

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

**IN RE:**

**PETITION OF TENNESSEE WATER  
SERVICE FOR APPROVAL OF AN  
INTERIM EMERGENCY WILDFIRE  
RESTORATION SURCHARGE,  
INTERIM EMERGENCY WATER  
SERVICE AVAILABILITY FEE, AND AN  
INTERIM EMERGENCY  
OPERATIONAL COST PASS-THROUGH  
MECHANISM**

**DOCKET NO.** 17-00108

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**DIRECT TESTIMONY  
OF  
RICHARD LINNEMAN**

**ON BEHALF OF  
TENNESSEE WATER SERVICE, INC.**

September 22 2017

1 **Q. Please state your name, occupation, and business address for the record.**

2 A. My name is Richard Linneman. I am employed as the Manager of Financial Planning  
3 and Analysis for North Carolina and Tennessee at Utilities, Inc. My business address is  
4 4944 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina, 28217.

5 **Q. Please summarize your professional background.**

6 A. I have been employed with Utilities, Inc. ("UI") since October of 2015. Since that time, I  
7 have been involved in several phases of rate-making in many regulatory jurisdictions, and  
8 I have provided written and/or oral testimony before the North Carolina Utilities  
9 Commission. I graduated from Coastal Carolina University in 2007 with a degree in  
10 Finance, and I have a certification from the Society of Utility and Regulatory Financial  
11 Analysts as a Certified Rate of Return Analyst which I received in 2017.

12 **Q. Please explain your job responsibilities at Utilities, Inc.**

13 A. My responsibilities include financial analysis of individual subsidiaries of UI, preparation  
14 for rate applications, facilitation of regulatory audits, and the submission of testimony  
15 and exhibits to support rate applications, as well as other tasks in the management of the  
16 UI's financial planning. This includes coordinating reports and filings, working with  
17 regulatory staff to make sure that all information produced address the requirements or  
18 requests, and involves working with management in subsidiary location to stay abreast of  
19 changes.

20 **Q. Please describe Tennessee Water Service, Inc..**

1 A. Tennessee Water Service, Inc. ("TWS") is a wholly owned subsidiary of UI. As of 2017,  
2 TWS serves approximately 580 customers in Sevier County, Tennessee, in an area in and  
3 around Gatlinburg, Tennessee, known as Chalet Village.

4 **Q. Please describe UI.**

5 A. UI is a unique company within the water and sewer industry in many respects. Since its  
6 inception in 1965, UI has focused on the purchase, formation, and expansion of smaller  
7 water and/or sewer utility systems. In many circumstances UI acquired systems that did  
8 not comply with the requirements of the Safe Drinking Water Act of 1974 and the Clean  
9 Water Act of 1977 and improved the facilities to meet and exceed legal mandates. UI is  
10 backed by a private equity owner with the necessary capital and a strong interest in  
11 maintaining operational stability and customer satisfaction.

12 **Q. Do TWS customers benefit from the company's affiliation with UI?**

13 A. Yes, the affiliation with UI has many benefits for TWS customers, including access to a  
14 large pool of human resources from which to draw upon and the economies of scale that  
15 are achieved with a company like UI, whose national purchasing power results in lower  
16 costs to the rate-payers.

17 **Q. What is the purpose of your testimony?**

18 A. The purpose of my testimony is to explain why TWS is petitioning the Tennessee Public  
19 Utility Commission ("TPUC") for interim emergency relief. I shall discuss some of the  
20 factors that have contributed to the current need for additional capital. As well, I shall  
21 discuss the financial exhibits attached to TWS' emergency petition and which I sponsor.

22 **Q. Why is TWS requesting rate relief at this time?**

1 A. As a result of the widespread, wind-driven wildfires that occurred on and around  
2 November 28, 2016, (the “2016 Wildfires”) much the of the Chalet Village, which TWS  
3 serves, suffered severe damage. Approximately 90% of TWS’ customers lost their  
4 homes due to the fires. As well, some of the TWS assets were severely damaged or  
5 destroyed by the wildfires as well. Because of the damage from the wildfires, many of  
6 TWS’ customers are in the process or rebuilding or preparing to rebuild their homes. Of  
7 the 580 TWS customers, there are only 133 active connections, with the remainder  
8 having not yet reconnected to the water system as a part of their rebuilding process. As  
9 well, because of the unique situation, TWS put a hold on all bills for homes affected by  
10 the 2016 Wildfires until March 31, 2017. Furthermore, even after resuming normal  
11 billing, TWS still has not charged anything (i.e., base charges) to customers that have not  
12 yet restored water service.

