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

**IN RE:**

**PETITION OF INTEGRA WATER  
TENNESSEE, LLC FOR A  
CERTIFICATE OF PUBLIC  
CONVENIENCE AND NECESSITY AND  
AUTHORITY TO CHARGE RATES IN  
CASEY COVE SUBDIVISION LOCATED  
IN DEKALB COUNTY, TENNESSEE**

**DOCKET NO. 17-00014**

**DIRECT TESTIMONY**

of

**David N. Dittmore**

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

*November 7, 2017*

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

3       **A1.** My name is David N. Dittmore. My business address is Office of the Tennessee  
4       Attorney General, UBS Tower, 315 Deaderick Street, Nashville, TN 37243. I am a  
5       Financial Analyst employed by the Consumer Protection and Advocate Division of  
6       the Tennessee Attorney General's Office (Consumer Advocate).

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

9       **A2.** I received a Bachelor of Science Degree in Business Administration from the  
10      University of Central Missouri in 1982. I am a Certified Public Accountant licensed  
11      in the state of Oklahoma (#7562). I was previously employed by the Kansas  
12      Corporation Commission (KCC) in various capacities, including Managing Auditor,  
13      Chief Auditor and Director of the Utilities Division, responsible for the regulatory  
14      oversight of all investor-owned utilities in Kansas and managing a staff of forty  
15      professionals. For approximately four years, I was self-employed as a Utility  
16      Regulatory Consultant representing primarily the KCC Staff in regulatory issues. I  
17      also participated in proceedings in Georgia and Vermont, evaluating issues  
18      involving electricity and telecommunications regulatory issues. Additionally, I  
19      performed a consulting engagement for Kansas Gas Service (KGS), my subsequent  
20      employer during this time frame. For eleven years I served as Manager and  
21      subsequently Director of Regulatory Affairs for KGS, the largest natural gas utility  
22      in Kansas serving approximately 625,000 customers. KGS is a division of One Gas,  
23      a natural gas utility serving approximately two million customers in Kansas,  
24      Oklahoma and Texas. I joined the Tennessee Attorney General's Office in  
25      September, 2017 as a Financial Analyst. Overall, I have 30 years of experience in  
26      the field of public utility regulation. I have presented testimony as an expert witness  
27      on a number of occasions. Attached as Exhibit 1 is a detailed vitae of my  
28      background.

**Q3. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION?**

**A3.** No, I have not.

**Q4. ON WHOSE BEHALF ARE YOU TESTIFYING?**

**A4.** I am testifying on behalf of the Consumer Advocate.

**Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

**A5.** The purpose of my testimony is to support the Consumer Advocate's position, concerns and recommendations regarding the Integra Water Tennessee LLC (IWT) petition for approval of a certificate of public convenience and necessity (CCN) and approval of rates in providing wastewater service in the Casey Cove subdivision.

**Q6. SUMMARIZE THE REQUEST OF INTEGRA IN THIS MATTER.**

**A6.** IWT seeks authority to provide wastewater service to the Casey Cove subdivision within DeKalb County, Tennessee. The subdivision has the capacity to serve 31 dwellings. The proposed monthly service rate is \$90, with a proposed reconnection charge of \$100 and a late payment penalty of 10%<sup>1</sup>. A security deposit of one times the monthly service fee, or \$90, is also proposed.

## SUMMARY RECOMMENDATIONS

**Q7. SUMMMARIZE THE RECOMMENDATIONS YOU ARE SUPPORTING.**

**A7.** I recommend the Tennessee Public Utility Commission (TPUC) adopt the proposed \$90 monthly service charge with the following conditions:

1. The monthly service rate of \$90 shall not increase for the lesser of:
  - a. Five years or

<sup>1</sup> Integra Water amended tariff filing submitted June 23, 2017.

b. Such time as IWT attains the full build-out of the Casey Cove subdivision, serving 31 customers.

2. Future rates of IWT should be determined using an Operating Margin.

3. Any IWT affiliate providing services to IWT shall be required to cooperate with future regulatory inquiries supporting the affiliate costs incurred by IWT.

4. Proof of Financial Security should be provided as a condition of the granting of the CCN.

5. The late payment penalty fee should be reduced to 1%.

**Q8. DO YOU BELIEVE IWT HAS THE MANAGERIAL EXPERTISE TO OPERATE A WASTEWATER TREATMENT UTILITY?**

**A8.** Yes.

**Q9. HAVE YOU REVIEWED THE PROJECTED FINANCIAL RESULTS OF IWT CONTAINED IN THE INITIAL PETITION?**

**A9.** Yes. IWT projects a net loss in excess of \$17 Thousand and \$4 Thousand in the first two years of operations, respectively. While this is somewhat concerning, it is not unexpected given the ramp-up of revenues while the new development is under construction. IWT anticipates to become net income positive in year three of its operations.

