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February 28, 2018

VIA ELECTRONIC FILING

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

RE: *Petition of Tennessee-American Water Company Regarding the 2018 Investment and Related Expenses Under the Qualified Infrastructure Investment Program Rider, the Economic Development Investment Rider and the Safety and Environmental Compliance Rider, TPUC Docket No. 17-00124*

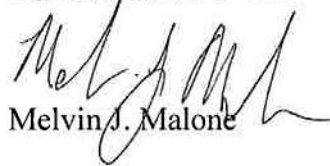
Dear Chairman Jones:

Attached for filing please find *Tennessee-American Water Company's Rebuttal Testimony of Linda C. Bridwell* 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

clw

Enclosure

cc: Linda Bridwell, Tennessee-American Water Company (via email)
Daniel Whitaker III, Assistant Attorney General, Consumer Protection and Advocate Division (via email)
Vance Broemel, Assistant Attorney General, Consumer Protection and Advocate Division (via email)

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BUTLER SNOW LLP

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 17-00124

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**

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**
7 **DOCKET?**

8 A. Yes. I submitted Pre-filed Direct Testimony in this case on November 7, 2017, on behalf
9 Tennessee-American Water Company (“Tennessee American,” “TAWC” or “Company”).
10 I also filed Supplemental Testimony in this case on February 7, 2018.

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

12 A. The purpose of my Rebuttal Testimony is to respond to the Pre-filed Testimony of William
13 H. Novak and the Pre-filed Testimony of David N. Dittmore, witnesses for the Consumer
14 Protection and Advocate Division of the Tennessee Attorney General’s Office (“CPAD”),
15 filed with the Tennessee Public Utility Commission (“TPUC” or “Commission”) on
16 February 21, 2018.

17 **Q. MR. NOVAK DISCUSSES IN HIS TESTIMONY HIS CONCERN WITH THE**
18 **SUPPORTING DATA FOR \$520,000 IN FORECASTED PLANT ADDITONS AND**

1 **\$3,000,000 IN FORECASTED REMOVAL COSTS.¹ DO YOU AGREE WITH MR.**
2 **NOVAK’S CONCERNS?**

3 A. No, I do not. The CPAD asked about this issue during discovery and the Company
4 addressed the issue in response² to those discovery requests.

5 **Q. CAN YOU EXPLAIN THE \$520,000 FORECASTED PLANT ADDITIONS?**

6 A. Certainly. TAWC had a project in its 2017 Strategic Capital Expenditures Plan that was
7 going to be delayed almost entirely. This is the Tennessee River Crossing project, I26-
8 020034. The project was estimated in the 2017 Capital Recovery Riders to cost
9 \$2,001,711. The delay was not apparent until mid-year. As part of the management of the
10 2017 Strategic Capital Expenditures Plan, TAWC identifies priority projects that could be
11 moved forward and completed in 2017. These are projects that are already identified to
12 begin in 2017 and end in 2018. These two projects identified originally in the 2017 SCEP
13 were I26-050002, Facility Upgrades at Whitwell WTP with \$169,659 projected 2017
14 spend, with completion in April 2018, and I26-050004 Replace 0.1 MG Storage Tank at
15 Whitwell with \$162,534 projected 2017 spend and with completion in April 2018. The
16 total construction expenditures on the 2017 SCEP in Docket No. 16-00126 for these two
17 projects did not represent the entire construction for either project and the two projects
18 were not included in the plant additions because they were not forecasted in that Docket
19 for completion in 2017.

¹ See *Pre-filed Testimony of CPAD Witness William H. Novak*, pp. 6-7, TPUC Docket No. 17-00124 (Feb. 21, 2018) (hereinafter “*Testimony of Novak*”).

² See *TAWC response to First Discovery Request by the CPAD*, Item 13. Also see *TAWC Response to Second Discovery Request by the CPAD*, Items 4, 5 and 10.

