

July 21, 2017

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VIA ELECTRONIC FILING

Hon. David Jones, Chairman
c/o Sharla Dillon
Tennessee Regulatory Authority
502 Deaderick Street, 4th Floor
Nashville, TN 37243

**RE: Petition of Tennessee-American Water Company in Support of the Calculation
of the 2017 Capital Recovery Riders Reconciliation, TPUC Docket No. 17-00020**

Dear Chairman Jones:

Attached for filing please find *Tennessee-American Water Company's Rebuttal Testimony* in the above-captioned matter.

As required, an original of this filing, along with four (4) hard copies, will follow. Should you have any questions concerning this filing, or require additional information, please do not hesitate to contact me.

Very truly yours,

BUTLER SNOW LLP



Melvin J. Malone

MJM:bh
Attachment

cc: Linda Bridwell, Tennessee-American Water Company
Wayne Irvin, Assistant Attorney General, Consumer Protection and Advocate Division
Vance Broemel, Assistant Attorney General, Consumer Protection and Advocate Division

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 17-00020

REBUTTAL TESTIMONY

OF

LINDA C. BRIDWELL

ON

**CHANGES TO THE QUALIFIED INFRASTRUCTURE INVESTMENT PROGRAM
RIDER, THE ECONOMIC DEVELOPMENT INVESTMENT RIDER, AND THE
SAFETY AND ENVIRONMENTAL COMPLIANCE RIDER**

SPONSORING PETITIONER'S EXHIBIT:

PETITIONER'S EXHIBIT – CAPITAL RIDERS RECONCILIATION -- LCB

1 **Q. PLEASE STATE YOUR NAME.**

2 A. My name is Linda C. Bridwell.

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

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

6 **Q. DID YOU FILE DIRECT AND SUPPLEMENTAL TESTIMONY IN THIS CASE?**

7 A. Yes. I submitted Pre-filed Direct Testimony in this case on March 1, 2017, on behalf of
8 Tennessee-American Water Company ("Tennessee American," "TAWC" or "Company").

9 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

10 A. The purpose of my Rebuttal Testimony is to respond to the Testimony of William H.
11 Novak, witness for the Consumer Protection and Advocate Division of the Tennessee
12 Attorney General's Office ("CPAD"), filed with the Tennessee Public Utility Commission
13 ("TPUC" or "Commission") on June 30, 2017. Mr. Novak identified five concerns that he
14 had with the Capital Recovery Riders Reconciliation surcharge in this Docket No. 17-
15 00020 filing. I will address each of those concerns.

16 **Q. MR. NOVAK DISCUSSES IN HIS TESTIMONY HIS CONCERN WITH THE**
17 **COMPANY'S INCLUSION OF \$307,171 IN THE CURRENT CAPITAL RIDER**
18 **RECONCILIATION SURCHARGE RELATED TO UNRECOVERED REVENUES**
19 **FROM A PREVIOUS PERIOD.¹ CAN YOU EXPLAIN THE UNRECOVERED**

¹ See Pre-filed Testimony of CPAD Witness William H. Novak, TPUC Docket No. 17-00020, (June 30, 2017), pp 6-9.

1 **REVENUE IN THE CAPITAL RECOVERY RIDERS RECONCILIATION**
2 **SURCHARGE?**

3 A. Certainly. Tennessee American, includes in the current Capital Recovery Riders
4 Reconciliation for 2016, an “Over-Under Adjustment” that trues up the difference between
5 the actual revenues collected during the review period of 2016, and the amount of revenues
6 that were authorized for 2016. Tennessee American included two components to that
7 “Over-Under Adjustment”. The first component is the difference between the actual and
8 authorized revenues in 2016 for the Capital Recovery Riders in Docket No. 15-00111. The
9 second component of that adjustment is the difference between the actual and authorized
10 revenues in 2016 for the Capital Recovery Riders Reconciliation in Docket No. 16-00022.
11 Mr. Novak’s concern is with the inclusion of the second component, the portion of the
12 adjustment for the difference between the actual and authorized revenues in 2016 for the
13 Capital Recovery Riders Reconciliation in Docket No. 16-00022.

14 **Q. WHAT IS THE “OVER-UNDER ADJUSTMENT”?**

15 The tariff contemplates an “Over-Under Adjustment” that accounts for the difference
16 between the actual revenues collected during the review period and the authorized revenues
17 during the review period. The actual revenues collected under the review period may vary
18 from the authorized amount if overall water sales differ from the amount authorized in the
19 base rate case. The purpose of the Over-Under Adjustment is to provide a protection that
20 if the actual revenues from the Capital Recovery Riders surcharge differs from the
21 authorized amount of revenues, that the next year will be trued-up to include that
22 difference. In the years 2013, 2014 and 2015, those sales were less than authorized due to
23 declining usage per customer. In 2016, the water sales were higher than the authorized.

1 While declining usage per customer is continuing, this was offset by unusually hot dry
2 conditions in eastern Tennessee in 2016. Another factor that may impact the amount of
3 water sales can include if the time period authorized were shorter than the calendar year,
4 which occurred in 2016. As I described in my Direct Testimony, for the 2016 Capital
5 Recovery Riders, this surcharge was proposed in Docket No. 15-00111 assuming it would
6 be collected for the entire calendar year, but the 2016 Capital Recovery Riders had an
7 effective date of March 15, 2016.² The surcharge amount did not change, but was simply
8 applied for a shorter duration than originally proposed. This reduced the overall amount
9 of revenues collected. What this means in practical terms is that there were less actual
10 water revenues to apply the Capital Recovery Riders to than originally proposed.