**Q10. DO YOU BELIEVE IWT HAS THE FINANCIAL CAPABILITY TO PROVIDE WASTEWATER SERVICE TO ITS CUSTOMERS?**

**A10.** Yes.

**Q11. ARE YOU CONCERNED WITH THE MAGNITUDE OF THE \$90 MONTHLY SERVICE RATE?**

**A11.** Yes, however there are two important and unique mitigating factors present in this situation. First, the development by nature is relatively small and somewhat remote, thus there are not currently economies of scale that would be present in larger

1 developments. If Integra Water, parent of IWT, expands its operations (whether in  
2 Tennessee or elsewhere), economies of scale may occur with respect to administrative  
3 and general costs, producing cost efficiencies that may accrue to IWT customers in  
4 future rate determinations. Secondly, due to the fact that the IWT is not yet operational,  
5 the prospective customers will have knowledge of the wastewater charge prior to  
6 making a decision to purchase property in the Casey Cove subdivision. Therefore, the  
7 prospective IWT customers are not yet ‘captive’ and can weigh the impact of the  
8 wastewater monthly fee prior to acquiring property and becoming an IWT customer<sup>2</sup>.

### 9 RATE MORATORIUM

10 **Q12. ADDRESS YOUR FIRST RECOMMENDED CONDITION, THAT THE**  
11 **PROPOSED RATES SHOULD NOT INCREASE FOR THE LESSOR OF FIVE**  
12 **YEARS, OR UNTIL THE DEVELOPMENT IS FULLY BUILT OUT.**

13 **A12.** The purpose of this condition is to provide some protection to prospective IWT  
14 customers that the service charge will not increase in the near-term, or until such time  
15 as the development is fully built out. This places the short-term risk that the build-out  
16 will not occur as rapidly as anticipated on IWT investors, rather than its ratepayers. This  
17 risk would be in place for no more than five-years at such time IWT would have the  
18 authority to seek rate relief going forward to recover prudently incurred cost increases  
19 or shortfalls in revenue if the development does not materialize as planned. If the build-  
20 out results in the full complement of 31 customers within the five years, IWT could then  
21 seek rate relief prior to the five-year stay out provision. This recommendation attempts  
22 to strike a balance in sharing the risk that development will not materialize between  
23 IWT investors and its ratepayers. In the long-term, IWT customers will incur higher  
24 rates if the development does not materialize as expected. The five-year rate  
25 moratorium would permit IWT to petition for new rates that would be effective on the  
26 five-year anniversary of the TPUC order approving the CCN.

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<sup>2</sup> Obviously, IWT customers will become ‘captive’ once they acquire property and therefore will not have the ability to avoid future IWT rate increases.

1 **OPERATING MARGIN**

2 **Q13. DID THE CCN REQUEST CONTAIN ANY REQUEST REGARDING HOW**  
3 **THE ADEQUACY OF RATES WOULD BE EVALUATED IN FUTURE**  
4 **REGULATORY FILINGS?**

5 **A13.** No. While technically such a determination is not necessary within this Docket, I  
6 believe it would be helpful for TPUC to make such a finding at this time so stakeholders  
7 would have the issue resolved, thus resolving one issue that would otherwise be in  
8 contention in the next rate proceeding. This issue would also provide some clarity to  
9 IWT and allow for better financial planning.

10 **Q14. WHAT OPERATING MARGIN DO YOU BELIEVE WOULD BE**  
11 **APPROPRIATE TO USE IN CALCULATING FUTURE REVENUE**  
12 **REQUIREMENT CALCULATIONS?**

13 **A14.** I am recommending that an operating ratio of 6.5% be applied in future IWT revenue  
14 requirement calculations. This is the operation ratio adopted in Docket No. 15-00130  
15 in the rate proceeding of Integrated Resource Management Inc. For purposes of  
16 calculating the revenue requirement, taxes and depreciation/amortization expense are  
17 added to Operating expenses and the margin is determined as a percentage of this total.

