

**BEFORE
THE TENNESSEE PUBLIC UTILITY COMMISSION**

PETITION OF TENNESSEE-
AMERICAN WATER COMPANY
REGARDING THE PRODUCTION
COSTS AND OTHER PASS-
THROUGHS RIDER

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Docket No. 16-00148

**DIRECT TESTIMONY
of
WILLIAM H. NOVAK**

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

May 3, 2017

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

IN RE:

PETITION OF TENNESSEE AMERICAN
WATER COMPANY REGARDING THE
PRODUCTION COSTS AND OTHER
PASS-THROUGHS RIDER

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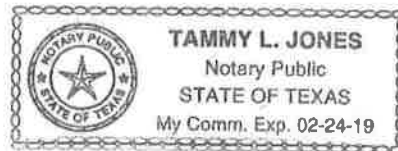
I, William H. Novak, CPA, on behalf of the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.


WILLIAM H. NOVAK

Sworn to and subscribed before me
this 3 day of May, 2017.



NOTARY PUBLIC



My commission expires: 2-24-19

ATTACHMENTS

Attachment WHN-1

William H. Novak Vitae

1 ***Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND***
2 ***OCCUPATION FOR THE RECORD.***

3 ***A1.*** My name is William H. Novak. My business address is 19 Morning Arbor Place,
4 The Woodlands, TX, 77381. I am the President of WHN Consulting, a utility
5 consulting and expert witness services company.¹

6
7 ***Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND***
8 ***PROFESSIONAL EXPERIENCE.***

9 ***A2.*** A detailed description of my educational and professional background is provided
10 in Attachment WHN-1 to my testimony. Briefly, I have both a Bachelor's degree
11 in Business Administration with a major in Accounting, and a Master's degree in
12 Business Administration from Middle Tennessee State University. I am a
13 Certified Management Accountant, and am also licensed to practice as a Certified
14 Public Accountant.

15
16 My work experience has centered on regulated utilities for over 30 years. Before
17 establishing WHN Consulting, I was Chief of the Energy & Water Division of the
18 Tennessee Public Utility Commission (the Commission) where I had either
19 presented testimony or advised the Commission on a host of regulatory issues for
20 over 19 years. In addition, I was previously the Director of Rates & Regulatory
21 Analysis for two years with Atlanta Gas Light Company, a natural gas
22 distribution utility with operations in Georgia and Tennessee. I also served for

¹ State of Tennessee, Registered Accounting Firm ID 3682.

1 two years as the Vice President of Regulatory Compliance for Sequent Energy
2 Management, a natural gas trading and optimization entity in Texas, where I was
3 responsible for ensuring the firm's compliance with state and federal regulatory
4 requirements.

5
6 In 2004, I established WHN Consulting as a utility consulting and expert witness
7 services company. Since 2004 WHN Consulting has provided testimony or
8 consulting services to state public utility commissions and state consumer
9 advocates in at least ten state jurisdictions as shown in Attachment WHN-1.
10

11 ***Q3. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?***

12 ***A3.*** I am testifying on behalf of the Consumer Protection & Advocate Division (the
13 Consumer Advocate) of the Tennessee Attorney General's Office.
14

15 ***Q4. HAVE YOU PRESENTED TESTIMONY IN ANY PREVIOUS CASES***
16 ***CONCERNING THE ALTERNATIVE REGULATION MECHANISMS***
17 ***FOR TENNESSEE-AMERICAN WATER COMPANY?***

18 ***A4.*** Yes. I presented testimony in Dockets 13-00130, 14-00121, 15-00001, 15-00029,
19 15-00111, 15-00131, 16-00022, and 16-00126 concerning alternative regulation
20 mechanisms for Tennessee-American Water Company (TAWC). I have also
21 presented testimony in numerous TAWC Dockets concerning other regulatory
22 matters.
23

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

3 **A5.** My testimony will address the calculations supporting TAWC's tariff filing that
4 requests authority to implement a new surcharge in its Production Costs and Other
5 Pass-Throughs ("PCOP") tariff rider.