11 Additionally, the 2016 Capital Recovery Riders Reconciliation in Docket No. 16-00022
12 assumed a recovery from April 1, 2016 through December 31, 2016. However, the
13 effective date of the 2016 Capital Recovery Riders Reconciliation was October 11, 2016
14 and it ended December 31, 2016. This further reduced the overall amount of the revenues
15 collected in 2016.

16 The impact is not just for the benefit of the company. Likewise, in reconciliations, any
17 refunds that may need to be made that are not completed will carry forward into the
18 following reconciliation. Refunds have occurred in Docket No. 15-00029, Docket No. 16-
19 00022, and are included in this current Docket No. 17-00020.

20 **Q. DO YOU AGREE WITH MR. NOVAK'S CONCERNS?**

21 **A.** No, I do not.

² See Pre-filed Direct Testimony of Linda C. Bridwell, TPUC Docket No. 17-00020, (March 1, 2017), p 24, L 8.

1 Q. CAN YOU EXPLAIN THE RATIONALE FOR INCLUDING THE ADJUSTMENT
2 FOR THE CAPITAL RECOVERY RIDERS RECONCILIATION FROM DOCKET
3 NO. 16-00022?

4 A. Yes, I can. As Tennessee American explained it's response to Item 8 of the CPAD's
5 Second Discovery Request:

6 *"The company includes the 2015 reconciliation amount as part of the*
7 *"Over/Under Collection" adjustment. The "Actual Rider Revenues Billed"*
8 *reflect the combined billings from when the 2016 Annual Capital Rider*
9 *rates were approved from Docket No. 15-00111 and when the 2015*
10 *"Annual Reconciliation Factor Percentage Rate" were approved from*
11 *Docket No. 16-00022. The Company's rationale for including the "2015*
12 *Reconciliation Amount" (line 25) in the calculation of the "Annual*
13 *Reconciliation Factor Percentage Rate" is was discussed in my pre-filed*
14 *direct testimony in this docket, beginning at page 23, line 6. The testimony*
15 *refers to the "2016 Reconciliation of the Capital Recovery Riders" which*
16 *was a result of Docket 16-00022, while the schedule at line 25 refers to the*
17 *same amount as the "2015 Reconciliation Amount". These are the same*
18 *things."*³
19

20 What this means is that Tennessee American has included both components so that
21 the Capital Recovery Riders Reconciliation reflects an "Over-Under Adjustment"
22 for all of the authorized revenues during the review period. This is a safeguard
23 mechanism for both the consumers and the Company against the factors discussed
24 previously.

³ See TAWC response to CPAD First Discovery Request, Item 8, May 5, 2017

1 **Q. MR. NOVAK INDICATES THAT THERE IS NO SUPPORT IN THE TARRIF FOR**
2 **THIS INCLUSION OF THE CAPITAL RECOVERY RIDERS RECONCILIATION**
3 **FROM DOCKET NO. 16-00022.⁴ DO YOU AGREE?**

4 A. No, I do not. In all three Capital Recovery Riders tariffs, the “Over-Under Collection
5 Adjustment” is defined as:

6 “the adjustment to [QIIP/EDI/SEC] for the applicable coming annual period due to
7 the net amount of over or under collections.”⁵

8 The tariff goes on to describe the Computation of the Over-Under Collection Adjustment
9 as:

10 “The Company will identify and record the total amount of the
11 [QIIP/EDI/SEC] Collected from Customers for the Annual Review Period.
12 The difference between the Total [QIIP/EDI/SEC] Collected from
13 Customers and the Total Budgeted [QIIP/EDI/SEC] Revenue Requirement
14 shall constitute the Over-Under Collection Adjustment.”⁶

15 The language in the tariff for the “Over-Under Collection Adjustment” as an
16 adjustment for the revenues from the Capital Recovery Riders during the Annual
17 Review period does not direct the exclusion of the Capital Recovery Riders
18 Reconciliation component during that same Annual Review Period.

19 **Q. MR. NOVAK ALSO STATES THAT THE INCLUSION OF THE CAPITAL**
20 **RECOVERY RIDERS RECONCILIATION AUTHORIZED REVENUES IN**

⁴ See Pre-filed Testimony of CPAD Witness William H. Novak, TPUC Docket No. 17-00020, (June 30, 2017), p 6, L 5.

⁵ See tariff pages TAWC First Revised Sheet No. 12- QIIP – 2, issued August 28, 2015, TAWC First Revised Sheet No. 12 – EDI – 2, issued August 28, 2015, and TAWC Original Sheet No. 12 – SEC 2 issued March 15, 2014.

⁶ See tariff pages TAWC First Revised Sheet No. 12- QIIP – 8, issued August 28, 2015, TAWC First Revised Sheet No. 12 – EDI – 8, issued August 28, 2015, and TAWC Original Sheet No. 12 – SEC 8 issued March 15, 2014.

