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January 17, 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 Production Costs and Other Pass-Throughs Rider*, TPUC Docket No. 18-00009

Dear Chairman Jones:

Pursuant to Tenn. Code Ann. § 65-5-103, *et seq.*, and the decisions of the Tennessee Public Utility Commission in TPUC Docket No. 13-00130, attached for filing please find the *Petition of Tennessee-American Water Company Regarding The Production Costs and Other Pass-Throughs Rider* (the "*Petition*"), along with sworn testimony, workpapers, exhibits and proposed tariffs.¹

As required, an original and four (4) hard copies of the *Petition* and supporting documentation will follow. We have also enclosed a check in the amount of \$25.00 for the required filing fee.

An extra copy of this cover letter will also follow to be filed-stamped for our records. Should you have any questions concerning this filing, or require additional information, please do not hesitate to let me.

Very truly yours,

BUTLER SNOW LLP


Melvin J. Malone

clw

Enclosures

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

¹ For administrative convenience, two (2) CDs of the *Petition*, and supporting documentation, are enclosed.

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE**

**PETITION OF TENNESSEE-AMERICAN)
WATER COMPANY REGARDING THE)
PRODUCTION COSTS AND OTHER)
PASS-THROUGHS RIDER)**

DOCKET NO. _____

PETITION

Pursuant to Tennessee Code Annotated § 65-5-103 *et seq.*, and the Tennessee Public Utility Commission’s (“Commission” or “TPUC”) approval of the Amended Petition in TPUC Docket No. 13-00130 on April 14, 2014, Tennessee-American Water Company (“Tennessee American,” “TAWC” or “Company”) submits this Petition regarding the Production Costs and Other Pass-Throughs Rider (the “*Petition*”). Consistent with the action of the Commission in TPUC Docket No. 13-00130, including the approved tariffs submitted therein, and the Company’s compliance with the decisions of the agency in TPUC Docket Nos. 15-00001, 15-00131, and 16-00148 Tennessee American states as follows in support of this *Petition*:

I.

DESCRIPTION OF TENNESSEE AMERICAN

1. Tennessee American, a Tennessee corporation authorized to conduct a public utility business in the State of Tennessee, is a public utility as defined in Tenn. Code Ann. § 65-4-101, and provides residential, commercial, industrial and municipal water service, including public and private fire protection service, to Chattanooga and surrounding areas, including approximately 75,840 customers, that are subject to the jurisdiction of the Authority pursuant to Chapter 4 and Chapter 5 of Title 65 of the T.C.A. Tennessee American also serves customers in

North Georgia. The rates for those customers are not regulated by the Public Service Commission of the State of Georgia, but are instead regulated by this Authority.

2. Tennessee American is a wholly-owned subsidiary of American Water Works Company, Inc., which is the largest water holding company in the United States, providing water and wastewater services to sixteen (16) million people in thirty-five (35) states and two (2) Canadian Provinces.

3. Tennessee American's principal place of business is located at 109 Wiehl Street, Chattanooga, Tennessee 37406.

4. All correspondence and communication with respect to this Petition should be sent to the following:

Linda Bridwell
Senior Manager of Rates and Regulation – Tennessee and Kentucky
Kentucky American Water Company
2300 Richmond Road
Lexington, KY 40502
Linda.Bridwell@amwater.com
(859) 268-6373 (office)
(859) 268-6374 (fax)

Melvin J. Malone
Butler Snow LLP
The Pinnacle at Symphony Place
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(615) 651-6700 (office)
(615) 651-6701 (fax)

II.

BACKGROUND

5. In 2013, the Tennessee General Assembly passed House Bill 191, which revised Tenn. Code Ann. § 65-5-103 to allow alternative regulatory methods and mechanisms that

recover certain costs without convening a general rate case, as long as specific criteria are satisfied, including, but not limited to, the Commission making a finding, prior to approval, that such alternative methods and mechanisms are in the public interest.

6. On October 4, 2013, Tennessee American submitted a Petition (the “*October 2013 Petition*”) seeking approval of four (4) proposed alternative regulatory methods and mechanisms as permitted under Tenn. Code Ann. § 65-5-103 *et seq.* More specifically, the Company sought approval for a Qualified Infrastructure Investment Program Rider (“QIIP”),¹ an Economic Development Investment Rider (“EDI”),² a Safety and Environmental Compliance Rider (“SEC”)³ and a Pass-Throughs mechanism for Fuel, Purchased Power, Chemicals, Purchased Water, Wheeling Water Costs, Waste Disposal and TPUC Inspection Fee (“PCOP”).⁴ One of the primary regulatory concepts underlying the then-proposed Capital Riders⁵ and PCOP was to allow, with the requisite safeguards to serve the public interest, smaller, gradual increases in rates and thereby lessen the occurrence of “rate shock.” One of the many benefits of this new, more streamlined recovery approach would be the likelihood of less frequent rate case filings.