6
7 **Q6. PLEASE EXPLAIN THE PURPOSE AND INTENT OF THE PCOP**
8 **TARIFF RIDER.**

9 **A6.** The PCOP allows TAWC to "true-up" the actual costs incurred for purchased
10 power, chemicals, purchased water, waste disposal and the TPUC fee from the
11 level approved in by the Commission in the last rate case. The overall structure
12 for the PCOP tariff rider was approved by the Commission in Docket 13-00130.
13 TAWC's proposed PCOP surcharge, along with the PCOP surcharges previously
14 approved by the Commission, are presented below in Table 1.

Table 1 – Production Costs & Other Pass-Throughs Surcharge Rate		
Docket Number	Effective Date	Surcharge Rate
13-00130	4-15-14	-1.15%
15-00001	8-17-15	-0.73%
15-00131	5-10-16	-0.36%
16-00148	TBD	-0.89% ²

15

16 **Q7. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF**
17 **YOUR TESTIMONY?**

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

1 **A7.** I have reviewed TAWC's Petition filed in Docket 16-00148 on December 29,
2 2016, along with the accompanying tariff schedules. I have also reviewed
3 TAWC's testimony and exhibits supporting its filing. Finally, I have reviewed
4 TAWC's responses to the data requests submitted by the Consumer Advocate in
5 this case.

6

7 **Q8. PLEASE EXPLAIN THE RELIEF THAT TAWC IS ASKING FROM THE**
8 **COMMISSION THROUGH ITS PETITION.**

9 **A8.** TAWC is asking the Commission to implement a new PCOP recovery rider
10 surcharge that is based on the true-up of its actual costs for the twelve months
11 ended November 30, 2016 from the level that was established in the last rate case.
12 TAWC's proposed true-up calculation will decrease the PCOP surcharge from the
13 current rate of -0.36% to -0.89% as shown on Table 1 above.

14

15 **Q9. WHAT IS THE TOTAL AMOUNT OF COSTS THAT TAWC SEEKING**
16 **TO RECOVER THROUGH THE PCOP RECOVERY RIDER?**

17 **A9.** TAWC is currently seeking to recover \$3,959,063 in costs through the PCOP
18 recovery rider. In the last rate case, these costs were set by the Commission at
19 \$4,062,167. The cost for each of the PCOP components since TAWC's last rate
20 case is presented below in Table 2.

21

22

23

Table 2 – PCOP Component Costs						
Docket	Power Cost	Chemicals	Purchased Water	Waste Disposal	TPUC Fee	Total
12-00049	\$2,678,772	\$986,930	\$51,331	\$213,308	\$131,826	\$4,062,167
13-00130	2,223,479	728,500	47,102	237,656	138,344	3,375,081
15-00001	2,399,271	833,611	43,443	347,764	181,344	3,805,433
15-00131	2,256,687	723,408	51,841	387,332	186,811	3,606,079
16-00148	2,390,646	1,023,399	40,296	311,083	193,639	3,959,063

Q10. DID YOU REVIEW THE CALCULATIONS SUPPORTING THE PROPOSED PCOP SURCHARGE IN TAWC'S TARIFF FILING?

A10. Yes. I reviewed TAWC's filing. I also prepared data requests for supplemental supporting information that was not contained in the filing. In addition, I have had continuing discussions with TAWC regarding the filing.

Q11. WHAT WERE THE RESULTS OF YOUR REVIEW?

A11. My review of TAWC's PCOP surcharge was limited to the amounts recorded on the ledger, since there are thousands of individual expense invoices that are posted. Overall, my review found that the calculations supporting TAWC's tariff filing appear to be reasonable and logical. I was also able to trace the support for TAWC's tariff calculations to their books and records. Based on my review, I would recommend that the Commission adopt TAWC's proposed PCOP recovery surcharge from the current rate of -0.36% to -0.89% as shown on Table 1 above.

Q12. DOES THIS COMPLETE YOUR TESTIMONY?

A12. Yes, it does. However, I reserve the right to incorporate any new data that may subsequently become available and to correct any issues later identified.