13 As a result, revenue has decreased significantly in 2017, although expenses have  
14 remained fairly consistent with prior years. In all, TWS is projected a net operating loss  
15 of \$72,000 for the 2017 fiscal year. This shortfall affects TWS’ ability to recover a fair  
16 and reasonable return on equity and make the necessary capital improvements to recover  
17 from its own damages related to the wildfires. Accordingly, TWS is requesting  
18 emergency relief now to enable it to make the necessary repairs and ensure the continued  
19 provision of safe and reliable drinking water for its customers.

20 **Q. What are TWS customers currently charged for water utility service?**

21 A. TWS customers are charged according to the tariff attached hereto as Schedule A. In  
22 short, though, customers are charged a fixed monthly charge of \$18.70 for 0-1000 gallons

1 of usage. Customers are then subject to a volumetric charge of \$13.30 per 1000  
2 additional gallons. However, these charges are subject to the fact that TWS is not  
3 currently charging customers who have not restored service as mentioned above.

4 **Q. What changes are you proposing?**

5 A. TWS is requesting interim emergency relief for a period of up to 18 months through four  
6 different mechanisms.

7 First, under an Interim Emergency Wildfire Restoration Surcharge, TWS is proposing  
8 that it be allowed to apply a surcharge to the bills for both active and inactive customers  
9 to cover the capital costs incurred prior to and after the 2016 Wildfires and allow TWS to  
10 cover the debt and reasonable return on equity for this approximately \$300,000 of capital  
11 improvements. The proposed monthly surcharge amount is \$3.78.

12 Second, under an Interim Emergency Water Service Availability Surcharge, TWS is  
13 proposing that it be allowed to apply a surcharge to the bills for both active and inactive  
14 customers . to allow TWS to recover a return on capital assets already in place and that  
15 enable it to stand ready to provide water service to those who have already restored their  
16 water service and those customers who are currently inactive as soon as they request it.  
17 The proposed monthly surcharge amount is \$6.77.

18 Third, under an Interim Emergency Make-Whole Surcharge, TWS is proposing that it be  
19 allowed to apply a surcharge to the bills of only its **inactive** customers to offset the O&M  
20 expenses that are not being met due to the projected revenue shortfall. As stated above,  
21 TWS expects a projected revenue shortfall to expenses of approximately \$72,000. This

1 shortfall includes an adjustment for projected additional revenue from the two other  
2 proposed surcharges. In order to meet its projected expenses, TWS must make up the  
3 remaining revenue shortfall in this surcharge. The proposed monthly surcharge is  
4 \$14.26.

5 Finally, under an Interim Emergency Operational Cost Pass-Through Mechanism, TWS  
6 is proposing a mechanism by which it can pass through increases in non-discretionary  
7 water supply costs to the customer, including the water purchase cost from Gatlinburg  
8 and/or electrical costs should it become necessary.

9 **Q. Were the financial schedules attached to the TWS petition for emergency relief**  
10 **prepared by you and/or under your direction?**

11 A. Yes, the schedules attached to the TWS petition for emergency relief were prepared by  
12 me or under my direction.

13 **Q. Are they incorporated herein by reference?**

14 A. Yes.

15 **Q. Please describe these schedules.**

16 A. Exhibit A - Average Bills  
17 Exhibit B - Proposed Relief Mechanism Calculations  
18 Exhibit C - Current Rate Base  
19 Exhibit D - Projected 2017 Income Statement  
20 Exhibit E - 2017 Revenue and Projections  
21 Exhibit F - 2016 and 2017 Expenses and Projections

22 **Q. Please explain how these schedules were used to determine the relief requested.**

1 Q. Please explain how these schedules were used to determine the relief requested.

2 A. Using the schedules, I was able to calculate the expected revenue shortfall resulting from  
3 the drastic decrease in active customers due to the 2016 Wildfires. In determining  
4 expected revenue increases for the remainder of the year, I assumed that an additional 10  
5 customers would restore water service each month. Using expense information from  
6 fiscal year 2016 and the first half of 2017, I calculated a projection for total expenses for  
7 2017. The Proposed Relief Mechanism Calculations show how TWS is proposing to  
8 recover the necessary revenue to address the expected expenses and earn a reasonable  
9 rate of return.

