

**BEFORE
THE TENNESSEE PUBLIC UTILITY COMMISSION**

PETITION OF TENNESSEE-)
AMERICAN WATER COMPANY)
REGARDING CHANGES TO THE)
QUALIFIED INFRASTRUCTURE)
INVESTMENT PROGRAM RIDER,)
THE ECONOMIC DEVELOPMENT)
INVESTMENT RIDER, AND THE)
SAFETY AND ENVIRONMENTAL)
COMPLIANCE RIDER AND IN)
SUPPORT OF THE CALCULATION OF)
THE 2017 CAPITAL RIDERS)
RECONCILIATION)

Docket No. 17-00020

**DIRECT TESTIMONY
of
WILLIAM H. NOVAK**

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

June 30, 2017

IN THE TENNESSEE REGULATORY AUTHORITY
AT NASHVILLE, TENNESSEE

IN RE:

PETITION OF TENNESSEE AMERICAN
WATER COMPANY REGARDING
CHANGES TO THE QUALIFIED
INFRASTRUCTURE INVESTMENT
PROGRAM RIDER, THE ECONOMIC
DEVELOPMENT INVESTMENT RIDER,
AND THE SAFETY AND
ENVIRONMENTAL COMPLIANCE RIDER
AND IN SUPPORT OF THE CALCULATION
OF THE 2017 CAPITAL RECOVERY
RIDERS RECONCILIATION

Docket No. 17-00020

AFFIDAVIT

I, William H. Novak, CPA, 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.


WILLIAM H. NOVAK

Sworn to and subscribed before me
this 8th day of June, 2017.


NOTARY PUBLIC

My commission expires:

May 6, 2019



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William H. Novak Vitae
Capital Rider Recommendation Impacts

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 35 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 TENNESSEE-AMERICAN WATER COMPANY?***

17 A4. Yes. I presented rate case testimony in Docket Nos. U-86-7402, U-87-7534, 89-
18 15388, 91-05224, 93-06946, 10-00189, 12-00149 and 12-00157 concerning
19 Tennessee-American Water Company (TAWC) as well as testimony concerning
20 TAWC in other generic tariff and rulemaking matters. I have also presented
21 testimony concerning TAWC's alternative regulatory mechanisms in Docket Nos.
22 13-00130, 14-00121, 15-00001, 15-00029, 15-00111, 16-00022, 16-00126 and
23 16-00148.

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 certain reconciliation surcharges in its Capital
5 Riders as shown in Table 1 below.

TABLE 1 – Company Proposed Capital Rider Surcharges ²		
Capital Rider	Current Surcharge	Proposed Surcharge
Qualified Infrastructure Investment Program (QIIP) Rider	7.520%	9.549%
Economic Development Investment (EDI) Rider	0.340%	0.297%
Safety & Environmental Compliance (SEC) Rider	6.090%	5.696%
Total Surcharge	13.950%	15.542%

6
7 **Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF**
8 **YOUR TESTIMONY?**

9 A6. I reviewed TAWC's Petition filed on March 1, 2017, along with the
10 accompanying tariff schedules. I also reviewed TAWC's testimony and exhibits
11 supporting its filing. Finally, I reviewed TAWC's responses to the data requests
12 submitted by the Consumer Advocate in this case.
13

² Petitioner's Exhibit, Annual Approved Tariffs – LCB.

1 ***Q7. PLEASE EXPLAIN THE RELIEF THAT TAWC IS ASKING FROM THE***
2 ***COMMISSION THROUGH ITS PETITION.***

3 A7. TAWC is asking the Commission to implement certain surcharges (shown above
4 in Table 1) based on the reconciliation performed to true-up the difference
5 between the revenue recovered and the actual cost related to the Capital Riders.
6 The overall structure for revenue recovery from these Capital Riders was
7 approved by the Commission in Docket No. 13-00130.