1 **THEIR ENTIRETY AS PART OF THE OVER-UNDER COLLECTION**
2 **ADJUSTMENT RESULTS IN SOME DOUBLE COUNTING.⁷ DO YOU AGREE**
3 **THAT THE ADJUSTMENT RESULTS IN ANY FORM OF DOUBLE**
4 **COUNTING?**

5 A. No, absolutely it does not result in any form of double counting. As Tennessee American
6 stated in response to Item 4 of the CPAD's Third Discovery Request, when TAWC enters
7 the Capital Recovery Rider Surcharge rate in the Customer Information System, or billing
8 system the rate applied for each rider combines the Capital Recovery Rider rate and the
9 corresponding Capital Recovery Rider Reconciliation rate.⁸ Therefore, for any time after
10 the approval of the 2016 Capital Recovery Rider during 2016, the Capital Recovery Rider
11 rates are combined to include both the 2016 approved Capital Recovery Rider rate as well
12 as the 2015 Reconciliation of the Capital Recovery Rider rate. The revenues collected in
13 the 2016 review time period in this reconciliation Docket (January 1, 2016 through
14 December 31, 2016) were from the billing to each customer for the combined rate of the
15 2016 Capital Recovery Rider and the 2015 Capital Recovery Rider Reconciliation, not two
16 separate rates. The total calculation of the Over/Under Collection Adjustment for the
17 Capital Recovery Riders Reconciliation in this Docket No. 17-00020 includes both the
18 Over/Under Collection amount for the 2016 Capital Recovery Riders and the Over/Under
19 Collection amount for the 2015 Capital Recovery Rider Reconciliation amount combined.
20 Consistent with the Capital Recovery Rider surcharge tariffs, including the total authorized
21 2015 Reconciliation amount of \$307,171, combined with the 2016 authorized Capital

⁷ See Pre-filed Testimony of CPAD Witness William H. Novak, TPUC Docket No. 17-00020, (June 30, 2017), p 8, L 8.

⁸ See TAWC Response to CPAD's Third Discovery Request, Item 4, filed July 18, 2017.

1 Recovery Riders and then subtracting out the total amount of revenues collected in 2016 is
2 the appropriate way to calculate the Over/Under adjustment for the 2016 Reconciliation
3 Amount. The methodology applied in the calculations prevents the possibility of double
4 recovery.

5 **Q. MR. NOVAK FURTHER INDICATES THAT THE AMOUNT OF \$59,364, WHICH**
6 **WAS THE AUTHORIZED REVENUES IN DOCKET NO. 15-00029, WAS**
7 **INCLUDED INAPPROPRIATELY IN THE PREVIOUS CAPITAL RECOVERY**
8 **RIDERS RECONCILIATION DOCKET NO. 16-00022.⁹ DO YOU AGREE THAT**
9 **TENNESSEE AMERICAN WAS MISTAKEN IN INCLUDING THAT AMOUNT**
10 **OF \$59,364 IN THE RECONCILIATION PRESENTED IN DOCKET NO. 16-**
11 **00022?**

12 **A.** No, I do not. The inclusion of the amount of \$59,364 of Capital Recovery Rider
13 Reconciliation authorized in Docket No. 15-00029 in the Docket No. 16-00022 was the
14 appropriate way to calculate the Over/Under Adjustment for the 2015 Capital Recovery
15 Rider Reconciliation amount in Docket No. 16-00022. The CPAD has recommended that
16 TPUC remove both the \$307,171 from Docket No. 16-00022 and \$59,364 from Docket
17 No. 15-00029 for a total of \$366,535.¹⁰ This recommendation would result in the Capital
18 Recovery Riders Reconciliation not accurately reflecting the revenues in the current
19 proceeding.

20 **Q. HAS THE TPUC AUTHORIZED THE INCLUSION OF THE PRIOR YEAR'S**
21 **REMAINING BALANCE OF THE RECONCILIATION REVENUES IN THE**

⁹ See Pre-filed Testimony of CPAD Witness William H. Novak, TPUC Docket No. 17-00020, (June 30, 2017), p 8, L 13.

¹⁰ See Pre-filed Testimony of CPAD Witness William H. Novak, TPUC Docket No. 17-00020, (June 30, 2017), p 9, LL 1-4.

1 **NEXT YEAR'S OVER-UNDER ADJUSTMENT FOR THE RECONCILIATION**
2 **CALCULATION?**

3 A. Yes, it has. The TPUC contemplated the concern of a timing issue for reconciliation factors
4 for the QIIP, EDI and SEC. In its Order in Docket No. 15-00029, the TPUC specifically
5 addressed the issue:

6 “In an effort to lessen administrative costs, the remaining costs over- or
7 under-collected for 2014 should be included separately in the 2015
8 reconciliation filing and include only the remaining balance of 2014 over-
9 or under-collections with appropriate interest. The Company shall revise
10 its tariff to reflect this decision”¹¹

11 As directed, Tennessee American included the remaining over- or under-collected revenues
12 in Capital Recovery Riders Reconciliation in Docket No. 16-00022 by including the
13 \$59,364 that was authorized in Docket No. 15-00029 and subtracting all Capital Recovery
14 Riders Revenue including the revenue that was collected from the implementation of the
15 Capital Recovery Riders Reconciliation. This methodology was approved in Docket No.
16 16-00022 and is the method utilized in this current Capital Recovery Riders Reconciliation
17 Docket No. 17-00020. Recognizing the reconciliation methodology previously approved
18 by the TPUC in Docket No. 15-00029 and the approval rendered in last year's
19 reconciliation in Docket No. 16-00022 with respect to the same methodology, TAWC's
20 reconciliation calculation in the current docket is appropriate, regulatorily sound and
21 compliant. Therefore, the methodology applied in the calculations not only prevents the
22 possibility of double recovery, but also follows the same methodology that has been

¹¹ See TPUC Order in Docket No. 15-00029, (February 8, 2016), p 11.

utilized and approved in prior Capital Recovery Reconciliation dockets before the TPUC and is compliant with the language in the tariff.