1 In preparing the filing for this Docket, TAWC had to determine the most appropriate
2 manner in which to reflect the authorized plant additions for 2018. In prior Capital
3 Recovery Adjustment proceedings, TAWC has left the prior year forecasted expenditures
4 as presented in the prior year Docket unless a project was removed entirely such as the
5 project to Retire Basin No. 1 in Docket No. 16-00126.³ TAWC determined that applying
6 past practice in the Capital Recovery Riders is the most appropriate methodology to remove
7 the Tennessee River Crossing project from the 2017 In-Serviced SCEP. In this way it
8 would not be included in the cumulative plant additions for 2018. However, in order to
9 include the two projects that were now actually completed in 2017 in the plant additions,
10 TAWC utilized the final estimated project cost to go in service in January 2018. Since the
11 projects were actually completed in 2017 and not included on the 2018 SCEP, TAWC had
12 to hardcode the project estimates in the workpaper, “WKP 2018 In-Serviced SCEP”. In
13 order to do so, TAWC provided a formula on that tab that hard coded the final estimated
14 amount and subtracted the previously estimated 2017 construction expenditures in Column
15 W, labelled 2017 SCEP Reforecast. Then the entire amount was placed in service in
16 January 2018 on that tab.⁴ TAWC provided the project justification papers as source and
17 support for the project forecast as attachments in response to the CPAD’s Second
18 Discovery Request, Item 4 and Item 5. The estimates in the project justification papers
19 were different than the hardcoded numbers because the project justification papers were
20 not updated after the projects were moved forward. The project justification papers are
21 formal documents that detail the project scope and engineering estimates of the project

³ See *Pre-filed Supplemental Testimony Birdwell*, Docket No. 16-00126, p.2, L 20 through p. 3, L 11.

⁴ See *TPUC Docket No. 17-00124, TAW_APP_SCH1_2018*, tab “WKP 2018 In-Serviced SCEP” filed first on November 7, 2017, then revised and attached to *Supplemental Testimony of Bridwell*, (Feb. 7, 2017) (hereafter “TAW_APP_SCH1_2018”).

1 costs. However, while these papers are the source and support of the capital expenditure
2 plan development, they are simply estimates. TAWC does not formally revise the project
3 justification papers as project scope and costs change, as long as the changes are minor. At
4 the time that the 2018 Capital Recovery Riders filing was prepared, when the two projects
5 were nearly completed, TAWC had better engineering estimates of the project costs and
6 TAWC utilized those estimates.

7 **Q. CAN YOU EXPLAIN THE \$3,000,000 IN FORECASTED REMOVAL COSTS MR.**
8 **NOVAK MENTIONS?**

9 A. Yes. In the CPAD's First Discovery Request, Item 13, the CPAD asked for the source and
10 support for the cost of removal amounts on four projects that were hard-coded in the file
11 for the 2018 In-Serviced SCEP.⁵ Two of these projects had been completed prior to 2017,
12 with removal costs ongoing into 2017. The other two projects were the two projects that
13 were discussed above. The total amount of cost of removal estimates for 2018 on these
14 four projects is \$2,997,167.

15 In response to Item 13 of the CPAD's First Discovery Request, TAWC attempted to
16 explain that the source and support for the two projects that were completed in 2017 were
17 from the financial accounting records of TAWC, while the source and support of the three
18 projects to be completed in 2018 were the project justification papers. However, TAWC
19 did not provide a copy of those justification papers. As a follow-up, the CPAD asked for
20 the justification papers for the three projects and TAWC provided them as attachments to
21 the response to the CPAD's Second Discovery Request, Items 4, 5 and 10. Again, removal

⁵ See TAW_APP_SCH1_2018.

1 costs in the forecasted period are estimates that are trued-up. TAWC has attempted to
2 provide all of the supporting documentation that is available.