8

9 ***Q8. DID YOU REVIEW THE CALCULATIONS SUPPORTING THE***
10 ***PROPOSED SURCHARGES TO THE CAPITAL RIDERS IN TAWC'S***
11 ***TARIFF FILING?***

12 A8. Yes. I reviewed TAWC's filing supporting the proposed Capital Rider
13 surcharges. In addition, I sampled twelve ledger charges at random relating to
14 EDI, SEC, and QIIP projects to confirm the contractual services amount was
15 supported by invoices for the corresponding work order. I also prepared data
16 requests for supplemental supporting information that was not contained in or
17 readily apparent from the filing.

18

19 ***Q9. WHAT WERE THE RESULTS OF YOUR REVIEW?***

20 A9. I found that TAWC's calculations contained certain structural errors that could
21 not be properly reconciled to the Capital Rider tariff. Specifically, TAWC has
22 included \$307,171 in the current Capital Rider surcharge related to unrecovered
23 revenues from a previous period without any authorization in the tariff. TAWC

1 has also included the recovery of \$214,037 in capitalized incentive compensation
2 for Service Company employees within the Capital Riders that was specifically
3 disallowed in a prior rate case. In addition, TAWC has not provided adequate
4 documentation detailing its earnings test adjustment calculation that is used to
5 reduce the Capital Rider surcharge. The Company additionally allocated these
6 over-earnings to each of the Capital Riders incorrectly. Finally, TAWC has been
7 unable to adequately post and identify the revenues received from each of the
8 Capital Rider surcharges (QIIP, EDI and SEC) in its ledger.

9
10 **I. RECONCILIATION FACTOR CALCULATION**

11
12 ***Q10. MR. NOVAK, PLEASE EXPLAIN THE FORMULA FOR THE CAPITAL***
13 ***RIDER RECONCILIATION CALCULATION.***

14 A10. The formula for the Capital Rider reconciliation was approved by the
15 Commission in Docket No. 13-00130 and is included in TAWC's tariff.³
16 Basically, the formula trues-up the difference between the budget-to-actual costs
17 and revenues and then includes adjustments for interest and an earnings test
18 adjustment. In this current filing TAWC calculated a total reconciliation
19 adjustment to the Capital Riders of \$562,212 as shown in Table 2 below.

20
21
22

³ See Petitioner's Exhibit – Current Tariff Sheet No. 12 – Capital Riders – LCB, TRA No. 19, Sheets 12-EDI-5, 12-QIIP-5 and 12-SEC-5.

TABLE 2 – TAWC Proposed Reconciliation Factor Calculation⁴				
Reconciliation Component	QIIP	EDI	SEC	Total
Budget-Actual Adjustment	\$393,715	\$46,446	\$-76,333	\$363,828
PLUS Over/Under Collection Adjustment	\$171,542	\$12,410	\$276,148	\$460,100
PLUS 2015 Reconciliation Amount	\$411,519	\$-62,763	\$-41,585	\$307,171
PLUS Earnings Test Adjustment	\$-273,757	\$-10,866	\$-294,613	\$-579,235
PLUS Interest	\$13,182	\$-277	\$-2,557	\$10,348
Annual Reconciliation Adjustment	\$716,202	\$-15,050	\$-138,940	\$562,212
Authorized Revenues (9/12th)	\$35,305,293	\$35,305,293	\$35,305,293	\$35,305,293
Reconciliation Percentage	2.029%	-0.043%	-0.394%	1.592%
Current Surcharge Percentage	7.520%	0.340%	6.090%	13.950%
Total Proposed Surcharge	9.549%	0.297%	5.696%	15.542%

1

2 ***Q11. ARE THERE ANY ISSUES WITH THE FORMULA FOR TAWC'S***
3 ***CAPITAL RIDER RECONCILIATION CALCULATION?***

4 A11. Yes. As shown in Table 2 above, TAWC has included \$307,171 in the current
5 filing as the "2015 Reconciliation Amount". There is no support in the tariff for
6 including this amount in the Capital Rider reconciliation calculation.