ATTACHMENT WHN-1

William H. Novak Vitae

William H. Novak

19 Morning Arbor Place
The Woodlands, TX 77381

Phone: 713-298-1760

Email: halnovak@whnconsulting.com

Areas of Specialization

Over thirty-five years of experience in regulatory affairs and forecasting of financial information in the rate setting process for electric, gas, water and wastewater utilities. Presented testimony and analysis for state commissions on regulatory issues in four states and has presented testimony before the FERC on electric issues.

Relevant Experience**WHN Consulting – September 2004 to Present**

In 2004, established WHN Consulting to provide utility consulting and expert testimony for energy and water utilities. WHN Consulting is a “complete needs” utility regulation firm able to provide clients with assistance in all areas of utility rate analysis. Since 2004, WHN Consulting has provided assistance to public utility commissions and state consumer advocates in over ten state jurisdictions. Some of the topics and issues that WHN Consulting has presented testimony for include net metering, alternative rate regulation, revenue requirement calculations in rate cases, class cost of service studies, rate design, deferred income tax calculations, purchased gas costs, purchased power costs, and weather normalization studies.

Sequent Energy Management – February 2001 to July 2003

Vice-President of Regulatory Compliance for approximately two years with Sequent Energy Management, a gas trading and optimization affiliate of AGL Resources. In that capacity, directed the duties of the regulatory compliance department, and reviewed and analyzed all regulatory filings and controls to ensure compliance with federal and state regulatory guidelines. Engaged and oversaw the work of a number of regulatory consultants and attorneys in various states where Sequent has operations. Identified asset management opportunities and regulatory issues for Sequent in various states. Presented regulatory proposals and testimony to eliminate wholesale gas rate fluctuations through hedging of all wholesale gas purchases for utilities. Also prepared testimony to allow gas marketers to compete with utilities for the transportation of wholesale gas to industrial users.

Atlanta Gas Light Company – April 1999 to February 2001

Director of Rates and Regulatory Analysis for approximately two years with AGL Resources, a public utility holding company serving approximately 1.9 million customers in Georgia, Tennessee, and Virginia. In that capacity, was instrumental in leading

Atlanta Gas Light Company through the most complete and comprehensive gas deregulation process in the country that involved terminating the utility's traditional gas recovery mechanism and instead allowing all 1.5 million AGL Resources customers in Georgia to choose their own gas marketer. Also responsible for all gas deregulation filings, as well as preparing and defending gas cost recovery and rate filings. Initiated a weather normalization adjustment in Virginia to track adjustments to company's revenues based on departures from normal weather. Analyzed the regulatory impacts of potential acquisition targets.

Tennessee Regulatory Authority – Aug. 1982 to Apr 1999; Jul 2003 to Sep 2004

Employed by the Tennessee Regulatory Authority (formerly the Tennessee Public Service Commission) for approximately 19 years, culminating as Chief of the Energy and Water Division. Responsible for directing the division's compliance and rate setting process for all gas, electric, and water utilities. Either presented analysis and testimony or advised the Commissioners/Directors on policy setting issues, including utility rate cases, electric and gas deregulation, gas cost recovery, weather normalization recovery, and various accounting related issues. Responsible for leading and supervising the purchased gas adjustment (PGA) and gas cost recovery calculation for all gas utilities. Responsible for overseeing the work of all energy and water consultants hired by the TRA for management audits of gas, electric and water utilities. Implemented a weather normalization process for water utilities that was adopted by the Commission and adopted by American Water Works Company in regulatory proceedings outside of Tennessee.

Education

B.A, Accounting, Middle Tennessee State University, 1981

MBA, Middle Tennessee State University, 1997

Professional

Certified Public Accountant (CPA), Tennessee Certificate # 7388

Certified Management Accountant (CMA), Certificate # 7880

Former Vice-Chairman of National Association of Regulatory Utility Commission's Subcommittee on Natural Gas