3 **Q. MR. NOVAK RECOMMENDS IN REFERENCE TO BOTH THE \$520,000 IN**
4 **PLANT ADDITIONS AND THE \$3,000,000 OF COST OF REMOVAL, THAT THE**
5 **COMMISSION EITHER DIRECT THE COMPANY TO REMOVE THESE**
6 **UNSUBSTANTIATED AMOUNTS OR PROVIDE VERIFIABLE DATA THAT CAN**
7 **BE SUPPORTED IN THE CAPITAL RIDERS CALCULATION.⁶ DO YOU**
8 **AGREE WITH THIS RECOMMENDATION?**

9 A. No, I do not agree with this recommendation. The development of the Strategic Capital
10 Expenditures Plan requires a significant amount of engineering judgment to develop
11 forecasts for capital spending each year. The project justification papers are an effort
12 across American Water to document the development of the estimates of the projects. The
13 Capital Management effort at Tennessee includes a formal, monthly process that details
14 changes in projects without completing revisions to each project justification paper as
15 described in Mr. O'Neill's direct testimony in this Docket.⁷ While the development of the
16 Capital Recovery Riders each year is based on the SCEP, there are additional estimates
17 that need to be made in the Capital Recovery Riders that may not be required for
18 development and management of the SCEP.

19 Mr. Novak has previously expressed his concern over the use of hard-coded data and
20 Tennessee American has been receptive to making changes that minimize the use of hard-
21 coded data. Moreover, As I described in my Direct Testimony filed in Docket No. 16-

⁶ *Testimony of Novak*, p. 7, LL 14-16.

⁷ *See Pre-filed Testimony of Brent E. O'Neill, Docket 17-00124*, pp. 9 – 10.

00126⁸, as part of improving the Petition filing in that Docket, Tennessee American went through the entire excel spreadsheet and changed the color of any numbers to blue to represent “hard-coded” data and has continued that practice through subsequent Dockets. Tennessee American further provided references in each worksheet in the file to identify the source of the hard-coded data, which in some instances was information calculated in previous Capital Recovery Rider or reconciliation Dockets. Tennessee American certainly respected the language in the Order from Docket 15-00111 that charged TAWC to include all sources and support (including footnotes) for all calculations in all future capital rider filings.⁹ The excel spreadsheet that calculates the alternative rate mechanism now has over 36,000 cells of information and calculations, and Tennessee American worked diligently to provide adequate source, support and clarification to the entire spreadsheet, which is a forecast utilizing engineering judgment and construction cost estimates for the forecasted period. The Company has attempted to anticipate all of the necessary source, support and clarification to help streamline an efficient review process. Further, when asked, the Company, in a collaborative and cooperative spirit, attempted to provide information to support any hard-coded numbers to aid and complement the footnotes in the files. The source and support information used in developing the construction and removal cost estimates has been provided. The TPUC should reject Mr. Novak’s recommendation.

Q. MR. NOVAK DISCUSSES HIS CONCERN WITH CHANGES TO THE 2017 BUDGET FILING AS WELL.¹⁰ DO YOU AGREE WITH THIS CONCERN?

⁸ *Pre-Filed Testimony Bridwell*, Docket 16-00126 p. 10, LL.1-4 (November 4, 2016).

⁹ *TPUC Order, Docket 15-00111*, p. 10 (May 26, 2016).

¹⁰ *Testimony of Novak*, pp. 7-11.

1 A. No I do not. Mr. Novak identified three areas where the calculations for the 2017 In-
2 serviced SCEP were not consistent with the calculations in Docket No. 16-00126. He
3 identified these three areas as:

4 1) The use of the 3-month average for the amount placed in-service for Business
5 Units A, B, C, and D. Mr. Novak claims that the TAWC eliminated the
6 calculation not only going forward in 2018, but retroactively in 2017 despite
7 my direct testimony that the change had only been made going forward.¹¹ This
8 is simply not correct.

9 2) Mr. Novak identified and TAWC agrees that the allocation of capital
10 expenditures in each Business Unit to the appropriate plant accounts changed.
11 TAWC previously used an allocation factor based on actual expenditures in
12 2012. In this filing the Company updated the allocation factors based on a 3-
13 year average of actual construction expenditures from 2014-2016.¹² TAWC not
14 only utilized the new allocation factors for 2018, TAWC applied the new
15 allocation factors for 2017 without identifying the change. TAWC does not
16 agree with Mr. Novak's recommendation.