7

8

9

⁴ Company spreadsheet titled "10-TAW_TRA_2016_CapRider_Recon", "Exhibit Reconciliation" tab included with filing.

1 ***Q12. DID TAWC OFFER AN EXPLANATION FOR INCLUDING THE “2015***
2 ***RECONCILIATION AMOUNT” OF \$307,171?***

3 A12. Yes. The Consumer Advocate requested an explanation from TAWC for
4 including the “2015 Reconciliation Amount” in the Capital Rider reconciliation
5 calculation in CPAD Request #2-8. TAWC’s response to this request referred to
6 its testimony, which reads as follows:

7 The authorized surcharge amount was proposed based on
8 revenues collected over 2016. For the 2016 Capital
9 Recovery Riders, this was proposed assuming the entire
10 calendar year, but the 2016 Capital Recovery Riders had an
11 effective date of March 15, 2016. The surcharge amount did
12 not change, but was simply applied for a shorter duration
13 than originally proposed. This reduced the overall amount
14 of revenues collected. What this means in practical terms is
15 that there were less actual water revenues to apply the
16 Capital Recovery Riders to than originally proposed.

17
18 Additionally, the 2016 Capital Recovery Riders
19 Reconciliation in Docket No. 16-00022 assumed a recovery
20 from April 1, 2016 through December 31, 2016. However,
21 the effective date of the 2016 Capital Recovery Riders
22 Reconciliation was October 11, 2016 and it ended December
23 31, 2016. This further reduced the overall amount of the
24 revenues collected in 2016.⁵

25
26 In summary, it appears that TAWC determined that they did not recover as much
27 reconciliation revenue as originally anticipated during 2016 because the Capital
28 Rider surcharges were only applied from October 11th through December 31st of
29 that year. As a result, it appears that TAWC is now stating that the entire 2015
30 reconciliation amount should be included in the 2016 Capital Rider reconciliation
31 calculation.

32

⁵ Direct testimony of TAWC witness Bridwell, page 24.

***Q13. IS THIS THE FIRST TIME THAT TAWC HAS MADE SUCH A
MODIFICATION TO THE CAPITAL RIDER TARIFF?***

A13. No. A review of past Capital Rider reconciliation filings reveals that TAWC also included a prior period reconciliation of \$59,364 in Docket No. 16-00022 but no adjustment in Docket No. 15-00029, resulting in a total prior period modification to the Capital Rider tariff of \$366,535 as shown below on Table 3.

TABLE 3 – TAWC Reconciliation Modifications				
Capital Rider	Docket No. 15-00029	Docket No. 16-00022	Docket No. 17-00020	Total
QIIP	\$0	\$89,598	\$411,519	\$501,117
EDI	\$0	\$-52,834	\$-62,763	\$-115,597
SEC	\$0	\$22,600	\$-41,585	\$-18,985
Total Reconciliation Modification	\$0	\$59,364	\$307,171	\$366,535

***Q14. DO YOU AGREE WITH TAWC'S PROPOSAL TO INCLUDE \$307,171 AS
THE "2015 RECONCILIATION AMOUNT" IN THE 2016
CALCULATION?***

A14. No. TAWC's inclusion of \$307,171 for the "2015 Reconciliation Amount" in the 2016 Capital Rider calculation as well as the \$59,364 adjustment for the "2014 Reconciliation Amount" is inappropriate and results in some double counting since a portion of this amount has already been recovered from customers. Furthermore, the Capital Rider tariff is quite specific as to exact components that are included within the reconciliation calculation, and there is no provision for the

1 uncollected amounts from previous periods. As a result, I recommend that the
2 Commission exclude the total \$366,535 related to the “2015 Reconciliation
3 Amount” and the “2014 Reconciliation Amount” from the 2016 Capital Rider
4 calculation.⁶