7. On January 10, 2014, the Company and the Attorney General and Reporter for the State of Tennessee, through the Consumer Advocate and Protection Division (“CAPD” or

¹ The QIIP Rider is designed, in part, to mitigate regulatory lag, to accelerate the timeframe of essential infrastructure upgrades and replacements, and to produce a safer and more reliable water distribution and production system for ratepayers. Additionally, this mechanism has many other customer benefits and protections, including the lessening of the occurrence of “rate shock” associated with Base Rate increases.

² The EDI Rider is designed, in part, to promote the public interest by supporting and enhancing Tennessee American’s ability to serve both growing and new businesses and by permitting the Company to prudently promote economic development, growth and expansion in its service area.

³ Generally, the SEC Rider supports the Company’s ability to serve the public interest by providing safe and reliable drinking water. The current regulatory environment, coupled with aging infrastructure, will require a larger investment in safety and environmental compliance not previously recognized in the Company’s rates. Hence, one of the benefits of this rider is avoiding “rate shock” by permitting smaller, more gradual rate increases over time.

⁴ The PCOP is designed to streamline the recovery process by permitting Tennessee American to recovery the largest non-labor related component of the Company’s operations and maintenance expenses in a more timely manner, as increases in these essential and non-discretionary expenses (such as chemicals and power) are outside the control of the Company’s management.

⁵ For ease of reference, the QIIP, the EDI and the SEC are referred to collectively herein as the “Capital Riders.”

“Consumer Advocate”), submitted a Stipulation in TPUC Docket No. 13-00130 (the “*Stipulation*”), resolving the contested issues presented and offering the *Stipulation* to the Commission for its review, consideration and approval. Considering the *Stipulation* and the supporting documentation as an Amended Petition, the Commission approved the Capital Riders and the PCOP on April 14, 2014.⁶

III.

THE APPROVED CAPITAL RIDERS, PCOP AND THIS PETITION

8. Detailed explanations of the Capital Riders and the PCOP, along with underlying supporting documentation, are set forth in the Direct, Rebuttal and Supplemental Testimony of Gary M. VerDouw in TPUC Docket No. 13-00130.⁷ Moreover, the Company’s revised tariff sheets setting forth the Capital Riders, the PCOP, and the regulatory safeguards related thereto, were submitted in TPUC Docket No. 13-00130 on March 25, 2014, and approved by the Commission as part of the Amended Petition on April 14, 2014. For ease of reference, the revised tariff sheets are referred to hereinafter as the “*Approved Tariffs*.”

9. On April 14, 2014, the Commission determined, after a review of the evidentiary record in TPUC Docket No. 13-00130, including the *Stipulation* and the *Approved Tariffs*, that the proposed Capital Riders and the PCOP were reasonable and that the *Approved Tariffs* met the requirements of Tenn. Code Ann. § 65-5-103 *et seq.*⁸ As set forth in the *Approved Tariffs*, the Commission noted that the Capital Riders and the PCOP would not only accommodate a more timely recovery process for necessary costs and expenses, but also that these methods and

⁶ *Transcript of Proceedings, In the Matter of Tennessee Regulatory Authority Conference*, TPUC Docket No. 13-00130, pp. 14-16 (April 14, 2014) (excerpt) (hereinafter “*Hearing Tr.*”). See also *Order Approving Amended Petition*, TPUC Docket No. 13-00130 (Jan. 27, 2016) (hereinafter “*Order Approving Amended Petition*”).

⁷ The Testimony of CAPD Witness William H. Novak in TPUC Docket No. 13-00130 likewise aided in shaping the *Stipulation* and the Amended Petition as well.

⁸ *Hearing Tr.* at 14-16. See also *Order Approving Amended Petition*.

mechanisms would further avoid the delay and expense commonly associated with full blown rate case proceedings.⁹ Finally, the Commission found the Amended Petition to be in the public interest.¹⁰

10. As set forth in the *Approved Tariffs*, on or before December 1 of each year, Tennessee American is required to file with the Commission its QIIP, EDI and SEC Rider projections for the upcoming calendar year in the manner, and with the accompanying support, required by the *Approved Tariffs* and the Commission. As required, the Company submitted these projections on November 7, 2017, in TPUC Docket No. 17-00124.

