18 amount of expenses. The second step is then a reconciliation adjustment of the amount of
19 revenues for the previous year under the PCOP that was projected to be collected or
20 refunded. TAWC looks at the amount of revenues that was authorized to be collected or
21 refunded during the previous year, or the review period, and compares that to the actual
22 amount collected or refunded. TAWC has included this reconciliation in the Petition as
23 well.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 **A.**The purpose of my testimony is to support the calculation of the 2017 PCOP Rider
3 described in the Petition. Of the four riders approved by the Authority on April 14, 2014,
4 in TRA Docket No. 13-00130, the PCOP Rider is the only item included in the Petition.

5 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

6 **A.**Yes I am. I am sponsoring the following exhibits:

7 **Petitioner's Exhibit – PCOP Calc Exhibit – LCB**
8 **Petitioner's Exhibit – 2017 PCOP Avg Impact--LCB**
9 **Petitioner's Exhibit -- Current Tariff Sheet No. 12 – Riders – LCB**
10 **Petitioner's Exhibit – Pending Tariff Sheet No. 12 – Riders -- LCB**
11 **Petitioner's Exhibit – Proposed Tariff Sheet No. 12 – Riders - LCB**
12
13 I will discuss these exhibits in further detail in my testimony below.

14 **Q. WERE THE PETITIONER'S EXHIBITS LISTED ABOVE PREPARED BY YOU**
15 **OR UNDER YOUR DIRECTION AND SUPERVISION?**

16 **A.**Yes.

17 **Q. WHAT WERE THE SOURCES OF THE DATA USED TO PREPARE THE**
18 **PETITIONER'S EXHIBITS LISTED ABOVE?**

19 **A.**The data used to prepare the exhibits was acquired from the books of account and
20 business records of Tennessee American, the officers and associates of Tennessee
21 American with knowledge of the facts based on their job responsibilities and activities,
22 and other internal sources which I examined in the course of my investigation of the
23 matters addressed in this testimony.

24 **Q. DO YOU CONSIDER THIS DATA TO BE RELIABLE AND OF A TYPE THAT**
25 **IS NORMALLY USED AND RELIED ON IN YOUR BUSINESS FOR SUCH**
26 **PURPOSES?**

1 A. Yes.

2 **Q. DO THE PETITIONER'S EXHIBITS LISTED ABOVE ACCURATELY**
3 **SUMMARIZE SUCH DATA AND THE RESULTS OF ANALYSIS USING SUCH**
4 **DATA?**

5 A. Yes, they do.

6 **Q. DOES THE PCOP RIDER BENEFIT THE CUSTOMERS?**

7 Yes. The PCOP is mutually beneficial to the ratepayers, the public, and TAWC. Along
8 with the Capital Recovery Riders, the Production Costs and Other Pass-Throughs Rider
9 reduce the need for general rate cases, lessen the occurrence of consumer "rate shock,"
10 and allow for more efficient, streamlined regulation. The ratepayers and the public
11 benefit from efficiently addressing changes in costs that are largely outside TAWC's
12 control, without the expense of a general rate case. In the case of the PCOP, the
13 customers have seen a rate decrease in each year since the last general rate case of Docket
14 No. 12-00049 as TAWC's production costs were less during each subsequent year than
15 authorized for the attrition year, or the initial period in 12-00049 of December 1, 2012
16 through November 30, 2013. In fact, since the inception of the PCOP TAWC has
17 refunded back \$1,037,281 to its customers. The Company benefits from a more efficient,
18 streamlined regulatory process that presents TAWC with the opportunity to timely
19 recover its expenses.

20 **Q. CAN YOU EXPLAIN THE CALCULATION OF THE PCOP RIDER?**

21 A. Certainly. As set forth in the approved tariffs, the PCOP Rider is established on an
22 annual basis. Essentially, the calculation starts with levels of purchased power,
23 purchased chemical, purchased water, wheeling charges, waste disposal, and TRA