5
6 **II. CAPITALIZED INCENTIVE COMPENSATION**

7
8 ***Q15. PLEASE DESCRIBE THE COMMISSION’S POSITION ON INCENTIVE***
9 ***COMPENSATION AS IT RELATES TO TAWC.***

10 A15. The Commission has traditionally disallowed the recovery of incentive
11 compensation on the basis that it would be inappropriate to provide prefunding for
12 incentives through increased rates rather than from incrementally efficient
13 operations. In fact, TAWC’s recovery of incentive compensation for service
14 employees was specifically addressed in the Commission’s Order in Docket No.
15 10-00189 which reads as follows:

16 The TRA determined that one half of AIP [Annual
17 Incentive Plan] (\$69,619) should be included in Salaries and
18 Wages, since both TAWC and its customers benefit from
19 AIP through higher financial returns to the Company.
20 Regarding the LTIP [Long Term Incentive Plan], this
21 program provides executive or director compensation based
22 on the financial performance of AWWC’s stock price. No
23 just and reasonable basis exists for charging ratepayers this
24 type of compensation, which rewards TAWC solely on the
25 basis of financial performance. For ratemaking purposes,
26 therefore, LTIP should be eliminated.⁷

⁶ The Commission would need to reduce the current “2015 Reconciliation Amount to zero (\$0) and implement a negative balance (\$59,364) to fully offset the “2014 Reconciliation Amount” that was included by TAWC in Docket No. 16-00022.

⁷ Commission Order in Docket No. 10-00189, Page 63, April 27, 2012.

**Q16. HAS TAWC PROPERLY REMOVED INCENTIVE COMPENSATION
FROM THE CAPITAL RIDER CALCULATION?**

A16. No. In response to CPAD Data Request #2-5 (Supplemental), TAWC stated
“...Tennessee American determined that none of the expenditures for Tennessee
American employee APP [Annual Performance Plan] or LTPP [Long-Term
Performance Plan] had been capitalized from 2013 through 2016, while a portion
of both APP and LTPP expenditures for Tennessee American’s portion of Service
Company employees had been capitalized.”

TAWC then went on to identify a total of \$214,037 in incentive compensation
that had been capitalized and included in the Capital Rider from 2013 through
2016 as shown below in Table 4.⁸

TABLE 4 – TAWC Capitalized Incentive Compensation ⁹					
Year	APP Expenses	LTPP Expenses	Total	Amount Capitalized	% Capitalized
2013	\$143,533	\$34,638	\$178,171	\$67,630	37.96%
2014	\$147,822	\$30,535	\$178,357	\$38,826	21.77%
2015	\$267,852	\$38,811	\$306,663	\$46,737	15.24%
2016	\$464,044	\$57,709	\$521,753	\$60,844	11.66%
Total	\$1,023,251	\$161,693	\$1,184,944	\$214,037	18.06%

⁸ Per CPAD Request #1-5 (Supplemental), TAWC is unable to determine the amount of incentive compensation applicable to each individual Capital Rider (QIIP, EDI or SEC).

⁹ Per CPAD Request #1-5 (Supplemental).

1 ***Q17 ARE YOU STATING THAT TAWC'S CAPITALIZATION OF***
2 ***INCENTIVE COMPENSATION IS AN ACCOUNTING ERROR?***

3 A17. No. The correct accounting procedure is to capitalize any portion of O&M
4 expense that is appropriately related to capital projects which TAWC has done.
5 However, TAWC has inappropriately converted certain O&M incentive expenses
6 which are specifically disallowable for rate setting purposes into plant in service
7 which it is now seeking to earn a return on and recover in future years.

8
9 Since the origin of these O&M expenses was for incentive compensation, which
10 is specifically disallowed for rate setting purposes, the capitalization of these
11 incentives should also be disallowed for rate setting purposes. I am therefore
12 recommending that the cumulative capitalized incentive compensation from 2013
13 to 2016 of \$214,037 be excluded from the Capital Rider calculation. In addition,
14 because this is a permanent ongoing adjustment from the amounts recorded on
15 TAWC's books, I would recommend that the Commission direct TAWC to
16 exclude the impact of capitalized incentive compensation in future Capital Rider
17 filings.