17 3) Mr. Novak identified and TAWC agrees that the methodology for forecasting
18 retirements and removal costs changed. Previously the Company relied upon an
19 estimate to forecast retirements and cost of removal. In the current filing, the
20 Company has updated this methodology and based it on a three-year average
21 from 2014-2016. TAWC not only utilized the new allocation factors for 2018,

¹¹ *Testimony of Novak*, p. 8, LL 17-18.

¹² *Testimony of Novak*, p. 9, LL 4-13.

1 TAWC applied the new allocation factors for 2017.¹³ TAWC does not agree
2 with Mr. Novak's recommendation.

3 **Q. CAN YOU EXPLAIN WHY YOU DO NOT AGREE WITH MR. NOVAK'S CLAIM**
4 **THAT TAWC ELIMINATED THE 3-MONTH AVERAGE RETROACTIVELY TO**
5 **2017?**

6 A. Yes, that assertion is simply not correct. The utilization of the 3-month average formula is
7 clearly visible on the "WKP 2017 In-Serviced SCEP" and "WKP 2017 In-Serviced SCEP
8 Proof" tabs contained in the original filing. These project lines continued the 3-month
9 average methodology for the 2017 forecast. Only in the 2018 forecast in-serviced tabs has
10 TAWC changed the methodology to a monthly construction expenditure amount.
11 For example, in the "WKP 2017 In-Serviced SCEP Proof" tab, Cell AA19 calculates the
12 amount placed in service for Business Unit A for January 2017. The formula clearly shows
13 a 3-month average of construction expenditures pulling for the November and December
14 2016 construction expenditures listed in cells S19 and U 19, as well as the January 2017
15 construction expenditures from Cell G11 on the tab "WKP 2017 SCEP". The three month
16 average formula is continued to be utilized throughout 2017 calculations for Business Units
17 A, B, C and D.

18 **Q. CAN YOU EXPLAIN WHY YOU DO NOT AGREE WITH MR. NOVAK'S**
19 **CONCERN REGARDING THE APPLICATION OF THE UPDATED**

¹³ *Testimony of Novak*, p 9, L15 through p. 10, LL 4.

1 **ALLOCATION FACTORS AND METHODOLOGY FOR FORECASTING**
2 **RETIREMENTS AND REMOVAL COSTS?**

3 A. Yes. Mr. Novak is correct that TAWC applied the updated allocation factors and
4 methodology for calculating the forecasted retirement and removal costs to not only 2018
5 but retroactively to 2017. Further, TAWC acknowledges that it did not identify the updated
6 allocation factors applied to 2017 as a change in direct testimony. This was simply due to
7 an internal miscommunication in the development of the initial filing with regard to the
8 allocation factors. TAWC is happy to change the calculations for 2017 back to the prior
9 methodological approach. With regard to the updated allocation factors applied to 2017,
10 once it was pointed out, TAWC acknowledged that the Company had applied the change
11 without identifying the change in testimony. The difference in the overall amount is
12 immaterial. Further, after reviewing the methodology that we did apply, we have
13 concluded that it is a better approach. Since the difference is immaterial and the mistakenly
14 applied approach is better, TAWC recommends leaving this calculation as filed. To the
15 extent that the parties disagree, however, TAWC is happy to update the file.

16 **Q. DO YOU AGREE WITH MR. NOVAK’S CONCERN REGARDING THE**
17 **ACCURACY OF THE CAPITAL RECOVERY RIDERS DUE TO CHANGES IN**
18 **CONTRIBUTIONS IN AID OF CONSTRUCTION (“CIAC”)?¹⁴**

19 A. No, I do not. Mr. Novak indicates that the Company has historically taken the total plant
20 additions for each year, then deducted any CIAC for these plant additions and then
21 multiplied the balance by the appropriate tax depreciation rate. The only amount of CIAC
22 forecasted in Docket No. 15-00111 or Docket No. 16-00126 was for new services, which

¹⁴ *Testimony of Novak*, p. 11, LL. 9-15.