11. As set forth in the *Approved Tariffs*, within thirty (30) days of the end of the most recently authorized attrition year set forth in the most recent rate case order, and every twelve (12) months subsequent to the end of that attrition year, the Company shall submit to the Commission an annual filing calculating the PCOP percentage rate.¹¹ The PCOP percentage rate shall become effective thirty (30) days after the annual filing is submitted to the Commission and shall be applied as an adjustment to customers' bills for the twelve (12) month period following the effective date of the PCOP percentage rate. This *Petition* represents the required annual PCOP filing for the review period of December 1, 2016 through November 30, 2017.

12. In further support of its *Petition*, Tennessee American has simultaneously filed the following direct testimony, which is incorporated herein by reference:

- (a) **Direct Testimony of Linda Bridwell**, which provides the underlying support for the calculation of the PCOP percentage rate, including the

⁹ *Hearing Tr.* at 15. *See also Order Approving Amended Petition.*

¹⁰ *Id.*

¹¹ The PCOP differs from the Capital Riders in that it is based upon actual historical expense increases, rather than a forward-looking, projection mechanism.

workpapers, with respect to the PCOP Rider and sponsors certain Tennessee American Exhibits; and

13. Tennessee American has filed simultaneously with this *Petition* the necessary tariffs.

14. Tennessee American submits that the *Petition*, and its accompanying support documentation, are consistent with Tenn. Code Ann. § 65-5-103 *et seq.*, consistent with the action of the Authority on the Amended Petition and the decisions rendered in TPUC Docket Nos. 15-00001, 15-00131 and 16-00148, and consistent with and serve the public interest. Therefore, this *Petition* and Tennessee American's associated tariffs should be approved.

WHEREFORE, Tennessee American respectfully requests:

1. That the Commission approve this *Petition* and issue an order pursuant to Tenn. Code Ann. § 65-5-103 *et. seq.* and consistent with the action of the Commission on the Amended Petition;

2. That the Commission approve the proposed PCOP percentage as submitted herein;

3. That the Commission approve Tennessee American's tariffs, as submitted herein, within thirty (30) days of this filing as provided in the PCOP tariff, or as soon as is practicable; and

4. That the Commission grants such other and/or further relief as may be warranted.

This the 17th day of January, 2018.

RESPECTFULLY SUBMITTED,



MELVIN J. MALONE (BPR #013874)

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Attorneys for Tennessee-American Water Company

Dated: January 17th, 2018

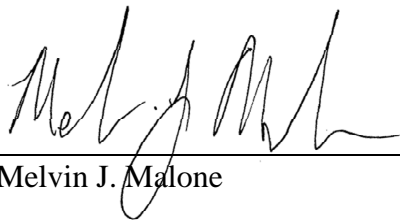
CERTIFICATE OF SERVICE

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

Vance Broemel, Esq.
Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Advocate and Protection Division
Cordell Hull Building, Ground Floor
425 Fifth Avenue North
Nashville, TN 37243
Vance.Broemel@ag.tn.gov

Daniel Whitaker, Esq.
Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Advocate and Protection Division
Cordell Hull Building, Ground Floor
425 Fifth Avenue North
Nashville, TN 37243
Daniel.Whitaker@ag.tn.gov

This the 17th day of January, 2018.



Melvin J. Malone

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
Linda C. Bridwell

Sworn to and subscribed before me
this 16th day of January, 2018.

Peggy A. Slone
Notary Public

My Commission Expires: 10/3/2020



PETITIONER'S EXHIBIT LCB-1

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 18-_____

DIRECT TESTIMONY

OF

LINDA C. BRIDWELL

ON

CHANGES TO THE PRODUCTION COSTS AND OTHER PASS-THROUGHS RIDER

SPONSORING PETITIONER'S EXHIBITS:

PETITIONER'S EXHIBIT – PCOP CALC – LCB

PETITIONER'S EXHIBIT – 2018 PCOP AVG IMPACT – LCB

PETITIONER'S EXHIBIT – CURRENT TARIFF SHEET NO. 12 – RIDERS – LCB

PETITIONER'S EXHIBIT – PENDING TARIFF SHEET NO. 12 – RIDERS - LCB

PETITIONER'S EXHIBIT – PROPOSED TARIFF SHEET NO. 12 – RIDERS - LCB

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** My name is Linda C. Bridwell and my business address is 2300 Richmond Road,
3 Lexington, Kentucky 40502.