Q. WHAT DO YOU RECOMMEND?

A. I recommend that the TPUC deny the CPAD's recommendation to eliminate \$366,535¹² in the Capital Recovery Rider Reconciliation Surcharge.

Q. MR. NOVAK, IN HIS SECOND ISSUE IN HIS TESTIMONY, EXPRESSES CONCERNS REGARDING THE CAPITALIZED INCENTIVE COMPENSATION FOR SERVICE COMPANY EMPLOYEES THAT WAS INCLUDED IN THE CAPITAL RECOVERY RIDERS IN 2013-2016. ¹³ DID TENNESSEE AMERICAN INCLUDE CAPITALIZED PERFORMANCE COMPENSATION IN THE CAPITAL RECOVERY RIDERS?

A. Yes, Tennessee American did. As the Company explained in its response to Item 5 of the CPAD's First Discovery Request, in early 2017, Tennessee American reviewed the capitalization of its Annual Performance Plan ("APP") and Long-Term Performance Plan ("LTPP"). On a going forward basis, Tennessee American will apply a capitalization rate to 50% of its APP expenditures for both Tennessee American employees and Tennessee American's portion of Support Services employees' APP equal to the capitalization of all labor expenses. Tennessee American will not capitalize any of its LTPP expenditures. These capitalized expenditures will be included in an overhead account and applied to all capital expenditures annually on a pro-rated basis.¹⁴

¹² See Pre-filed Testimony of CPAD Witness William H. Novak, TPUC Docket No. 17-00020, (June 30, 2017), p 9, LL 1-4.

¹³ See Pre-filed Testimony of CPAD Witness William H. Novak, TPUC Docket No. 17-00020, (June 30, 2017), p 10, L 1.

¹⁴ See TAWC Supplemental Response to CPAD's First Discovery Request, Item 5, filed June 2, 2017.

As part of that review, Tennessee American determined that none of the expenditures for Tennessee American employee APP or LTPP 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. Tennessee American recognizes that the expenditures for the LTPP were not authorized in Docket No. 2012-00049. However, 50% of the APP expenditures were authorized in that same Docket, with a capitalization equal to all authorized labor expenses. Tennessee American has focused more of its efforts on capital investment with the implementation of the Capital Recovery Riders, and therefore Tennessee American has capitalized more of its overall labor and labor related expenditures than included in TPUC Docket No. 2012-0049. Please refer to the amount of capitalized performance compensation¹⁵:

Year	APP Expenditures	LTPP Expenditures	Total	Amount Capitalized	% Capitalized
2016	\$464,044	\$57,709	\$521,753	\$60,844	11.66%
2015	\$267,852	\$38,811	\$306,663	\$46,737	15.24%
2014	\$147,822	\$30,535	\$178,357	\$38,826	21.77%
2013	\$143,533	\$34,638	\$178,171	\$67,630	37.96%

Q. MR. NOVAK RECOMMENDS AN ADJUSTMENT OF ELIMINATING \$214,037 TO THE CAPITAL RECOVERY RIDERS SURCHARGE.¹⁶ DO YOU AGREE?

A. No, I do not. First, Mr. Novak recommends eliminating all of the capitalized performance compensation of \$214,037 from the Capital Recovery Riders surcharge. However, in the 2012 general rate case, the settlement schedules were based on a reduction of annual performance compensation by 50%, and a portion of all labor and labor expenses were then

¹⁵ See TAWC Supplemental Response to CPAD's First Discovery Request, Item 5, filed June 2, 2017.

¹⁶ See Pre-filed Testimony of CPAD Witness William H. Novak, TPUC Docket No. 17-00020, (June 30, 2017), p 11, LL 12-13.

1 capitalized. This included the portions of annual performance compensation that was
2 included in rates as a labor related expense. TAWC believes it is more appropriate to
3 reduce the Annual Performance Compensation by 50%, of the total, and then apply the
4 same capitalization as other labor and labor related expenses in each of the four years 2013
5 – 2016.

6 Further, Mr. Novak recommends eliminating the full amount of capitalized performance
7 compensation from the Capital Recovery Riders, although TAWC has indicated that not
8 all of the capitalized performance compensation is included in the Capital Recovery Riders.

9 As TAWC explained its response to Item 5 of the CPAD's First Discovery Request:

10 "Please note that the amount of the capitalized performance plan
11 expenditures are applied as overhead to all capital expenditures pro-rated
12 by work order to the total capital expenditures on a routine basis.
13 Tennessee American has not been able to determine the portion of
14 overhead that is the capitalized performance plan amount applied to each
15 of the additions in this reconciliation"¹⁷
16

17 TAWC utilizes an overhead account to capitalize performance compensation that is then
18 pro-rated to all capital expenditures. The Capital Recovery Riders do not represent all of
19 the capital expenditures in any given year. Therefore, the overhead applied to the
20 construction expenditures in the Capital Recovery Riders does not represent all of the
21 overhead applied to the construction expenditures in 2013 – 2016. Mr. Novak
22 recommended removal of the entire amount of capitalized performance compensation from
23 the Capital Recovery Riders when not all of it was applied to the Capital Recovery Riders
24 is not appropriate. In its response to Item 2 of the CPAD's Third Discovery Request,¹⁸
25 Tennessee American estimated the amount of capitalized performance compensation that

¹⁷ See TAWC Supplemental Response to CPAD's First Discovery Request, Item 5, filed June 2, 2017.