1 Inspection Fee assessments and water sales that are authorized in the Company's most
2 recent rate case. The authorized levels of purchased power, purchased chemical,
3 purchased water, wheeling charges, waste disposal, and TRA Inspection Fee assessments
4 are divided by the authorized level of water sales in hundred gallons. Then actual
5 purchased power expense, purchased chemical expense, purchased water expense,
6 wheeling charges, waste disposal expense, and TRA Inspection Fee assessments are
7 divided by the actual level of water sales in hundred gallons. The difference is the
8 incremental change in production costs per hundred gallons of water. This incremental
9 difference is then multiplied by the authorized level of water sales in hundred gallons.
10 After that, the amount of the PCOP revenues from the previous period that is either over
11 or under the anticipated amount is calculated with interest and added to the expense
12 difference. The total amount is grossed up for the authorized gross receipts tax rate,
13 uncollectible rate, TRA fee and forfeited discounts from the previous rate case, and then
14 divided by the authorized revenues from the previous case. It is expressed as a
15 percentage for all water charges. If it is negative, the amount is to be refunded to
16 customers. If it is positive, it is added as a surcharge to the customers' bills as additional
17 revenues.

18 As approved, the PCOP changes on an annual basis until it resets back to zero at the
19 conclusion of the Company's next rate case filing, at which point the operational
20 expenses for these categories that are reflected and approved in that rate case filing will
21 be included within Base Rates.

1 **Q. HAVE YOU INCLUDED THE CALCULATION OF THE PRODUCTION COSTS**
2 **AND OTHER PASS-THROUGHS RIDER IN THE PETITION?**

3 **A.** Yes. I have attached an exhibit that reflects the calculation of the PCOP Rider. The
4 detailed calculations are attached in an exhibit to my testimony as Petitioner's Exhibit
5 PCOP Calc – LCB. The calculations in this Petition are consistent with the calculations
6 made pursuant to and in compliance with the approved tariff in TRA Docket No. 13-
7 00130 and again in Docket Nos. 15-00001 and 15-00131. Further, to assist in the
8 streamlined regulatory process, TAWC is including with the Petition its detailed work-
9 papers supporting the calculation of the PCOP, including all of the invoices for the
10 review period. Again, these workpapers are consistent with the calculations made
11 pursuant to and in compliance with the approved tariff in TRA Docket No. 13-00130 and
12 again in Docket Nos. 15-00001 and 15-00131.

13 **Q. HAS TAWC INCLUDED DETAILED INFORMATION REGARDING THE**
14 **EXPENSES THAT MAKE UP EACH OF THE EXPENSE CATEGORIES FOR**
15 **THE PCOP RIDER?**

16 **A.** Yes. As with TRA Docket No. 13-00130, TAWC began with the General Ledger for
17 each of the accounts for the appropriate expenses. TAWC then reconciled the monthly
18 General Ledger charges with the actual invoices appropriate for monthly period. TAWC
19 removed any charges that were not consistent with the previous docket. This included
20 power charges that are not specific to production, late charges, or charges for service
21 periods outside the review period even if the invoice was applied to the General Ledger
22 during the review period.

23 **Q. HOW ARE THE PCOP EXPENSES RECOVERED?**

1 A. The PCOP is expressed as a percentage. The current tariff Sixth Sheet No. 12 – Riders –
2 1 is attached to my testimony as Petitioner’s Exhibit Current Tariff Sheet No. 12 –
3 Riders – LCB. Additionally, TAWC proposed new Capital Recovery Riders in Docket
4 No. 16-00126. The new proposed tariff sheet in that case, Seventh Revised Sheet No. 12
5 – Riders – 1, is still pending, and is attached to my tariff as Petitioner’s Exhibit Pending
6 Tariff Sheet No. 12—Riders – LCB. The proposed tariff sheet Eighth Revised Sheet
7 No. 12 – Riders - 1 is attached to my testimony as Petitioner’s Exhibit Proposed Sheet
8 No. 12 – Riders – LCB. The PCOP is applied to the total amount billed to each
9 customer under the otherwise applicable rates and charges for basic service, metered
10 usage charges, and private fire charges, and is applied prior to the inclusion of any other
11 taxes, charges, or surcharges. The Capital Recovery Riders are combined into one line
12 item on the bill of each customer, while the PCOP Rider is a second line item on the bill
13 of each customer.

14 **Q. WHAT WILL HAPPEN TO THE PCOP RIDER UPON APPROVAL OF NEW**
15 **RATES IN A RATE CASE PROCEEDING?**

16 A. The PCOP will be reset to zero as of the effective date of the new base rates which Base
17 Rates then provide for the recovery of the operational expenses in Base Rates.