18
19 **III. EARNINGS TEST ADJUSTMENT**

20
21 ***Q18. MR. NOVAK, PLEASE EXPLAIN THE PURPOSE OF THE EARNINGS***
22 ***TEST ADJUSTMENT CONTAINED IN THE CAPITAL RIDER TARIFF.***

1 A18. The Earnings Test Adjustment was established with the tariff structure in Docket
2 No. 13-00130 as a safety check to make certain that the rate adjustments for the
3 Capital Riders didn't allow TAWC to exceed its authorized rate of return.
4 Specifically, the tariff language relating to the Earnings Test Adjustment reads as
5 follows:

6 If the earnings attained by the Company for the Annual
7 Review Period exceed the earnings allowed for the Annual
8 Review Period by applying the overall rate of return
9 authorized in the Relevant Rate Order, then any such
10 earnings difference shall constitute the Earnings Test
11 Adjustment. If the earnings attained by the Company for the
12 Annual Review Period are less than the earnings allowed for
13 the Annual Review Period by applying the overall rate of
14 return authorized in the Relevant Rate Order, then no
15 Earnings Test Adjustment shall be recognized.

16
17 Any Earnings Test Adjustment shall be allocated among the
18 Qualified Infrastructure Improvement Program Rider, the
19 Economic Development Investment Rider, and the Safety
20 and Environmental Compliance Rider based on the pro-rata
21 revenues collected under these riders for the Annual Review
22 Period for purposes of computing new rate adjustments.¹⁰

23 In summary, if the earnings of TAWC exceed the authorized rate of return granted
24 by the Commission, then the Capital Rider surcharges are reduced to a level that
25 brings the rate of return down to the authorized level.

26
27 ***Q19. HAS TAWC EXCEEDED ITS AUTHORIZED RETURN IN THE***
28 ***CURRENT CAPITAL RIDER RECONCILIATION FILING?***

29 A19. Yes. This is the first time since the implementation of the Capital Riders that
30 TAWC has exceeded its authorized rate of return.¹¹ As shown on Table 2 above,

¹⁰ TAWC Tariff, TRA No. 19, Sheet Nos. 12-QIIP-8, 12-SEC-8 and 12-EDI-8.

¹¹ See TAWC response to CPAD Request #2-13A.

1 TAWC exceeded its authorized rate of return and reduced the Capital Rider
2 Reconciliation adjustment by \$579,235 through the Earnings Test Adjustment.
3

4 ***Q20. WERE YOU ABLE TO ADEQUATELY REVIEW TAWC'S EARNINGS***
5 ***TEST ADJUSTMENT?***

6 A20. No. As its base of support for the Earnings Test Adjustment, TAWC utilized its
7 monthly report that is provided to the Commission. While the Commission's
8 monthly report is a useful tool for monitoring accounting activity, in my opinion it
9 is inadequate for making actual adjustments in rate cases and earnings reviews.
10 For that reason, I requested that TAWC provide copies of its ledger supporting the
11 monthly reports to the Commission for 2016.¹²
12

13 ***Q21. DID TAWC PROVIDE THE LEDGER DATA THAT YOU REQUESTED?***

14 A21. No. As a result, I am unable to affirm that TAWC's calculation of the Earnings
15 Test Adjustment is correct since I cannot confirm that these earnings tie to its
16 ledger. Since this is the first time that the Earnings Test Adjustment has been
17 applied, there is no precedent for how this adjustment should be made. However,
18 the Commission's Order establishing the Capital Riders state "(t)he tariffs provide
19 for filing procedures and requirements, including submission of supporting
20 documentation, intended to ensure timely and transparent review of all proposed
21 rate adjustments."¹³
22

¹² See TAWC response to CPAD Request # 1-11 and CPAD Request #2-5.

¹³ Commission Order in Docket No. 13-00130, Page 10, Paragraph 5, January 27, 2016.