1 is not included in the CIAC. In Docket No. 15-00111, TAWC did subtract the amount of
2 CIAC from the average plant additions for the one Business Unit G – New Services as part
3 of the calculation for tax depreciation. However, in Docket No. 16-00022, TAWC revised
4 the tax depreciation calculation to use the year end balance, not the average plant additions.
5 TAWC then carried this revision into the calculation in Docket No. 16-00126 for the
6 Business Unit G – New Services. TAWC also eliminated the subtraction of CIAC. Again,
7 Business Unit G is not included in the Capital Recovery Riders, so this had no impact on
8 the revenue requirement. In this Docket, TAWC has CIAC on two business units that are
9 included in the Capital Recovery Riders, Business Unit D and Business Unit E. These are
10 actual amounts from 2016. In the reconciliation calculations, TAWC included a deduction
11 of the actual CIAC in the tax depreciation calculation because it is on a separate worksheet.
12 However, for the forecasted Capital Recovery Riders, TAWC has not proposed to create a
13 separate sheet for the estimation of the tax depreciation. The creation of a separate
14 worksheet for the calculation of tax depreciation further increases the complexity of the
15 forecasted Capital Recovery Riders. By not reducing the overall plant additions by the
16 amount of CIAC, the tax depreciation calculation is slightly higher. Because tax
17 depreciation is a reduction of rate base, the calculation results in slightly less rate base.
18 This calculation is to the benefit of the customer for 2018 and will be trued-up in the
19 reconciliation. Because this calculation is in the customer's favor and Mr. Novak's
20 recommendation increases the complexity of the forecasted tax depreciation, I do not agree
21 with Mr. Novak's recommendation that TAWC should revise the calculation to include
22 CIAC in the tax depreciation calculation.

1 **Q. DO YOU AGREE WITH MR. DITTEMORE'S CONCERN REGARDING BONUS**
2 **DEPRECIATION AND THAT IT SHOULD BE INCLUDED IN THE CALCULATION OF**
3 **THE CAPITAL RECOVERY RIDERS?¹⁵**

4 A. No, I do not. As stated in response to Item 16 of the CPAD's First Discovery Request,
5 TAWC has been in a Net Operating Loss (NOL) position dating back to 2008. TAWC
6 would object strongly to any suggestion that an inclusion of Bonus Depreciation should be
7 made retroactively as part of a future reconciliation on a going forward basis. However, I
8 agree with Mr. Dittmore that this is an issue that would be best addressed in a subsequent
9 reconciliation of the Capital Recovery Riders.

10 **Q. MR. DITTEMORE ALSO RECOMMENDS THAT THE REDUCED FEDERAL**
11 **CORPORATE TAX RATE OF 21% BE INCORPORATED IN THE CRR TRUE-**
12 **UP FILING EFFECTIVE AS OF JANUARY 1, 2018, RATHER THAN THE**
13 **EFFECTIVE DATE OF THE NEW CRR RATES IN THIS DOCKET. DO YOU**
14 **HAVE CONCERNS WITH THIS RECOMMENDATION?¹⁶**

15 A. Yes, I do. The Capital Recovery Riders, as revised in this filing, included a reduced federal
16 corporate tax rate of 21%. The calculations of the rates proposed are based on the period
17 beginning January 1, 2018 through December 31, 2018. Therefore, the reduced federal
18 corporate tax rate of 21% is included, for the cumulative amount of the capital recovery
19 riders, for the entire year. Even with the effective date of the Capital Recovery Riders at
20 a date after January 1, 2018, the rate is calculated for the forecasted period of January 1,
21 2018 through December 31, 2018. TAWC cannot retroactively apply a discounted federal
22 corporate tax rate on rates that haven't been implemented. Until the new rates are

¹⁵ See *Pre-filed Direct Testimony of David N. Dittmore*, pp. 5-9, TPUC Docket No. 17-00124 (Feb. 21, 2018) (hereafter "*Testimony of Dittmore*").