18 **Q. WHAT GROSS RECEIPT RATE IS UTILIZED IN THE FORMULA OF THE**
19 **PCOP?**

20 A. The gross receipt rate is the established rate in the Company’s immediately preceding
21 Base Rate Case Order, currently TRA Docket No. 12-00049.

22 **Q. WHAT UNCOLLECTIBLES RATE IS USED TO DETERMINE THE PCOP?**

1 A. The uncollectible rate is the established rate in the Company's immediately preceding
2 Base Rate Case Order, currently TRA Docket No. 12-00049.

3 **Q. WHAT TRA FEE RATE IS USED TO DETERMINE THE PCOP?**

4 A. The TRA Fee is the percentage established in the Company's immediately preceding
5 Base Rate Case Order, currently TRA Docket No. 12-00049.

6 **Q. WHAT FORFEITED DISCOUNT RATE IS USED TO DETERMINE THE PCOP?**

7 A. The forfeited discount rate is the established rate in the Company's immediately
8 preceding Base Rate Case Order, currently TRA Docket No. 12-00049.

9 **Q. HAS TAWC MADE ADJUSTMENTS TO THE PCOP FOR UNACCOUNTED-**
10 **FOR WATER PERCENTAGES?**

11 A. Yes. The fuel and power expenses, and chemical expenses have been reduced to assume
12 an authorized level of 15%. TAWC has been working on reducing its unaccounted for
13 water levels, but they currently remain above the TRA authorized rate of 15%.

14 **Q. HOW ARE ANNUAL REVENUES DETERMINED FOR THE PCOP?**

15 A. The projected annual revenues will be the authorized water services revenues from the
16 last case, TRA Docket No. 12-00049, including all service charges and volumetric
17 charges for all classes that are subject to the Capital Recovery Riders.

18 **Q. IS THERE A RECONCILIATION OF THE CURRENT AUTHORIZED PCOP?**

19 A. Yes. There is a difference between the amount of the PCOP that was authorized to be
20 refunded in TRA Docket No. 15-00131 and what was actually refunded. This occurred
21 for two reasons. First, the PCOP was calculated assuming a full year of implementation,
22 but was not authorized until May. Therefore, there were fewer months to apply the
23 PCOP refund than anticipated in the original filing. However, during that time period,

1 the authorized PCOP remained at the previous period level. Therefore, the previous
2 period amount of actual refund was slightly more than was authorized in the previous
3 PCOP filing. Second, the water sales were above the authorized amount from the base
4 year in Docket No. 12-00049 for the first time due to drought conditions. This means
5 there were more water sales to which the PCOP can be applied. The amount of expense
6 to produce the additional water that was sold was less on a per gallon produced, meaning
7 it was more efficient to produce and distribute to customers. This created a lower cost
8 per gallon of production costs. This second amount (the impact of more water sales) is
9 offset by the first amount (slightly more being refunded over the 10-month period), or the
10 proposed refund amount would be higher. The reconciliation of this over refund amount,
11 with interest, has been included in the PCOP calculation.

12 **Q. YOU INDICATED THAT TENNESSEE AMERICAN IS ONLY INCLUDING**
13 **CHANGES TO THE PCOP RIDER FOR 2017 IN THIS FILING. WHEN WILL**
14 **TENNESSEE AMERICAN ADDRESS THE CAPITAL RECOVERY RIDERS?**

15 **A.** Consistent with the approved tariffs, Tennessee American filed a petition for the
16 adjustment of the Capital Recovery Riders for 2017 on November 4, 2016 in TRA
17 Docket No. 16-00126. That petition only addressed the 2017 projected Capital Rider
18 projects. Additionally, TAWC will file a reconciliation for the Capital Recovery Riders
19 no later than March 1, 2017. There are actually two steps to the reconciliation. The first
20 is an adjustment for budget to actual investment. This is a regulatory oversight and
21 public interest component of the mechanism that results in a true-up if the investment did
22 not occur (up or down) as forecasted. The second is an adjustment for the over or under
23 recovery of revenues as projected, including interest. In this way, the consumers are

1 protected if sales exceed the amount authorized in the previous rate case proceeding.
2 This may occur if there is a significant amount of customer growth or if dry and hot
3 conditions occur in any given year. This second adjustment also allows TAWC to adjust
4 if sales are less than the amount authorized in the last case, as may occur with declining
5 usage that TAWC has experienced in recent years. The reconciliation percentage for the
6 Capital Recovery Riders, pending approval by April 1, 2017, as contemplated in the
7 tariffs, will be applied to customer bills for 9 months in 2017.

