

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

July 31, 2017

IN RE:

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

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DOCKET NO.
16-00148

ORDER ON DECEMBER 1, 2015 THROUGH NOVEMBER 30, 2016 PCOP RIDER EXPENSES

This matter came before Chairman David F. Jones, Vice Chairman Robin L. Morrison and Commissioner Kenneth C. Hill of the Tennessee Public Utility Commission (the “Commission” or “TPUC”), the voting panel assigned to this docket, at a regularly scheduled Commission Conference held on July 10, 2017, to consider the *Petition* filed by Tennessee-American Water Company (“TAWC” or the “Company”) on December 29, 2016.

BACKGROUND

TAWC provides residential, commercial, industrial and municipal water service to customers in Tennessee and North Georgia. TAWC is a wholly-owned subsidiary of American Water Works Company, Inc. Pursuant to Tenn. Code Ann. § 65-5-103(d), TAWC’s initial Production Cost and Other Pass-Throughs Rider mechanism (“PCOP” or “PCOP Rider”) was approved in TPUC Docket No. 13-00130 to recover incremental changes in certain essential, non-discretionary expenses.¹ The Commission approved changes to the PCOP Rider tariff providing for a single reconciliation, which includes a true-up of actual expenses over twelve

¹ Linda C. Bridwell, Pre-filed Direct Testimony, pp. 3-4 (December 29, 2016). *See In re: Petition of Tennessee-American Water Company for Approval of a Qualified Infrastructure Investment Program, an Economic Development Investment Rider, a Safety and Environmental Compliance Rider and Pass-Throughs for Purchased Power, Chemicals, Purchased Water, Wheeling Water Costs, Waste Disposal, and TRA Inspection Fee*, Docket No. 13-00130, *Order Approving Amended Petition* (January 27, 2016).

months and a revenue true-up over eight and one half months in TPUC Docket No. 15-00001.² Subsequently, the Commission approved changes to the PCOP Rider tariff in TPUC Docket No. 15-00131.³

The PCOP tariff approved by the Commission requires TAWC to annually file within 30 days of the end of the most recent authorized attrition year a filing calculating the PCOP percentage rate applicable to customers' bills for the twelve months following the approval of the PCOP percentage rate. The latest approved PCOP percentage was approved in TPUC Docket No. 15-00131 on May 9, 2016 for the actual costs incurred during December 1, 2014 through November 30, 2015.

In accordance with the PCOP tariff, on December 29, 2016, TAWC filed the *Petition* for the period of December 1, 2015 through November 30, 2016.⁴ The Hearing Officer granted the Consumer Protection and Advocate Division of the Office of the Attorney General ("Consumer Advocate") intervention in this matter on February 8, 2017.⁵

PETITION

Through the PCOP rider, TAWC seeks to recover the incremental changes in purchased power expense, purchased chemical expense, purchased water expense, wheeling charge expense, waste disposal expense and TPUC inspection fee amounts from those levels approved in its most recent rate case, TPUC Docket No. 12-00049. In the *Petition*, TAWC is requesting to recover changes between the actual expenses for the twelve month period ending November 30, 2016 and those approved in TPUC Docket No. 12-00049. Additionally, this

² See *In re: Petition of Tennessee-American Water Company Regarding the Production Costs and Other Pass-Through Riders*, Docket No. 15-00001, *Order on December 1, 2013 Through November 30, 2014 PCOP Rider Expenses*, p. 11 (February 5, 2016).

³ See *In re: Petition of Tennessee-American Water Company Regarding the Production Costs and Other Pass-Throughs Rider*, Docket No. 15-00131, *Order on December 1, 2014 Through November 30, 2015 PCOP Rider Expenses*, pp. 7-10 (July 26, 2016).

⁴ *Petition* (December 29, 2016).

⁵ *Order Granting the Petition to Intervene Filed by Consumer Advocate* (February 8, 2017).

filing includes a reconciliation adjustment to recognize any over- or under-recovery of those expenses included in its last PCOP filing in TPUC Docket No. 15-00131.⁶ In support of the *Petition*, the Company submitted the pre-filed testimony of Linda C. Bridwell. The data used to compute the PCOP is derived from the official records of the Company, employees of the Company and other internal sources, which Ms. Bridwell examined and adopted this information as her own in this matter.⁷