10 Q. Does this complete your testimony?

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

STATE OF North Carolina )

:ss

County of Mecklenburg )

DATED this 22<sup>nd</sup> day of September, 2017.

  
Richard Linneman

SUBSCRIBED AND SWORN TO before me this 22 day of September, 2017.

  
Notary Public for the State of North Carolina

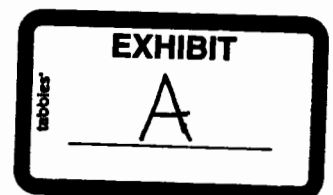


**Active Customer:**

Base Charge	\$18.70
Usage Charge (per 1k gal over 1k gals)	\$13.30
Average Usage	4,000
Usage Revenue	\$39.90
Base Bill	\$58.60
Restoration Surcharge	\$3.78
Availability Surcharge	\$6.77
O&M Surcharge	\$0.00
<b>Total Bill</b>	<b>\$69.15</b>

**Availability Customer:**

Base Charge	\$0.00
Usage Charge (per 1k gal over 1k gals)	\$13.30
Average Usage	0
Usage Revenue	\$0.00
Base Bill	\$0.00
Restoration Surcharge	\$3.78
Availability Surcharge	\$6.77
O&M Surcharge	\$14.26
<b>Total Bill</b>	<b>\$24.81</b>





**Wildlife Restoration Surcharge:**

Capital Investment	\$300,000
Accumulated Depreciation	(\$6,000)
<b>Rate Base for Return</b>	<b><u>\$294,000</u></b>

**Capital Structure:**

Equity Thickness	41%
Debt Ratio	59%
<b>Total Capital Structure</b>	<b><u>100%</u></b>

**Cost of Capital:**

Return on Equity	7.60%
Cost of Debt	6.40%

**Tax Rates:**

State	5.00%
Federal	34.00%
<b>Total</b>	<b><u>37.30%</u></b>

**Debt Coverage:**

Rate Base	\$294,000
Debt Ratio	59%
Rate Base (Debt )	\$174,518
Cost of Debt	6.40%
<b>Revenue Requirement</b>	<b><u>\$11,169</u></b>

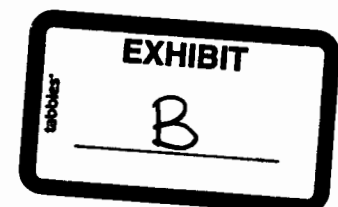
**Equity Return:**

Rate Base	\$294,000
Equity Thickness	41%
Rate Base (Equity)	\$119,482
Return on Equity	7.60%
Required Return (pre Tax)	\$9,081
Tax Rate	37.30%
<b>Revenue Requirement (tax adj)</b>	<b><u>\$14,483</u></b>

<b>Total Revenue Requirement</b>	<b><u>\$25,652</u></b>
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**Surcharge:**

Revenue Required	\$25,652
Total Customers	565
Annual/customer	\$45.40
<b>Monthly Surcharge</b>	<b><u>\$3.78</u></b>



**Service Availability Fee:**

Capital Investment	\$599,957
Accumulated Depreciation	(\$73,843)
<b>Rate Base for Return</b>	<b><u>\$526,114</u></b>

**Capital Structure:**

Equity Thickness	41%
Debt Ratio	59%
<b>Total Capital Structure</b>	<b><u>100%</u></b>

**Cost of Capital:**

Return on Equity	7.60%
Cost of Debt	6.40%

**Tax Rates:**

State	5.00%
Federal	34.00%
<b>Total</b>	<b><u>37.30%</u></b>

**Debt Coverage:**

Rate Base	\$526,114
Debt Ratio	59%
Rate Base (Debt )	\$312,301
Cost of Debt	6.40%
<b>Revenue Requirement</b>	<b><u>\$19,987</u></b>

**Equity Return:**

Rate Base	\$526,114
Equity Thickness	41%
Rate Base (Equity)	\$213,813
Return on Equity	7.60%
Required Return (pre Tax)	\$16,250
Tax Rate	37.30%
<b>Revenue Requirement (tax adj)</b>	<b><u>\$25,917</u></b>

<b>Total Revenue Requirement</b>	<b><u>\$45,904</u></b>
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**Surcharge:**