8 **Q. MS. BRIDWELL, IN YOUR TESTIMONY IN TRA DOCKET NO. 15-00001, DID**
9 **YOU INDICATE THAT THERE WERE SOME ISSUES REGARDING THE**
10 **RECONCILIATION OF THE INITIAL FILING APPROVED BY THE**
11 **AUTHORITY ON APRIL 14, 2014? IF SO, CAN YOU ELABORATE ON THOSE**
12 **ISSUES AT THIS TIME?**

13 **A.** Yes, I did indicate that, and I can elaborate too. Based upon Tenn. Code Ann. § 65-5-103
14 *et seq.*, in TRA Docket 13-00130, Tennessee American proposed tariffs that it anticipated
15 would be approved and be in place in January 2014. As the tariffs became effective on
16 April 15, 2014 rather than earlier in January, TAWC did not begin applying the Capital
17 Rider or PCOP Rider surcharges until mid-April. Because of this, if these dates are
18 strictly applied, an annual reconciliation of the first filing approved on April 14, 2014,
19 would have to be completed in two steps – a) one to capture the amount of expenses for
20 the review period which could be filed by December 30, 2014; and b) one to capture the
21 difference in dollars refunded through the rider from April 15, 2014 through April 14,
22 2015, which would not be able to be filed until mid to late June, 2015. Filing in this
23 manner would create a mismatch of reconciliation periods that would remain until a new

1 rate case is filed and approved by the TRA and the filing periods would be re-set. The
2 mismatch of reconciliation periods would have created an additional expense for TAWC,
3 and a heightened, though avoidable, resource burden to the Authority and the Tennessee
4 Consumer Advocate and Protection Division (“CAPD”), relative to the preparation and
5 review of an additional reconciliation. Further, this mismatch would result in two
6 adjustments to customer bills over a 12-month period on the PCOP alone, which may
7 lead to some customer confusion.

8 **Q. WHAT HAS BEEN DONE TO ADDRESS THIS RECONCILIATION ISSUE?**

9 **A.** TAWC proposed to only file one reconciliation for the review period of December 1,
10 2013 through November 30, 2014, to incorporate both steps, and thus eliminate the
11 mismatch of the reconciliation periods. In Docket No. 15-00001, the TRA approved the
12 once annual reconciliation for the review periods going forward. This was applied again
13 in Docket No. 15-00131.

14 **Q. AGAIN, WHY IS TENNESSEE AMERICAN NOT INCLUDING THE**
15 **RECONCILIATION COMPONENT OF THE 2016 CAPITAL RECOVERY**
16 **RIDERS IN THIS FILING?**

17 **A.** The QIIP, EDI, and SEC Capital Recovery Riders were approved to cover the calendar
18 year 2016. Because the year has not been completed, the reconciliation cannot accurately
19 occur consistent with the tariffs. As established in the tariffs, the reconciliation will
20 occur in early 2017 and be filed no later than March 1, to be effective in rates April 1,
21 2017.

1 **Q. WILL THE CAPITAL RECOVERY RIDERS HAVE A TWO-STEP**
2 **RECONCILIATION PROCESS?**

3 **A.** Yes. Similar to the PCOP Rider, the Capital Recovery Riders reconciliation has 1) the
4 reconciliation of the budget of investments compared to actual made as part of the Capital
5 Recovery Riders for calendar year 2016; and 2) the difference in dollars collected
6 through the riders in calendar year 2016.

7 **Q. HAS TENNESSEE AMERICAN MADE ANY CHANGES TO ITS**
8 **CALCULATIONS OR WORKPAPERS FROM THE PREVIOUS DOCKET?**

9 **A.** Yes. There are 15 minor changes to the calculations and workpapers formats from the
10 previous docket. They are:

11 1) Under the Workpaper_Revenue excel spreadsheet, the calculation of interest has
12 been made using the total amount of over refund rather than broken out monthly and
13 calculated monthly. This simplified the calculation and had no material impact on the
14 calculation.