¹⁸ See TAWC Response to CPAD's Third Discovery Request, Item 2, filed July 18, 2017.

1 was applied to the Capital Recovery Riders by a pro-ratio of the construction expenditures
2 in 2016 applicable to the Capital Recovery Riders compared to all of the construction
3 expenditures in 2016.

4 **Q. HOW DOES TAWC PROPOSE TO ADDRESS THE CAPITALIZED**
5 **PERFORMANCE COMPENSATION?**

6 A. In its initial response to Item 5 of the CPAD's First Discovery Request, Tennessee
7 American believed that the amount of capital performance compensation between 2013
8 and 2016 was a much smaller amount and that an adjustment to the Capital Recovery
9 Riders Reconciliation was not warranted.¹⁹ However, after further research into the matter,
10 Tennessee American realized that the amount of capitalized performance compensation
11 was higher than originally believed. TAWC provided a supplemental response to Item 5
12 of the CPAD's First Discovery Request on June 2, 2017.²⁰ Based upon the cooperative
13 requests and good faith exchanges of information in the discovery phase, an adjustment to
14 the Capital Recovery Riders Reconciliation to address the capitalized incentive
15 compensation between 2013 and 2016 is warranted. To that end, TAWC is proposing that
16 the amount of annual performance compensation be multiplied by 50%. That amount
17 would then be multiplied by the rate equal to the amount of capitalized labor and labor
18 related expenditures during each year from 2013 to 2016. Any calculated amount for each
19 year over the actual amount capitalized would be removed from the Capital Recovery
20 Riders. Tennessee American proposes to further allocate the amount to be adjusted from
21 each Capital Recovery Rider by multiplying the total by the allocation percentage for each

¹⁹ See TAWC Response to CPAD's First Discovery Request, Item 5, filed May 5, 2017.

²⁰ See TAWC Supplemental Response to CPAD's First Discovery Request, Item 5, filed June 2, 2017.

1 Capital Recovery Rider compared to the overall 2016 capital expenditures as calculated in
2 response to Item 2 of the CPAD's Third Discovery Request.

3 The result of this proposed adjustment is a reduction to each Capital Recovery Rider
4 Reconciliation Surcharge. The workpaper calculating the amount of the adjustment, along
5 with a revised exhibit Petitioner's Exhibit – Capital Riders Reconciliation -- LCB has
6 been attached to my testimony. This results in a reduction to the QIIP reconciliation
7 surcharge of \$17,785, a reduction to EDI reconciliation surcharge of \$656, and a reduction
8 to the SEC reconciliation surcharge of \$18,337.

9 **Q. IN SUMMARY, DOES TAWC ACKNOWLEDGE AN ERROR IN THE MANNER**
10 **THAT IT CAPITALIZED PERFORMANCE COMPENSATION?**

11 A. Yes. The proposed adjustment by TAWC acknowledges an error by TAWC and is an
12 effort to sufficiently address an error in a manner that respects the decision and the directive
13 of the TPUC in authorizing the settlement agreement in the 2012 general rate case, Docket
14 No. 12-00049.

15 **Q. IN HIS THIRD ISSUE, MR. NOVAK STATED THAT HE WAS NOT ABLE TO**
16 **ADQUATELY REVIEW TAWC'S EARNING TEST ADJUSTMENT BECAUSE**
17 **TAWC DID NOT PROVIDE COPIES OF ITS GENERAL LEDGER FOR 2016.²¹**
18 **IS THAT ACCURATE?**

19 A. No, it is not. While a request for the transactional detail of the entire general ledger for
20 2016 appears to run counter to an effort for streamlining rate review or efficiencies, TAWC

²¹ See Pre-filed Testimony of CPAD Witness William H. Novak, TPUC Docket No. 17-00020, (June 30, 2017), p 13, LL 13-16.

1 provided a copy of its general ledger for 2016 in electronic format in response to Item 3 of
2 the CPAD's Third Request for Information.²²

3 **Q. AS A FOURTH ISSUE, MR. NOVAK ALSO POINTED OUT THAT THE**
4 **ALLOCATION OF THE EARNINGS TEST ADJUSTMENT DID NOT FOLLOW**
5 **THE METHOD DEFINED IN THE TARIFF.²³ DO YOU AGREE WITH THIS**
6 **OBSERVATION?**

7 A. Yes, I do. As TAWC indicated in its response to Item 7 of the CPAD's Second Discovery
8 Request, Tennessee American prorated the Earning Test Adjustment to each of the Capital
9 Recovery Riders based on the overall amount of actual investment during 2016, not the
10 actual revenues collected under each of the Capital Recovery Riders as defined in the
11 tariff.²⁴ Because this was the first time that an Earnings Test Adjustment had been made
12 in the Capital Recovery Riders Reconciliation calculation, Tennessee American applied
13 the adjustment to align with the investment that had actually occurred rather than revenues
14 collected. To change the allocation of the Earnings Test Adjustment from a pro-ration
15 based on the actual revenues collected instead of the actual investment does not change the
16 overall amount applied to customers' bills at all. Either method will result in the exact
17 same amount of revenue requirement. Based upon the cooperative requests and good faith
18 exchanges of information in the discovery phase, the proposed reconciliation should be
19 applied to the revenues collected. TAWC has also included that adjustment in the revision
20 to the Capital Recovery Riders Reconciliation that is attached to my testimony.