Ms. Bridwell testifies regarding the method for calculating the PCOP Rider pursuant to TAWC's tariff approved in TPUC Docket Nos. 13-00130, 15-00001 and 15-00131. According to Ms. Bridwell, the calculation begins with the most recent authorized amounts for purchased power, purchased chemical, purchased water, wheeling charges, waste disposal and TPUC Inspection Fee assessments which are divided by the most recent authorized level of water sales in hundred gallons. Second, Ms. Bridwell testifies that the actual amount of purchased power, purchased chemical, purchased water, wheeling charges, waste disposal and TPUC Inspection Fee assessments are divided by the actual level of water sales in hundred gallons. She states the difference between these calculations is the incremental change in production costs per hundred gallons of water and the incremental change calculation is then multiplied by the authorized level of water sales in hundred gallons. Ms. Bridwell further testifies that the previous period's amount of PCOP revenue that is over or under the anticipated amount is calculated with interest and added to the expense difference. Then, this total deferred amount is grossed up for gross receipts tax rate, uncollectible rate, TPUC fee and forfeited discounts from the previous rate case, and divided by authorized revenues from the previous case to determine the PCOP percentage. Ms. Bridwell testifies that upon calculation of the PCOP percentage, a

⁶ Linda C. Bridwell, Pre-filed Direct Testimony, pp. 3-5 (December 29, 2016).

⁷ *Id.* at 6.

negative percentage results in a refund to customers, while a positive percentage results in an added surcharge to customers' bills.⁸

Ms. Bridwell attests the calculations in the *Petition* are supported by workpapers demonstrating their consistency with those outlined above. Additionally, TAWC includes including all of the invoices for the review period with this filing. Ms. Bridwell testifies that the amounts in the Company's general ledger were reconciled with the actual invoices, and any inconsistencies with previous rulings of the Commission were removed. The Company also reduced power and chemical expenses to reflect the 15% authorized water loss. TAWC included a proposed tariff with the resulting PCOP percentage to be effective until a new PCOP filing is made or a rate case proceeding commences.⁹

Ms. Bridwell explains that the PCOP established in TPUC Docket No. 15-00131 went into effect in May of last year leaving the previous PCOP refund percentage in place for eight months, although the PCOP refund percentage remained the same as the previous period. In addition, water sales were higher than those authorized in TAWC's last rate case due to drought conditions. These two factors resulted in an over-refund of the previous year's PCOP which has been included in this filing.¹⁰ Ms. Bridwell estimates the average residential customer living in the City of Chattanooga will see a decrease of \$0.09 per month resulting from this filing, or \$1.08 per year from the proposed PCOP Rider. Together with last year's decrease of \$0.10 per month, the cumulative total credit on the customers' bills will be \$0.19 monthly or \$2.28 annually.¹¹

Ms. Bridwell testifies that the PCOP Rider continues to recover approved production costs without incurring the additional costs of a rate case, has passed expense savings to

⁸ *Id.* at 7-8, Exhibit PCOP CALC – LCB page 1 of 1.

⁹ *Id.* at 8-10.

¹⁰ *Id.* at 11-12.

¹¹ *Id.* at 18.

customers and, therefore, remains in the public interest. Further, TAWC is not aware of any changes in market conditions that would affect the PCOP remaining in the public interest.¹²

THE CONSUMER ADVOCATE

In his pre-filed direct testimony, Mr. William H. “Hal” Novak agrees that the Company’s calculations supporting its proposed tariff filing are reasonable and logical. He also was able to find the appropriate support for TAWC’s tariff calculations in the Company’s books and records provided to Mr. Novak by the Company’s *Petition*, supporting filings and responses to data requests. As a result of his review, Mr. Novak recommended that the Commission adopt the Company’s proposed PCOP recovery surcharge.¹³

JULY 10, 2017 HEARING AND APPEARANCES

A Hearing in this matter was held before the voting panel on May 9, 2016, as noticed by the Commission on June 30, 2017. Prior to the hearing, TAWC filed a letter indicating that the parties had no outstanding disputes or contested issues and the parties have waived opening statements, closing statements and cross-examination of the respective expert witnesses.¹⁴ Participating in the hearing were the following parties and their respective counsel:

TAWC - Melvin J. Malone, Esq., Butler Snow, LLP, 150 3rd Avenue South, Suite 1600, Nashville, Tennessee 37201.

Consumer Advocate – Daniel Whitaker, Esq., Office of the Attorney General, P.O. Box 20207, Nashville, TN 37202.

The voting panel heard testimony by Ms. Linda Bridwell on behalf of the Company. Testimony of the Consumer Advocate’s expert, Mr. Hal Novak was waived.¹⁵ During the hearing, the public

¹² *Id.* at 18-19.

¹³ William H. Novak, Pre-Filed Direct Testimony, pp. 4-5 (May 3, 2017).