15 2) In the Workpaper_Chemicals excel spreadsheet, the monthly reconciliation is
16 broken into separate pages for each chemical to show the chemical inventory movement
17 for purchases, usage and adjustments, also including a cost per pound of chemicals. This
18 was a change requested by the TRA on a going forward basis during Docket No. 15-
19 00131.

20 3) In the Workpaper_Chemicals excel spreadsheet, new pivot tables were included
21 to show the chemical purchase by vendor and by chemical. There is also a reconciliation
22 tab to verify all purchases and usage have been included in the workpaper.

- 1 4) In the Workpaper_Chemicals excel spreadsheet, there are look-up formulas at the
2 bottom of each vendor page to be used on the reconciliation tab to verify all purchases
3 have been included in the workpaper.
- 4 5) In the Workpaper_Chemicals excel spreadsheet, TAW removed the Suck Creek
5 column from the Monthly Reconciliation, as those costs are already included in the Total
6 column.
- 7 6) In the Workpaper_TRA fee excel file, a pivot table was included to show General
8 Ledger activity.
- 9 7) In the Workpaper_Fuel & Power excel file, separate pivot tables for invoices to be
10 included in the filing and invoices to be excluded from the filing were created.
- 11 8) In the Workpaper_Waste Disposal excel file, additional tabs were created for new
12 vendors.
- 13 9) In the Workpaper_Waste Disposal excel file, the vendor tabs now include the
14 invoice amount and the General Ledger invoice amount for comparison purposes.
- 15 10) In the Workpaper_Purchased Water excel file, the invoices are reconciled on tabs
16 per vendor, instead of summarized on one tab.
- 17 11) In the Workpaper_Purchased Water excel file, the vendor tabs now compare the
18 “recoverable amount” to the General Ledger invoice amount, excluding any previous
19 balances owed or late fees.
- 20 12) In the Workpaper_Purchased Water excel file, a new vendor was set up for an
21 arrangement with the City of Dunlap. The first invoice from the City of Dunlap is
22 missing due to complications in setting them up as a vendor for payment, and was

1 established through the previous balance. The City has been unable to generate a
2 duplicate invoice.

3 13) The TAW_EXH_LCB_1_123016 excel spreadsheet that calculates the PCOP
4 amount uses the correct amount of authorized sales. In Docket No. 15-00001 and Docket
5 No. 15-00131 there was an error in the amount of authorized sales reflected in the
6 calculation.

7 14) All of the Workpaper files have been renamed to a convention with the title
8 Workpaper first, then the production component. Each file has been reorganized to
9 indicate the "Link Out" tab with the calculated information to flow into the PCOP
10 calculation, and support tabs to the right of those tabs. Also each file has a brief
11 explanation on the first tab of each of the separate tabs in the workbook.

12 15) The TAW_EXH_LCB_1_123016 excel spreadsheet has been re-organized from
13 previous dockets to identify which tab is the exhibit and is located to the furthest left
14 when opening the file in excel, and which tabs are calculation tabs.

15 **Q. TENNESSEE AMERICAN WATER HAS NOW HAD FOUR CONSECUTIVE**
16 **FILINGS WHERE THE PCOP IS PROPOSED AS A REFUND. DOES THAT**
17 **MEAN TAWC OVERSTATED ITS EXPENSES IN DOCKET NO. 12-00049?**

18 **A.** Not at all. What it means is that TAW has been able to balance its operating expenses,
19 allowing the customers to receive the immediate benefit of those efficiencies instead of
20 waiting until the next general rate case. This means that savings have been realized in
21 some areas of expense covered by the PCOP where other areas of expense are increasing.
22 For example, the waste disposal expense has increased while the power expenses have
23 decreased. Additionally, in 2016 TAWC experienced unusually high sales volumes due

1 to the long and persistent drought conditions which actually lowered the per unit
2 production costs in 2016. TAWC believes this immediate benefit to the customer,
3 without the additional expense of a rate case, has demonstrated that these mechanisms
4 continue to be in the public interest.

5 **Q. WHAT IS THE PROPOSED NEW PCOP RIDER?**

6 **A.** TAWC is proposing a PCOP Rider that results in an annualized revenue refund of
7 \$417,123, or a surcharge of -0.89%. This is an increase of \$247,659 from the previously
8 approved refund of \$169,464. The previously approved PCOP Rider is -0.36%, and this
9 new proposed PCOP Rider is a change of -0.53 %.