18 **AFFILIATE TRANSACTIONS**

19 **Q15. CAN YOU IDENTIFY THE AFFILIATES OF IWT?**

20 **A15.** IWT is owned by Integra Water LLC. Other affiliates of IWT include the following  
21 LLC's: Integra Water Baldwin, Integra Water Creola, Integra Water Madison County,  
22 Old North State Water Company, South Carolina Water Company and Integra Water  
23 Services<sup>3</sup>. Envirolink was initially identified as an affiliate in the pre-filed testimony of  
24 Mr. Michael J. Myers and was designated to provide operational and technical support  
25 to IWT<sup>4</sup>. However, in CPAD Discovery Request #1-5 and #2-2, IWT indicated that

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<sup>3</sup> IWT Response to CPAD Discovery Request #1-5.

<sup>4</sup> TPUC Discovery Request #2-2.

1        Envirolink is not an affiliate of IWT and until the TPUC draft affiliate rules are clarified,  
2        Envirolink will not provide services to IWT. As a result, IWT indicated the services  
3        formerly to be provided by Envirolink will now be provided by a third party or through  
4        ‘allocated cost’<sup>5</sup>. Further, IWT has indicated such costs will be higher than the cost of  
5        services that would have been provided by Envirolink, but there has been no evidence  
6        provided to support this conclusion<sup>6</sup>.

7        **Q16. DO YOU BELIEVE THAT SERVICES PROVIDED BY AFFILIATES**  
8        **WARRANT CLOSE REGULATORY SCRUTINY?**

9        **A16.** Yes. The theoretical regulatory concern with affiliate transactions is that captive  
10        monopoly customers may incur excessive costs due to the potential for self-dealing. If  
11        affiliate services are performed at a cost higher than that which could be obtained in the  
12        open (competitive) market, ratepayers bear the excessive costs. Therefore, affiliate  
13        transactions need special regulatory focus because there is a natural economic incentive  
14        to rely upon such services, regardless of the price, if such costs may be passed on to  
15        captive customers. This is not to pre-judge affiliate transactions and suggest that all  
16        such services produce excessive utility costs, but rather to indicate that such transactions  
17        require regulatory review.

18        **Q17. WHAT PRICING STANDARD SHOULD APPLY TO TRANSACTIONS**  
19        **PROVIDED BY AN AFFILIATE TO A REGULATED UTILITY?**

20        **A17.** The cost of such product or service should be the lower of the actual cost of the affiliate  
21        providing the service, or the market price for such service from an independent third  
22        party. Verification of this pricing standard requires access to the underlying books and  
23        records of the affiliate to ensure ratepayers are not incurring excessive costs.

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<sup>5</sup> CPAD Discovery Response #2-4(a). Presumably through the use of the phrase “allocated cost,” IWT is indicating the services will be provided by Integra Water LLC, its parent.

<sup>6</sup> IWT has not amended its financial forecast to incorporate the claim its costs will increase since certain services will no longer be provided by Envirolink. These additional costs would increase the losses forecasted in the first two years of IWT operations.



1 **Q18. DO YOU RECOMMEND THAT TPUC REQUIRE COOPERATION OF IWT**  
2 **AFFILIATES IN ORDER TO REVIEW AFFILIATE TRANSACTIONS TO**  
3 **THE EXTENT SUCH COSTS ARE INCLUDED IN FUTURE REVENUE**  
4 **REQUIREMENT REQUESTS?**

5 **A18.** Yes. IWT should have the burden of proof to demonstrate that such affiliate products  
6 and services were acquired at the lower of cost or market. IWT and its affiliates should  
7 retain the necessary records to meet this burden of proof for review by TPUC and the  
8 Consumer Advocate.

9 **PROOF OF FINANCIAL SECURITY**

10 **Q19. CAN YOU IDENTIFY THE PROOF OF FINANCIAL SECURITY**  
11 **REQUIREMENTS FOR THOSE WASTEWATER UTILITIES SUBMITTING**  
12 **AN INITIAL APPLICATION FOR A CCN?**

13 **A19.** The current TPUC requirements are found in Chapter 1220-4-13-07(2)(b), which  
14 indicate that those wastewater utilities initially seeking a CCN are required to provide  
15 financial security in the amount of \$20,000. Subsequent to the application, the  
16 wastewater utility shall provide security prior to providing service in the amount of  
17 \$20,000 or 100% of forecasted revenues, whichever is greater. In this instance, IWT is  
18 required to obtain proof of financial security of \$20,000 as required to obtain a CCN.  
19 Since forecasted revenues are less than \$20,000 in the initial year of operation, the  
20 financial security would remain at \$20,000 at the time IWT initiates service<sup>7</sup>.

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<sup>7</sup> New Draft Rules would permit IWT to reduce the Financial Security at the time service is initiated to the amount of annual forecasted revenues. I do not recommend that IWT's security be reduced.