Witness History for William H. Novak, CPA

Selected Cases

State	Company/Sponsor	Year	Assignment	Docket
Louisiana	CenterPoint Energy/Louisiana PSC	2011	Audit of PGA Filings from 2002 - 2008 of CenterPoint Arkla	S-32534
	CenterPoint Energy/Louisiana PSC	2011	Audit of PGA Filings from 2002 - 2008 of CenterPoint Entex	S-32537
	Louisiana Electric Utilities/Louisiana PSC	2012	Technical Consultant for Impact of Net Meter Subsidy on other Electric Customers	R-31417
	Aqua Utilities/Aqua Utilities	2006	Presentation of Rate Case on behalf of Aqua Utilities	06-00187
	Atmos Energy Corporation/Atmos Intervention Group	2007	Rate design for Industrial Intervenor Group	07-00105
	Bristol TN Essential Services/BTES	2009	Audit of Cost Allocation Manual	05-00251
	Chatanooga Manufacturers Association/CMA	2009	Spokesperson for Industrial Natural Gas Users before the Tennessee State Legislature	HB-1349
	Piedmont Natural Gas Company/Tennessee AG	2011	Rate Case Audit - Revenue, Class Cost of Service Study & Rate Design	11-00144
	Tennessee-American Water Company/Tennessee AG	2012	Rate Case Audit - Revenues, Rate Base, Class Cost of Service Study and Rate Design	12-00049
	Tennessee-American Water Company/Tennessee AG	2013-2017	Alternative Regulation - Audit of Budget & True-up Filings, Rate Design	16-00126
Tennessee	Piedmont Natural Gas Company/Tennessee AG	2013-2017	Alternative Regulation - Audit of Budget & True-up Filings, Rate Design	16-00140
	Piedmont Natural Gas Company/Tennessee AG	2014	Audit of Recovery of Compressed Natural Gas Infrastructure Costs	14-00086
	Piedmont Natural Gas Company/Tennessee AG	2014	Audit of Accumulated Deferred Federal Income Tax	14-00017
	Atmos Energy Corporation/Tennessee AG	2014	Rate Case Audit - Revenues, O&M Expenses, Rate Base and Rate Design	14-00146
	Atmos Energy Corporation/Tennessee AG	2015-2017	Alternative Regulation - Audit of Budget & True-up Filings, Rate Design	16-00105
	B&W Gas Company/B&W	2015	Presentation of Rate Case on behalf of B&W Gas Company	15-00042
	AEP & Kingsport Power/Tennessee AG	2015	Audit of Storm Costs and Rate Recovery	15-00024
	AEP & Kingsport Power/Tennessee AG	2016	Rate Case Audit - Revenue, Rate Base, Class Cost of Service Study & Rate Design	16-00001
	Jefferson County (Birmingham) Wastewater/Alabama AG	2013	Bankruptcy Filing - Allowable Costs and Rate Design	2009-2318
	Peoples & North Shore Gas Cos./Illinois Commerce Comm.	2007	Management Audit of Gas Purchasing Practices	06-0556
Alabama				
Illinois				
New Mexico	Southwestern Public Service Co./New Mexico PRC	2010	Financial Audit of Fuel Costs for 2009 and 2010	09-00351-UT
New York	National Grid/New York PSC	2011	Audit of Affiliate Relationships and Transactions	10-M-0451
Ohio	Ohio-American Water Company/Ohio Consumers' Counsel	2010	Rate Case Audit - Class Cost of Service and Rate Design	09-0391-WS-AIR
	Vectren Energy Delivery of Ohio/Ohio Consumers' Counsel	2008	Rate Case Audit - Class Cost of Service and Rate Design	07-1080-GA-AIR
	Duke Energy-Ohio/Public Utilities Commission of Ohio	2009	Focused Management Audit of Fuel & Purchased Power (FPP Riders)	07-0723-EL-UNC
Texas	Center Point Energy/Texas AG	2009	Rate Case Audit - Class Cost of Service and Rate Design	GUD 9902
	Sharyland Utilities/St. Lawrence Cotton Growers Assn.	2017	Rate Case Audit - Class Cost of Service and Rate Design	PUC 45414
North Carolina	Aqua Utilities/PSS Legal Fund	2011	Rate Case Audit - Class Cost of Service and Rate Design	W-218, Sub-319
Washington DC	Washington Gas Light Co./Public Service Comm of DC	2011	Audit of Tariff Rider for Infrastructure Replacement Costs	1027
NARUC	National Association of Regulatory Utility Commissioners	2015	Presentation of Regulatory Issues with Net Metering Customers on Rates of Electric Utilities	

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