²² TAWC Response to CPAD's Third Discovery Request, Item 3, filed July 18, 2017.

²³ See Pre-filed Testimony of CPAD Witness William H. Novak, TPUC Docket No. 17-00020, (June 30, 2017), p 14, LL 7-13.

²⁴ TAWC Response to CPAD's Second Discovery Request, Item 7, filed June 2, 2017.

1 **Q. IN HIS FIFTH ISSUE, MR. NOVAK ALSO EXPRESSES CONCERN THAT HE**
2 **WAS UNABLE TO TIE THE REVENUES REPORTED FOR EACH CAPITAL**
3 **RECOVERY RIDER DURING 2016 TO TENNESSEE AMERICAN'S GENERAL**
4 **LEDGER?²⁵ DO YOU BELIEVE THIS IS A CONCERN?**

5 **A.** No I do not. In response to Item 2 of the CPAD's First Discovery Request, Tennessee
6 American provided all of the detailed information of the amount billed to customers by
7 each of the Capital Recovery Riders.²⁶ This information is supported in the Tennessee
8 American's billing system. Tennessee American then provided a transactional listing of
9 all of the postings to the General Ledger for that amount of billed revenue. The amount
10 posted on the General Ledger in total tied to the exact amount of the revenues billed.
11 However, the amounts posted to the General Ledger post in batches and are not broken
12 down by the separate Capital Recovery Riders. As a follow-up to the Company's response
13 to Item 2 of the CPAD's First Discovery Request, in Item 1 of the CPAD's Second
14 Discovery Request, TAWC was asked to provide the Rate Number for the batched
15 transactions that were posted to the G/L. As explained in the Company's response to Item
16 1 of the CPAD's Second Discovery Request, the Company was unable to provide the
17 requested information. The amounts posted to the General Ledger are posted in batches to
18 one account and not to separate accounts for each rate or separate rate numbers. Each batch
19 is not broken down by the individual rate number. The total amounts on the two tabs
20 reconcile to \$4,426,097.35 but Tennessee American cannot provide the Rate Number
21 specifically for the G/L postings as requested.

²⁵ See Pre-filed Testimony of CPAD Witness William H. Novak, TPUC Docket No. 17-00020, (June 30, 2017), p 15, LL 13-20.

²⁶ TAWC Response to CPAD's Second Discovery Request, Item 1, filed June 2, 2017.

1 Based upon the Company's response to Item 1 of the CPAD's Second Discovery Request,
2 the CPAD modified its request, and in Item 1 of the CPAD's Third Discovery Request,
3 the CPAD asked for individual supporting transactions that comprise the monthly revenue
4 amounts by rate number in the "Revenue Summary" tab in response to Item 2 of the
5 CPAD's First Discovery Request. TAWC explained in its response to part A, Item 1 of
6 the CPAD's Third Discovery Request:

7 "Rate numbers are assigned to customers and their bills in the company's
8 Customer Information System or CIS. The amount of the customer bill is
9 calculated by rate number and applied to each individual customer bill in
10 the CIS. The customer bill is printed from the CIS. Each rate number is
11 mapped to an account on the General Ledger and the information
12 automatically flows from the billed amount in CIS to the billed amount
13 posted to the G/L in SAP. In the CIS, the Capital Recovery Rider rates
14 applied to each customer bill have three different rate numbers for each of
15 the three Capital Recovery Riders. However, the Capital Recovery Riders
16 roll up on the customer bill to one line printed on the bill. Additionally, the
17 three Capital Recovery Riders all map to the same account on the G/L. As
18 was outlined in the Company's response to CPAD 2-1, the multiple rate
19 numbers are grouped together into a batch when transferred to the G/L for
20 revenue postings with multiple customers. Therefore, each revenue G/L
21 transaction will have multiple rate numbers associated with them. the only
22 way to provide further detail for the modified request on the batched
23 transactions of revenue posted to the G/L for the three Capital Recovery
24 Riders is to provide the individual transactions, by customer, that were
25 billed in CIS and then flow over to the G/L."²⁷

26
27 Simply put, G/L transactions are in a summarized form that reconciles to the customer
28 billing system. The supporting transactions come from the customer billing system, which
29 is by customer account. TAWC objected to the request TAWC to the extent it purports to
30 place obligations on TAWC that were broader than the scope contemplated by the
31 Tennessee Rules of Civil Procedure and other applicable law. In order to provide the
32 information, the Company would need to produce the individual billed amount for each

²⁷ TAWC Response to CPAD's Third Discovery Request, Item 1, filed July 18, 2017.

customer for the calendar year 2016. While this request appears to run counter to an effort for streamlining rate review or efficiencies, in a spirit cooperation, TAWC responded with the full amount of detail. Because of the enormous amount of data in the files, the information was only provided electronically.

Q. WHY DO THE REVENUES POST IN BATCHES TO THE GENERAL LEDGER?

The revenues post to the General Ledger in batches as groups of bills that are mailed each day post to the General Ledger. All of the revenues for the Capital Recovery Riders post to one account, not separate accounts for each Capital Recovery Riders. Therefore each batch cannot be broken down by each separate Capital Recovery Rider.