# EXHIBIT DND-1

David N. Dittemore Vitae

David Dittimore

**Experience**

**Areas of Specialization**

Approximately thirty-year experience in evaluating and preparing regulatory analysis, including revenue requirements, mergers and acquisitions, utility accounting and finance issues and public policy aspects of utility regulation. Presented testimony on behalf of my employers and clients in natural gas, electric, telecommunication and transportation matters covering a variety of issues.

**Tennessee Attorney General's Office; Financial Analyst September, 2017 – Current**

Responsible for evaluation of utility proposals on behalf of the Attorney General's office including water, wastewater and natural gas utility filings. Prepare analysis and expert witness testimony documenting findings and recommendations.

**Kansas Gas Service; Director Regulatory Affairs 2014 – 2017; Manager Regulatory Affairs, 2007 - 2014**

Responsible for directing the regulatory activity of Kansas Gas Service (KGS), a division of ONE Gas, serving approximately 625,000 customers throughout central and eastern Kansas. In this capacity I have formulated strategic regulatory objectives for KGS, formulated strategic legislative options for KGS and led a Kansas inter-utility task force to discuss those options, participated in ONE Gas financial planning meetings, hired and trained new employees and provided recommendations on operational procedures designed to reduce regulatory risk. Responsible for the overall management and processing of base rate cases (2012 and 2016). I also played an active role, including leading negotiations on behalf of ONE Gas in its Separation application from its former parent, ONEOK, before the Kansas Corporation Commission. I have monitored regulatory earnings, and continually determine potential ratemaking outcomes in the event of a rate case filing. I ensure that all required regulatory filings, including surcharges are submitted on a timely and accurate basis. I also am responsible for monitoring all electric utility rate filings to evaluate competitive impacts from rate design proposals.

**Strategic Regulatory Solutions; 2003 -2007**

**Principal;** Serving clients regarding revenue requirement and regulatory policy issues in the natural gas, electric and telecommunication sectors

**Williams Energy Marketing and Trading; 2000-2003**

**Manager Regulatory Affairs;** Monitored and researched a variety of state and federal electric regulatory issues. Participated in due diligence efforts in targeting investor owned electric utilities for full requirement power contracts. Researched key state and federal rules to identify potential advantages/disadvantages of entering a given market.

**MCI WorldCom; 1999 - 2000**

**Manager, Wholesale Billing Resolution;** Manage a group of professionals responsible for resolving Wholesale Billing Disputes greater than \$50K. During my tenure, completed disputes increased by over 100%, rising to \$150M per year.

Kansas Corporation Commission; 1984- 1999

**Utilities Division Director** - 1997 - 1999; Responsible for managing employees with the goal of providing timely, quality recommendations to the Commission covering all aspects of natural gas, telecommunications and electric utility regulation; respond to legislative inquiries as requested; sponsor expert witness testimony before the Commission on selected key regulatory issues; provide testimony before the Kansas legislature on behalf of the KCC regarding proposed utility legislation; manage a budget in excess of \$2 Million; recruit professional staff; monitor trends, current issues and new legislation in all three major industries; address personnel issues as necessary to ensure that the goals of the agency are being met; negotiate and reach agreement where possible with utility personnel on major issues pending before the Commission including mergers and acquisitions; consult with attorneys on a daily basis to ensure that Utilities Division objectives are being met.

**Asst. Division Director** - 1996 - 1997; Perform duties as assigned by Division Director.

**Chief of Accounting** 1990 - 1995; Responsible for the direct supervision of 9 employees within the accounting section; areas of responsibility included providing expert witness testimony on a variety of revenue requirement topics; hired and provided hands-on training for new employees; coordinated and managed consulting contracts on major staff projects such as merger requests and rate increase proposals;

**Managing Regulatory Auditor, Senior Auditor, Regulatory Auditor** 1984 - 1990; Performed audits and analysis as directed; provided expert witness testimony on numerous occasions before the KCC; trained and directed less experienced auditors on-site during regulatory reviews.

Amoco Production Company 1982 - 1984

**Accountant** Responsible for revenue reporting and royalty payments for natural gas liquids at several large processing plants.

### **Education**

- B.S.B.A. (Accounting) Central Missouri State University
- Passed CPA exam; (Oklahoma certificate # 7562) – Not a license to practice

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AFFIDAVIT

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I, David N. Dittmore on behalf of the Consumer Protection and 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.

  
\_\_\_\_\_  
David N. Dittmore

Sworn to and subscribed before me  
this 7th day of November, 2017.

  
\_\_\_\_\_  
NOTARY PUBLIC

My commission expires: 11/3/20