10 **Q. HAS TENNESSEE AMERICAN FILED A TARIFF ADDRESSING THE**
11 **PROPOSED PCOP RIDER?**

12 **A.** Yes. A new tariff Eighth Revised Sheet No. 12 – Riders – 1 reflects the PCOP Rider and
13 is attached to my testimony as Petitioner’s Exhibit Proposed Sheet No. 12- Riders -
14 LCB.

15 **Q. WHAT IS THE IMPACT TO THE AVERAGE CUSTOMER BILL?**

16 **A.** The typical residential customer living in the City of Chattanooga, and using an average
17 of 4,154 gallons per month will see a decrease, or credit on their bill of \$0.19 per month,
18 or \$2.28 per year from the PCOP Rider. This is a change from the previous PCOP Rider
19 which was a decrease in their monthly bill of \$0.09. A summary of this information is
20 attached to my testimony as Petitioner’s Exhibit 2017 PCOP Avg. Impact – LCB.

21 **Q. IS THE PCOP RIDER STILL IN THE PUBLIC INTEREST?**

22 Yes. Tennessee American understands that the purpose of the legislation was, in part, to
23 encourage timely recovery of expenses to enhance financial stability, while reducing the

1 costs to consumers and utilities for regulatory review and implementation, and promoting
2 rate gradualism for consumers. TAWC believes the approved Production Costs and
3 Other Pass-throughs Rider is achieving that goal. Without the approved alternative rate
4 mechanisms of the PCOP and Capital Recovery Riders, TAWC would be preparing
5 another general rate case. With the PCOP, TAWC has been able to immediately pass
6 along expense savings to its customers over the last year and will continue in this year.
7 In this way, customers benefit from immediate expense savings without a cost of a rate
8 case, which we believe to be in the public interest.

9 **Q. ARE YOU AWARE OF ANY CHANGES IN MARKET CONDITION OR OTHER**
10 **FACTORS THAT MAY AFFECT WHETHER THE PCOP RIDER REMAINS IN**
11 **THE PUBLIC INTEREST?**

12 **A.** No, I am not.

13 **Q. WHAT DO YOU RECOMMEND WITH REGARD TO THIS PETITION?**

14 **A.** I recommend that the petition be approved for the adjustment in the PCOP Rider.

15 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

16 **A.** Yes.

Tennessee American Water Company
Docket No. 16-

Calculation of Production Costs and Other Pass-Throughs ("PCOP") Including Non-Revenue Water
To Determine PCOP Tariff Rider
Actuals for the Year Ending November 30, 2016

Line Number	Description	Amount
<u>I. Calculation of the Base Rate Cost of Production Costs and Other Pass-Throughs as authorized in the Base Rate case (*):</u>		
1	Pro Forma Production Costs and Other Pass-Throughs	\$4,062,167
2	Pro Forma Water Sales (WS) in 100 Gallons	100,578,654
3	Base Rate Cost per 100 Gallons WS (Line 1 / Line 2)	<u>\$0.04039</u>
<u>II. Deferral calculation - Actual Non-Revenue Water Cost Production Costs and Other Pass-Throughs (adjusted for 15% NRW) vs. the Base Rate Cost (**):</u>		
4	Actual Production Costs and Other Pass-Throughs	\$3,959,063
5	Over-Under Collection Adjustment	83,758
6	Review Period PCOP Costs Adjusted for Over-Under Collections	4,042,821
7	Actual Water Sales (100 Gallons)	<u>111,094,902</u>
8	Actual Rate Cost Production Costs and Other Pass-Throughs per 100 Gallons WS (Line 6 / Line 7)	<u>\$0.03639</u>
9	Base Rate Cost per 100 Gallons WS (Line 3)	<u>0.04039</u>
10	Incremental Change in Production Costs and Other Pass-Throughs per 100 Gallons WS (Line 9 - Line 8)	<u>(\$0.00400)</u>
11	Base Rate Case Water Sales 100 Gallons (Line 2)	<u>100,578,654</u>
12	Deferral Amount (Line 10 * Line 11)	<u>(\$402,040)</u>
<u>III. Calculation of Production Costs and Other Pass-Throughs ("PCOP") Tariff Rider</u>		
13	Total Deferred Amount (Line 12)	(\$402,040)
14	Total Deferred Amount Grossed Up for revenue taxes (Line 13 / (1.0-.03616) (***)	(417,123)
15	Projected Annual Base Rate Revenue subject to PCOP (*)	<u>47,073,724</u>
16	PCOP % (Line 14 / Line 15)	<u>-0.89%</u>