Q. IS THIS PROCESS FOR POSTING REVENUES IN BATCHES TO THE GENERAL LEDGER SIMILAR TO WATER REVENUES POSTED TO THE GENERAL LEDGER?

A. Yes, it is. The process of posting revenues in batches to the General Ledger for different rates is not limited to the Capital Recovery Riders. The Capital Recovery Riders post to a separate account than base water service charges. However, Tennessee American does not post to the General Ledger for the different base water service charges into separate accounts between meter charges or the various volumetric charges, only by different customer classifications. A breakdown of those revenues posted would also need to be reconciled through the billing information.

1 **Q. COULD TENNESSEE AMERICAN ADJUST ITS LEDGER POSTING**
2 **PROCEDURES TO IDENTIFY THE REVENUES FOR EACH OF THE CAPITAL**
3 **RIDERS ON THE LEDGER AS RECOMMENDED BY MR. NOVAK?**

4 A. Yes, Tennessee American could adjust its General Ledger posting procedures by creating
5 separate accounts for each Capital Recovery Rider and re-mapping the accounting process
6 for posting. However, when the Tennessee Public Utility Commission initially authorized
7 the Capital Recovery Riders, Tennessee American contemplated creating separate sub-
8 accounts for each of the Capital Recovery Riders. At that time, the estimate for
9 programming the additional sub-accounting was between \$75,000 and \$100,000.
10 Tennessee American did not believe that the additional expense was warranted when the
11 information could be readily reconciled from the billing system. Tennessee American
12 believes that the CPAD's recommendation is unnecessary and creates a significant
13 additional expense for customers with limited value in the review process.

14 **Q. WERE THERE ANY OTHER ISSUES THAT YOU WOULD LIKE TO ADDRESS**
15 **IN YOUR TESTIMONY?**

16 A. Yes, there is one other item. In response to Item 14 of the CPAD's First Discovery Request,
17 Tennessee American acknowledged that the calculation of the Over-Under adjustment does
18 not specifically follow the tariff language.²⁸ As described in the response, Tennessee
19 American prepared the calculation of the Over-Under adjustment so that it uses authorized
20 revenue requirement to compare to the revenues collected rather than calculating the
21 difference between the actual revenue requirement necessary and the actual revenues
22 collected during the review period as stated in the tariff. As described in that response, if

²⁸ TAWC Response to CPAD's First Discovery Request, Item 14, filed May 5, 2017.

1 Tennessee American were to utilize the actual revenue requirement necessary for the
2 calculation, it would result in a double count the difference between the actual investment
3 made and the forecasted investment. As part of that response, Tennessee American
4 proposed that a tariff language revision would be appropriate to correct that calculation.

5 The current language on page 8 of the QIIP, EDI and SEC Rider tariffs reads:

6 *"The Company will identify and record the total amount of the*
7 *[QIIP/EDI/SEC] Collected from Customers for the Annual Review Period.*
8 *The difference between the Total [QIIP/EDI/SEC] Collected from*
9 *Customers and the Total Actual [QIIP/EDI/SEC] Revenue Requirement*
10 *shall constitute the Over-Under Collection Adjustment."*²⁹

11
12 Based upon the cooperative requests and good faith exchanges of information in the
13 discovery phase, the tariff would be more appropriate to read:

14 *"The Company will identify and record the total amount of the*
15 *[QIIP/EDI/SEC] Collected from Customers for the Annual Review Period.*
16 *The difference between the Total [QIIP/EDI/SEC] Collected from*
17 *Customers and the Total Actual—Budgeted [QIIP/EDI/SEC] Revenue*
18 *Requirement shall constitute the Over-Under Collection Adjustment."*

19
20
21 **Q. AS PART OF THE DISCOVERY, HAS TAWC MADE ANY CORRECTIONS OR**
22 **CHANGES TO THE CALCULATION OF THE CAPITAL RECOVERY RIDERS?**

23 **A.** No, Tennessee American has not. However, as I described in my testimony above, based
24 upon the cooperative requests and good faith exchanges of information in the discovery phase,
25 Tennessee American is proposing two revisions to the calculations. The first is a reduction
26 to the Capital Recovery Riders calculations to remove a portion of capitalized performance
27 compensation for 2013 through 2016. The second is a change in the allocation of the

²⁹ See tariff pages TAWC First Revised Sheet No. 12- QIIP – 8, issued August 28, 2015, TAWC First Revised Sheet No. 12 – EDI – 8, issued August 28, 2015, and TAWC Original Sheet No. 12 – SEC 8 issued March 15, 2014.

Earnings Test Adjustment to pro-rated revenues collected as described in the tariff language.

Q. HOW MUCH DOES THIS IMPACT THE CAPITAL RECOVERY RIDERS RECONCILIATION?

A. The changes to the Capital Recovery Riders Reconciliation proposed by Tennessee American are summarized in Table 1:

TABLE 1 SUMMARY OF CAPITAL RECOVERY RIDERS RECONCILIATION SURCHARGE			
Rider	TAWC Original Application filed March 1, 2017	CPAD Proposed June 30, 2017	TAWC Adjusted
Qualified Infrastructure Investment Program (QIIP) Rider	2.029%	0.567%	2.022%
Economic Development Investment (EDI) Rider	-0.043%	0.309%	-0.026%
Safety and Environmental Compliance (SEC) Rider	-0.394%	-0.402%	-0.509%
Total Reconciliation Percentage	1.592%	0.474%	1.486%