1 Clearly in this case TAWC has not provided supporting documentation for the
2 Earnings Test Adjustment that provides for a transparent review. As a result, I
3 would recommend that the Commission order TAWC to provide a copy of its
4 ledger that fully supports its Earnings Test Adjustment before any change to the
5 Capital Rider is allowed.

6
7 ***Q22. DID TAWC PROPERLY ALLOCATE THE EARNINGS TEST***
8 ***ADJUSTMENT TO EACH OF THE CAPITAL RIDERS (QIIP, EDI &***
9 ***SEC)?***

10 A22. No. As mentioned above, the Capital Rider tariff requires the Earnings Test
11 Adjustment to be allocated on the basis of revenues. Instead, TAWC has
12 allocated the Earnings Test Adjustment to each of the Capital Riders based on
13 the pro-rata pre-tax return on additions.¹⁴

14
15 ***Q23. DID TAWC AGREE THAT THIS EARNINGS TEST ADJUSTMENT***
16 ***ALLOCATION WAS AN ERROR?***

17 A23. No. TAWC states that “(t)he calculation was not made in error, however, TAWC
18 does agree that the calculation does not match the specific language of the
19 tariff.”¹⁵

20
21 ***Q24. DO YOU AGREE WITH TAWC’S ALLOCATION OF THE EARNINGS***
22 ***TEST ADJUSTMENT?***

¹⁴ See TAWC response to CPAD Request #1-7.

¹⁵ See TAWC response to CPAD Request #1-7D.

1 A24. No. If the Earnings Test Adjustment allocation does not comply with the terms of
2 the tariff then it is definitively calculated in error. Although the total amount of
3 the Earnings Test Adjustment will not change, each individual Capital Rider
4 Surcharge (QIIP, SEC, and EDI) will change. If there is truly value in having
5 three separate Capital Riders, there must be value in having these amounts
6 calculated properly instead of arbitrarily using another allocation method. As a
7 result, I would recommend that the Commission order TAWC to provide a proper
8 allocation of the Earnings Test Adjustment that conforms to its tariff before any
9 change to the Capital Rider is allowed.

11 IV. LEDGER SUPPORT FOR CAPITAL RIDER REVENUE

12
13 ***Q25. MR. NOVAK, WERE YOU ABLE TO TIE THE INDIVIDUAL CAPITAL***
14 ***RIDER REVENUE (QIIP, SEC & EDI) TO TAWC'S LEDGER?***

15 A25. No. I was not able to tie the revenue reported by TAWC for each individual
16 Capital Rider to the ledger. Instead, only the combined totals for all three Capital
17 Riders can be traced to the TAWC ledger. According to TAWC, the Capital
18 Rider revenues are posted to the ledger in batches to only one account.¹⁶ As a
19 result, I was unable to trace the revenue for each individual Capital Rider to the
20 ledger.

21

¹⁶ See TAWC response to CPAD Request #2-1.

1 **Q26. WHY IS IT NECESSARY TO TRACE EACH CAPITAL RIDER TO THE**
2 **LEDGER?**

3 A26. In order to assure that the Capital Rider reconciliation properly reflects the
4 revenues charged to customers, I believe that it is necessary to trace the revenue
5 for each Capital Rider surcharge to the ledger. In order to do this, TAWC needs
6 to adjust its posting procedures to allow for each Capital Rider surcharge to be
7 separately identified on the ledger. Again, if there is value in having three
8 separate Capital Riders, as TAWC initially petitioned for and had approved by the
9 Commission in Docket No. 13-00130, there must be value in having these
10 amounts individually identified in the ledger. I would therefore recommend that
11 the Commission order TAWC to adjust its ledger posting procedures to properly
12 identify the revenues for each of the Capital Riders on the ledger.

13

14 **V. SUMMARY & RATE RECOMMENDATION**

15

16 **Q27. MR. NOVAK, PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO**
17 **THE COMMISSION.**

18 A27. I recommend that the Commission eliminate \$366,535 in the current Capital Rider
19 surcharge related to unrecovered revenues from a previous period since there was
20 no authorization for this adjustment in the tariff.