(*) The numbers are taken from the settlement agreement in Docket No. 12-00049

(**) The numbers are actuals for the year ended November 30, 2016 including Non-Revenue Water for Purchased Power and Chemicals

(***) Assumes Gross Receipts Tax @ 3.0%, Uncollectibles @ 1.0571%, TRA Fee @ 0.4250%, and Forfeited Discount Rate @ -0.8661%

Tennessee American Water Company
Production Costs and Other Pass-Throughs
Average Residential Bill Impact
5/8" Meter and Usage of 5.55 CCF (or 41.54 100 Gallons)

Line Number	Area	Meter Fee	Volumetric Charges	Bill Before Surcharges	2016 Authorized Capital Surcharges at 10.38%	2017 PCOP at -0.89%	2017 QIIP Surcharge at 2.96%	2017 EDI Surcharge at 0.24%	2017 SEC Surcharge at 0.37%	2017 Proposed Capital Adjustments	Total Proposed Surcharges
1											
2	Chattanooga	\$ 13.96	\$ 7.60	<u>\$ 21.56</u>	\$ 2.24	\$ (0.19)	\$ 0.64	\$ 0.05	\$ 0.08	<u>\$ 0.77</u>	<u>\$ 2.82</u>
3											
4	Lookout Mountain	\$ 15.66	\$ 12.39	<u>\$ 28.05</u>	\$ 2.91	\$ (0.25)	\$ 0.83	\$ 0.07	\$ 0.10	<u>\$ 1.00</u>	<u>\$ 3.66</u>
5											
6	Lakeview	\$ 15.66	\$ 9.16	<u>\$ 24.82</u>	\$ 2.58	\$ (0.22)	\$ 0.73	\$ 0.06	\$ 0.09	<u>\$ 0.88</u>	<u>\$ 3.24</u>
7											
8	Suck Creek	\$ 30.60	\$ 16.12	<u>\$ 46.72</u>	\$ 4.85	\$ (0.42)	\$ 1.38	\$ 0.11	\$ 0.17	<u>\$ 1.66</u>	<u>\$ 6.09</u>
9											

CLASSIFICATION OF SERVICE

SUMMARY OF RIDERS

1. Applicability

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider (SEC), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

For the Riders defined in the tariffs :

QIIP	4.56 %	
EDI	0.10 %	
<u>SEC</u>	<u>5.72 %</u>	
Subtotal of all Capital Recovery Riders	10.38 %	
QIIP Annual Reconciliation Percentage	1.166 %	(I)
EDI Annual Reconciliation Percentage	-0.178 %	(D)
<u>SEC Annual Reconciliation Percentage</u>	<u>-0.118 %</u>	(D)
Subtotal of all Reconciliation Percentages	0.870 %	
Total of Capital Recovery Riders and Reconciliation Percentages	11.25%	
PCOP	-0.36 %	

(D) Indicates Decrease
(I) Indicates Increase

ISSUED: October 14, 2016 **EFFECTIVE: October 11, 2016 – December 31, 2016**

BY:


Valoria Armstrong
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

CLASSIFICATION OF SERVICE**SUMMARY OF RIDERS****1. Applicability**

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider (SEC), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

For the Riders defined in the tariffs :

QIIP	7.52 %	(I)
EDI	0.34 %	(I)
<u>SEC</u>	<u>6.09 %</u>	(I)
Subtotal of all Capital Recovery Riders	13.95 %	(I)
QIIP Annual Reconciliation Percentage	0.000 %	(D)
EDI Annual Reconciliation Percentage	0.000 %	(D)
<u>SEC Annual Reconciliation Percentage</u>	<u>0.000 %</u>	(D)
Subtotal of all Reconciliation Percentages	0.000 %	
Total of Capital Recovery Riders and Reconciliation Percentages	13.95%	(I)
PCOP	-0.36 %	

(D) Indicates Decrease

(I) Indicates Increase

ISSUED: November 4, 2016

EFFECTIVE: January 1, 2017

BY:

Valoria Armstrong
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403