Q. WHAT DO YOU RECOMMEND?

A. I recommend that the TPUC approve the 2017 reconciliation of the Capital Riders, as revised by Tennessee American.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

Tennessee American Water Company
Qualified Infrastructure Improvement Program Rider (QIIP)
Economic Development Investment Rider (EDI)
Safety and Environmental Compliance Rider (SEC)
Reconciliation of the Calculation of Revenue Requirement
As of 12/31/2016

Line Number	Description	Qualified Infrastructure Investment Program QIIP Average YTD 12/31/2016			Economic Development Investment EDI Average YTD 12/31/2016			Safety and Environmental Compliance SEC Average YTD 12/31/2016			Total Average YTD 12/31/2016		
		Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
1	Additions Subject to Rider:	\$17,526,136	\$16,038,978	\$1,487,158	\$761,222	\$380,084	\$381,138	\$20,051,357	\$20,211,658	(\$160,301)	\$38,338,715	\$36,630,720	\$1,707,995
2	Plus: Cost of Removal less Salvage	2,109,824	822,674	1,287,150	933	0	933	637,263	93,093	544,170	2,748,020	915,767	1,832,253
3	Less: Contributions in Aid to Construction (CIAC)	417,526	0	417,526	1,778	0	1,778	0	0	0	419,304	0	419,304
4	Less: Deferred Income Taxes	122,302	77,209	45,093	6,844	2,149	4,695	197,908	6,451	191,457	327,054	85,809	241,245
5	Less: Accumulated Depreciation	389,016	312,641	76,375	11,030	6,154	4,876	358,395	710,858	(352,463)	758,441	1,029,653	(271,212)
6	Net Investment Supplied Additions:	\$18,707,117	\$16,471,802	\$2,235,315	\$742,503	\$371,781	\$370,722	\$20,132,316	\$19,587,442	\$544,874	\$39,581,937	\$36,431,025	\$3,150,912
7													
8	Pre-Tax Authorized Rate of Return:	9.45%	9.45%		9.45%	9.45%		9.45%	9.45%		9.45%	9.45%	
9	Pre-Tax Return on Additions:	\$1,768,642	\$1,557,306	\$211,335	\$70,199	\$35,150	\$35,049	\$1,903,385	\$1,851,871	\$51,514	\$3,742,226	\$3,444,327	\$297,899
10													
11	Depreciation Expense on Additions:	466,610	304,249	162,361	10,235	5,463	4,772	372,362	488,293	(115,931)	849,206	798,005	51,201
12													
13	Property and Franchise Taxes Associated:	222,577	215,120	7,456	10,278	5,135	5,142	258,278	267,759	(9,481)	491,132	488,014	3,118
14													
15	Revenues:	2,457,828	2,076,676	381,152	90,711	45,748	44,964	2,534,025	2,607,923	(73,897)	5,082,564	4,730,346	352,218
16													
17	Revenue Taxes	3.19%	3.19%		3.19%	3.19%		3.19%	3.19%		3.19%	3.19%	
18	Total Capital Riders Revenues with Revenue Taxes	\$2,538,842	\$2,145,127	\$393,715	\$93,701	\$47,256	\$46,446	\$2,617,551	\$2,693,884	(\$76,333)	\$5,250,095	\$4,886,267	\$363,828
19													
20													
21	Actual Capital Riders Revenues Billed		\$1,973,584			\$34,846			\$2,417,737			\$4,426,167	
22													
23	(Over)/Under Capital Riders Revenue Billings		171,542			12,410			276,148			460,100	
24	Budget to Actual Adjustment		393,715			46,446			(76,333)			363,828	
25	2015 Reconciliation Amount		411,519			(62,763)			(41,585)			307,171	
26	Capitalized Performance Plan Reduction		(17,785)			(656)			(18,337)			(36,779)	
27	Earnings Test Adjustment		(258,275)			(4,560)			(316,400)			(579,235)	
28	Interest (Prime - 3.75%)		13,138			(171)			(3,310)			9,657	
29													
30	Reconciliation Amount		\$713,854			(\$9,295)			(\$179,817)			\$524,742	
31													
32	Authorized Capital Riders Revenues (9/12th)		\$35,305,293			\$35,305,293			\$35,305,293			\$35,305,293	
33													
34	Current Reconciliation Factor Percentage		2.022%			-0.026%			-0.509%			1.486%	
35													

Explanation:

Tennessee American Water has been authorized 3 capital riders based on a 13-month average of in-service capital projects in the forecasted period. The revenue requirement for each rider is calculated similar to how total ratebase is calculated by the Tennessee Regulatory Authority in a rate case. This table shows a comparison of the actual average over the reporting period to the proposed amount of each rider, and the total of the three.

*From Docket #15-00111 which was approved on 5/26/2016 as amended. It should be noted that the order appears to contain a \$40 typo for the SEC rider total amount.

STATE OF Kentucky)
COUNTY OF Fayette)

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Linda C. Bridwell, being by me first duly sworn deposed and said that:

She is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, her testimony would be as set forth in her pre-filed testimony in this matter.

Linda C. Bridwell
Linda C. Bridwell

Sworn to and subscribed before me
this 21st day of July, 2017.

Peggy A. Slone
Notary Public

My Commission Expires: 10/3/2020



CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

Daniel Whitaker III, Esq.
Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Protection and Advocate Division
P.O. Box 20207
Nashville, TN 37202-0207

This the 21st day of July, 2017.



Melvin J. Malone