21

1 I also recommend that the Commission eliminate \$214,037 in the current Capital
2 Rider surcharge related to capitalized incentive compensation for Service
3 Company employees that was specifically disallowed in a prior rate case.

4 I recommend that the Commission direct TAWC to provide a copy of its ledger
5 that fully supports its Earnings Test Adjustment before any change to the Capital
6 Rider is allowed.

7
8 I also recommend that the Commission direct TAWC to provide a proper
9 allocation of the Earnings Test Adjustment that complies with the tariff before
10 any change to the Capital Rider is allowed.

11
12 Finally, I would recommend that the Commission direct TAWC to adjust its
13 ledger posting procedures in order to properly identify the revenues for each of
14 the Capital Riders on the ledger.

15
16 ***Q28. HAVE YOU CALCULATED THE IMPACT OF YOUR***
17 ***RECOMMENDATIONS?***

18 A28. Yes. As shown on Attachment WHN-2, the recommendations described above
19 reduce the total Capital Rider surcharge from 15.542% to 14.424% as shown
20 below in Table 5.

21
22
23

TABLE 5 – CPAD Proposed Capital Rider Surcharges		
Rider	TAWC Proposed	CPAD Proposed
Qualified Infrastructure Investment Program (QIIP) Rider	9.549%	8.087%
Economic Development Investment (EDI) Rider	0.297%	0.649%
Safety & Environmental Compliance (SEC) Rider	5.696%	5.688%
Total Surcharge	15.542%	14.424%

1

2 ***Q29. DOES THIS COMPLETE YOUR TESTIMONY?***

3 A29. Yes, it does. However, I reserve the right to incorporate any new data that may
 4 subsequently become available.

ATTACHMENT WHN-1
William H. Novak Vitae

William H. Novak

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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
Tennessee	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
	Chattanooga 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
	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
Alabama	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
	Southwestern Public Service Co./New Mexico PRC	2010	Financial Audit of Fuel Costs for 2009 and 2010	09-00351-UT
	National Grid/New York PSC	2011	Audit of Affiliate Relationships and Transactions	10-M-0451
	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
	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
	Aqua Utilities/PSS Legal Fund	2011	Rate Case Audit - Class Cost of Service and Rate Design	W-218, Sub-319
	Washington Gas Light Co./Public Service Comm of DC	2011	Audit of Tariff Rider for Infrastructure Replacement Costs	1027
	National Association of Regulatory Utility Commissioners	2015	Presentation of Regulatory Issues with Net Metering Customers on Rates of Electric Utilities	
	NARUC			