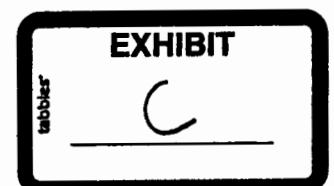
Revenue Required	\$45,904
Total Customers	565
Active Customers	143
Availability Customers	422
Annual/Customer	\$81.25
<b>Monthly Surcharge</b>	<b><u>\$6.77</u></b>

**O&M Make Whole:**

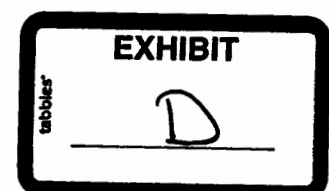
Projected Revenue Excluding Surchar	\$69,061	
Projected Restoration Surcharge Reve	\$10,688	\$4.88 per customer monthly, 565 customers, 5 months
Projected Availability Surcharge Rever	\$14,286	\$11.63 per inactive customer, 424 inactive customers, 5 months
<b>Total Projected Revenue</b>	<b>\$94,035</b>	
Projected O&M	\$104,371	
Projected TOTI	\$23,415	
Projected Depreciation	\$13,477	
<b>Total Projected Expenses</b>	<b>\$141,262</b>	
Projected Net Income	(\$47,227)	
Make Whole Requirement	\$72,201	Projected O&M less projected base revenue
Availability Customers	422	
Amount/customer 2017	\$171	
Available months	12	
Monthly O&M Surcharge	<b>\$14.26</b>	

Projected Revenue 2017	\$124,119
O&M	\$104,371
TOTI	\$23,415
Depreciation	\$13,477
Net Income for Return	(\$17,143)
Rate Base	\$820,114
Equity Rate Base	\$333,294
Debt Rate Base	\$486,820
ROE	-9.09%

Current Rate Base:	
Utility Plant in Service	\$1,804,327
Accumulated Depreciation	(\$73,843)
Materials & Supplies	\$4,185
UIC	(\$1,768)
ADIT	(\$203,135)
CIAC	(\$1,003,652)
<b>Rate Base</b>	<b>\$526,114</b>
Additional Rate Base:	
Capital Investment	\$300,000
Depreciation	(\$6,000)
<b>Additional Rate Base</b>	<b>\$294,000</b>



	<b>2017</b>
	<b>Projected</b>
Revenue	\$69,061
O&M	\$104,371
TOTI	\$23,415
Depreciation	\$13,477
<b>Net Income</b>	<b>(\$72,201)</b>
Revenue Shortfall	\$72,201



	Actual							Projected					
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	2017
Active Customers	51	68	91	105	111	127	133	143	153	163	173	183	
Base Charge								\$18.70	\$18.70	\$18.70	\$18.70	\$18.70	
Usage								4,000	4,000	4,000	4,000	4,000	
Usage Charge								\$13.30	\$13.30	\$13.30	\$13.30	\$13.30	
Usage Revenue								\$39.90	\$39.90	\$39.90	\$39.90	\$39.90	
Average Bill								\$58.60	\$58.60	\$58.60	\$58.60	\$58.60	
Revenue	\$1,417	\$1,215	\$2,010	\$4,034	\$1,659	\$4,702	\$6,265	\$8,380	\$8,966	\$9,552	\$10,138	\$10,724	\$69,061



	LTM 6/30/2016	Q1 - Q2 2016	Q1 - Q2 2017	Q1 - Q2 Ratio %	YE 2017 Projection
Salaries & Wages	\$49,205	\$23,942	\$5,590	23%	\$11,488
Employee Benefits	\$12,016	\$5,287	\$961	18%	\$2,184
Purchased Water	\$104,135	\$44,591	\$11,060	25%	\$25,829
Electric	\$12,520	\$6,514	\$0	0%	\$0
Chemicals	\$682	\$44		0%	\$0
Materials	\$0	\$0	\$0	0%	\$0
Outside Services	\$7,857	\$6,314	\$0	0%	\$0
Rent	\$2,728	\$1,015	\$999	98%	\$2,685
Other Expenses	\$74,344	\$36,537	\$30,561	84%	\$62,184
<b>Total O&amp;M</b>	<b>\$263,487</b>	<b>\$124,244</b>	<b>\$49,171</b>	<b>40%</b>	<b>\$104,371</b>
TOTI	\$8,928	\$2,239	\$5,872	262%	\$23,415
Depreciation	\$18,143	\$8,360	\$6,210	74%	\$13,477