¹⁶ *Testimony of Dittmore*, p. 11, LL. 7-9.

1 implemented, the prior year rates remain in place. In early 2019, TAWC will file a
2 reconciliation of the Capital Recovery Riders for 2018 that will compare the amount of
3 revenues authorized from January 1 – December 31, 2018 (which include the lower
4 corporate federal tax rate of 21% for the entire year) to the amount of revenues actually
5 collected from January 1 – December 31, 2018. So even when the new rates are not
6 implemented until after January 1, 2018, the review period looks at the revenues authorized
7 as January 1, 2018 through December 31, 2018, which is based on the lower corporate
8 federal tax rate of 21% beginning January 11, 2018. TPUC should reject Mr. Dittmore's
9 recommendation because the process for authorization and reconciliation of the calendar
10 year, rather than the implementation date, assures that customers will be provided the
11 benefit of the reduced federal corporate tax rate for the entire calendar year of 2018 no
12 matter when the rates are implemented. The 2019 true-up process for calendar year 2018
13 CRR revenues is the appropriate means of reconciling the TCJA tax reductions for any
14 differences that may occur prior to authorization in this Docket.

15 **Q. DO YOU HAVE ANY CONCERNS WITH MR. DITTEMORE'S TESTIMONY**
16 **REGARDING THE RE-MEASUREMENT OF TWAC's ADIT?¹⁷**

17 **A.** Yes, I do. Mr. Dittmore indicates that while the calculations of the re-measured ADIT
18 were not available at during this proceeding, that the information should be filed within
19 Docket No. 18-00001 by the deadline established by the TPUC. While TAWC will make
20 every attempt to provide as much information as possible at that time, the re-measurement
21 of the ADIT information is being overseen by AW tax experts and will likely not be
22 completed until much later in 2018, as will be explained to the extent necessary in the filing

¹⁷ *Testimony of Dittmore*, p. 10-11.

1 in Docket No. 18-00001. With respect to Mr. Dittmore's assertion that "all excess ADIT
2 should be preserved for future ratemaking proceedings, not simply ... excess ADIT
3 associated with base rates,"¹⁸ TAWC's submissions in Docket No. 18-00001 will address
4 its entire ADIT, including the ADIT for the CRR and not simply the ADIT associated with
5 base rates.

6 **Q. AS PART OF THE DISCOVERY, HAS TAWC MADE ANY CORRECTIONS OR**
7 **CHANGES TO THE CALCULATION OF THE CAPITAL RECOVERY RIDERS?**

8 A. Yes, Tennessee American revised the calculations in this filing to include the impact of the
9 reduced federal corporate tax rate to 21% and 2018 ADIT at the lower federal corporate
10 tax rate.

11 **Q. DO YOU BELIEVE THE CAPITAL RECOVERY RIDERS ARE STILL IN THE PUBLIC**
12 **INTEREST?**

13 A. Yes, I do. I discussed the reasons for this in my Pre-filed Direct Testimony,¹⁹ and I don't
14 believe those have changed.

15 **Q. WHAT DO YOU RECOMMEND?**

16 A. I recommend that the TPUC approve the 2018 Capital Recovery Riders, as revised by
17 Tennessee American.

18 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

19 A. Yes.
20

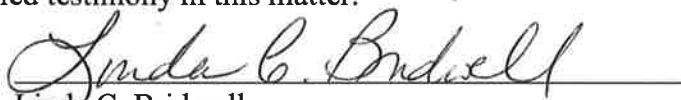
¹⁸ *Testimony of Dittmore*, p.11.

¹⁹ *Direct Testimony Bridwell*, p. 30, L. 8 through p. 32, L.23.

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 Public Utility Commission, and if present before the Commission and duly sworn, her testimony would be as set forth in her pre-filed testimony in this matter.


Linda C. Bridwell

Sworn to and subscribed before me
this 28th day of February, 2018.


Notary Public

My Commission Expires: 7/25/2020