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

ATTACHMENT WHN-2

Capital Rider Recommendation Impacts

Line Number	Description	Qualified Infrastructure Investment Program QIIP				Economic Development Investment EDI				Safety and Environmental Compliance SEC				Total			
		Average YTD 12/31/2016		Variance		Average YTD 12/31/2016		Variance		Average YTD 12/31/2016		Variance		Average YTD 12/31/2016		Variance	
		Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
1	Additions Subject to Rider:	\$17,526,136	\$16,038,978	\$1,487,158	\$1,487,158	\$761,222	\$880,084	\$381,138	\$381,138	\$20,051,357	\$20,211,658	(\$160,301)	(\$160,301)	\$38,338,715	\$36,630,720	\$1,707,995	\$1,707,995
2	Less: Capitalized Incentive Compensation *	214,037	0	214,037	0	0	0	0	0	0	0	0	0	214,037	0	214,037	214,037
3	Plus: Cost of Removal less Salvage	2,109,824	822,674	1,287,150	933	933	0	933	933	637,263	93,093	544,170	544,170	2,748,020	915,767	1,832,253	1,832,253
4	Less: Contributions in Aid to Construction (CIAC)	417,526	0	417,526	0	1,778	0	1,778	0	197,908	6,451	191,457	191,457	419,304	0	419,304	419,304
5	Less: Deferred Income Taxes	122,302	77,209	45,093	6,844	6,844	2,149	4,695	4,695	358,395	710,858	(352,463)	(352,463)	758,441	85,809	241,245	241,245
6	Less: Accumulated Depreciation	389,016	312,641	76,375	11,030	11,030	6,154	4,876	4,876	\$20,132,316	\$19,587,442	\$544,874	\$544,874	\$39,367,900	1,029,653	(271,212)	(271,212)
7	Net Investment Supplied Additions:	\$18,499,080	\$16,471,802	\$2,027,278	\$2,027,278	\$742,503	\$371,781	\$370,722	\$370,722	\$20,132,316	\$19,587,442	\$544,874	\$544,874	\$39,367,900	\$36,431,025	\$2,936,875	\$2,936,875
8																	
9	Pre-Tax Authorized Rate of Return:																
10	Pre-Tax Return on Additions:	\$1,748,406	\$1,557,306	\$191,099	\$191,099	\$70,199	\$35,150	\$35,049	\$35,049	\$1,903,385	\$1,851,871	\$51,514	\$51,514	\$3,721,990	\$3,444,327	\$277,663	\$277,663
11																	
12	Depreciation Expense on Additions:	466,610	304,249	162,361	10,235	10,235	5,463	4,772	4,772	372,362	488,293	(115,931)	(115,931)	849,206	798,005	51,201	51,201
13																	
14	Property and Franchise Taxes Associated:	222,577	215,120	7,456	10,278	10,278	5,135	5,142	5,142	258,278	267,759	(9,481)	(9,481)	491,132	488,014	3,118	3,118
15																	
16	Revenues:	2,437,592	2,076,676	360,916	90,711	90,711	45,748	44,964	44,964	2,534,025	2,607,923	(73,897)	(73,897)	5,062,328	4,730,346	331,982	331,982
17																	
18	Revenue Taxes																
19	Total Capital Riders Revenues with Revenue Taxes	\$2,517,939	\$2,145,127	\$372,812	\$372,812	\$93,701	\$47,256	\$46,446	\$46,446	\$2,617,551	\$2,693,884	(\$76,333)	(\$76,333)	\$5,229,192	\$4,886,267	\$342,925	\$342,925
20																	
21	Actual Capital Riders Revenues Billed		\$1,973,584				\$34,846				\$2,417,737				\$4,476,167		
22																	
23	(Over)/Under Capital Riders Revenue Billings		171,542		12,410		12,410				276,148				460,100		
24	Budget to Actual Adjustment		372,812		46,446		46,446				(76,333)				342,925		
25	2014 Reconciliation Amount Reversal **		(89,598)		52,834		52,834				(22,600)				(59,364)		
26	Earnings Test Adjustment ***		(258,275)		(4,560)		(4,560)				(316,400)				(579,235)		
27	Interest (Prime - 3.75%)		3,684		2,009		2,009				(2,610)				3,083		
28																	
29	Reconciliation Amount		\$200,165		\$109,138		\$109,138				(\$141,795)				\$167,508		
30																	
31	Authorized Capital Riders Revenues (9/12th)		\$35,305,293		\$35,305,293		\$35,305,293				\$35,305,293				\$35,305,293		
32																	
33	Current Reconciliation Factor Percentage		0.567%		0.309%		0.309%				-0.402%				0.474%		
34	Current Budget Percentage		7.520%		0.340%		0.340%				6.090%				13.950%		
35																	
36	Proposed Capital Rider Billing Percentage		8.087%		0.649%		0.649%				5.688%				14.424%		
37																	

* TAWC was unable to segregate historic capitalized incentive compensation between Capital Riders. Therefore, all incentive compensation is assigned to the QIIP Rider.
** Reversal of 2014 Reconciliation from Docket 16-00022.
*** Earnings Test Adjustment allocated on revenues.