¹⁴ Joint Position of the Parties That This Matter is Ripe for Consideration on the Merits by the TPUC (May 5, 2017). *See also* Transcript of Commission Conference, p. 23 (July 10, 2017).

¹⁵ Joint Position of the Parties That This Matter is Ripe for Consideration on the Merits by the TPUC (May 5, 2017). *See also* Transcript of Commission Conference, p. 28 (July 10, 2017).

was given an opportunity to offer comment, but no member of the public sought to comment on the *Petition*. Following the conclusion of the testimony, the voting panel considered the *Petition*.

FINDINGS AND CONCLUSIONS

Tenn. Code Ann. § 65-5-103(d)(3)(A) provides:

A public utility may request and the authority may authorize a mechanism to recover the operational expenses, capital costs or both related to the expansion of infrastructure for the purpose of economic development, if such expenses or costs are found by the commission to be in the public interest. Expansion of economic development infrastructure may include, but is not limited to, the following:

- (i) Infrastructure and equipment associated with alternative motor vehicle transportation fuel;
- (ii) Infrastructure and equipment associated with combined heat and power installations in industrial or commercial sites; and
- (iii) Infrastructure that will provide opportunities for economic development benefits in the area to be directly served by the infrastructure.

In authorizing the Commission to implement alternative regulatory methods under Tenn. Code Ann. § 65-5-103(d), the General Assembly did not alter or limit the Commission's general supervisory, regulatory and rate-setting powers over public utilities within its jurisdiction.¹⁶ Pursuant to its authority to implement alternative regulatory methods, as well as its general utility rate-setting powers, the Commission has the authority and discretion to determine whether alternative rate mechanisms produce rates and charges for public utility services that are just and reasonable and in the public interest.

The Commission's power and discretion in this regard applies not only to the initial rate adjustment, but also to all subsequent rate adjustments made under an approved alternative rate mechanism. In carrying out its responsibilities, the Commission may consider whether an alternative regulatory method: (1) is consistent with applicable TPUC orders, rules, and established ratemaking policies and principles; (2) ensures that costs and expenses recoverable under the alternative rate mechanism are reasonably and prudently incurred by the utility for the

¹⁶ See Tenn. Code Ann. §§ 65-4-104, 65-4-117(a)(3) and 65-5-101(a).

provision of authorized public utilities services; (3) provides for timely, meaningful and transparent review and approval of all rate adjustments made pursuant to the alternative rate mechanism; (4) continues to be in compliance with TPUC orders and tariffs establishing the alternative rate mechanism; and (5) remains in the public interest in light of changed circumstances or conditions.

Upon review of the entire evidentiary record in this matter, the panel voted unanimously to adopt an amount of \$4,042,821 as the total actual net PCOP expense for the year ending November 30, 2016. This amount includes \$1,023,399 for Chemical Expense, \$2,390,646 for Fuel & Power Expense, \$311,083 for Waste Disposal Expense, \$40,296 for Purchased Water Expense and \$193,639 for Inspection Fee Expense. Additionally, the panel voted unanimously that \$83,758 be added to the total PCOP expense due to the Company over-refunding amounts to customers in the 2016 PCOP Rider. The panel directed TAWC to file the PCOP percentage and tariffs consistent with the approved PCOP expense.

The panel also found that the PCOP Rider remains in the public interest. The PCOP Rider benefits the Company by allowing timely recovery of expenses without having to file a rate case. Consumers benefit by not having to pay for expensive rate cases that the Company might otherwise have to pursue if expenses increase, while also receiving immediate refunds when expenses within the PCOP Rider decrease.

IT IS THEREFORE ORDERED THAT:

1. The total actual net Production Cost and Other Pass-Through Rider expense for the year ending November 30, 2016 is \$4,042,821. This amount includes \$1,023,399 for Chemical Expense, \$2,390,646 for Fuel & Power Expense, \$311,083 for Waste Disposal Expense, \$40,296 for Purchased Water Expense and \$193,639 for Inspection Fee Expense.

Additionally, \$83,758 should be added to the total PCOP expense due to the Company over-refunding amounts to customers in the 2016 PCOP Rider.

2. Tennessee-American Water Company shall file the Production Cost and Other Pass-Throughs Rider expense percentage and tariffs consistent with the approved Production Cost and Other Pass-Throughs Rider expense.

Chairman David F. Jones, Vice Chairman Robin L. Morrison and Commissioner Kenneth C. Hill concur.

ATTEST:



Earl R. Taylor, Executive Director