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

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

7 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS OR ANY**
8 **OTHER COMMISSION?**

9 **A.** Yes. I provided written testimony before the Tennessee Public Utility Commission
10 (“TPUC” or “Commission”) in TPUC Docket No. 12-00049, TPUC Docket No. 15-
11 00001, and TPUC Docket No. 16-00126. I have provided both written and oral
12 testimony in TPUC Docket Nos. 14-00121, 15-00029, 15-00111, 15-00131, 16-00022,
13 16-00126, 16-00148, 17-00020, and 17-00124. I have also provided both written and
14 oral testimony in at least seventeen different proceedings before the Kentucky Public
15 Service Commission (“PSC”) including rate cases, special investigations, and
16 applications for a Certificate of Public Convenience and Necessity.

17 **Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL**
18 **BACKGROUND.**

19 **A.** I received a B.S. degree in Civil Engineering from the University of Kentucky in 1988
20 and I received a M.S. degree in Civil Engineering from the University of Kentucky in
21 1992 with an emphasis in water resources. I completed a Masters of Business
22 Administration from Xavier University in Cincinnati, Ohio in 2000. I am a registered
23 Professional Engineer in the Commonwealth of Kentucky.

1 I have been employed by AWW since 1989. I began as a distribution supervisor for
2 Kentucky American Water (“KAWC”) until 1990 when I was promoted to Planning
3 Engineer, then Engineering Manager, and later Director of Engineering in 1998. In July
4 2004, I accepted the position of Project Delivery and Developer Services Manager for the
5 Southeast Region of AWW, responsible for Kentucky, Tennessee, and West Virginia. In
6 2008, I became the KAWC Project Delivery Manager for the construction of a new water
7 treatment plant, booster station, and transmission main in Kentucky. This project was the
8 largest project completed by American Water, in any of its regulated businesses, at \$164
9 million. Upon completion of the project in October 2010, I became the Director of
10 Environmental Compliance and Water Quality for KAWC and in February of 2012 I
11 accepted the role of Rates and Regulation Manager for Kentucky and Tennessee. I was
12 recently promoted to my current position. I am an active member of the American Water
13 Works Association (AWWA), served as president of the local chapter and state section of
14 the American Society of Civil Engineering (ASCE), and served as an officer in the local
15 chapter of the National Society of Professional Engineers (NSPE) and as a State officer.
16 I have served periodically as an Adjunct Professor at the University of Kentucky in the
17 Civil Engineering Department, teaching “Water Quality and Pollution Control” and the
18 “Introduction to Environmental Engineering.” I served as a member of the
19 Civil Engineering Industrial Advisory Committee at the University of Kentucky from
20 2005 until 2012. I served as a Commissioner on the Kentucky Water Resources
21 Development Commission established by Governor Patton and on the Kentucky State
22 Board of Licensure for Professional Engineers and Land Surveyors. I currently serve as
23 Vice Chairman of the Board of Directors for the Kentucky Infrastructure Authority.

1 **Q. WHAT ARE YOUR DUTIES AS SENIOR MANAGER OF RATES AND**
2 **REGULATION?**

3 A. My primary responsibilities encompass the coordination of regulatory issues in
4 Tennessee and Kentucky. This includes coordinating all reports and filings, working
5 with regulatory staff to make sure that all information produced addresses the
6 requirements or requests, and overseeing the preparation and filing of rate cases and tariff
7 changes. I work with the senior management in both states on planning. I am also
8 responsible for keeping abreast of changes in regulation, or trends in regulatory oversight
9 across the United States that may impact our local operations. I report to the Presidents
10 of KAWC and Tennessee American Water (“Tennessee American,” “TAWC,” or
11 “Company”). I am located in Kentucky, but work closely with the TAWC staff in
12 Tennessee as well.

13 **Q. WHAT IS THE PURPOSE OF THE PETITION TAWC HAS FILED?**

14 A. On April 14, 2014, the Tennessee Public Utility Commission approved four new
15 alternative rate mechanisms for TAWC in TPUC Docket No. 13-00130, effective April
16 15, 2014. Three of these alternative rate mechanisms were capital program riders and
17 one was for a rider for production costs and other pass-throughs. The three Capital
18 Recovery Riders are a Qualified Infrastructure Investment Program (“QIIP”) Rider, an
19 Economic Development Investment (“EDI”) Rider, and a Safety and Environmental
20 Compliance (“SEC”) Rider. The QIIP Rider, the EDI Rider and the SEC Rider are
21 commonly referred to as the Capital Recovery Riders. The Capital Recovery Riders are
22 based on certain categories of forward-looking capital expenditures that are projected or
23 forecasted annually for the upcoming investment period. The Production Costs and

1 Other Pass-throughs Rider (“PCOP”), on the other hand, is based on a historical annual
2 review period.

3 The purpose of TAWC’s Petition, which this testimony accompanies (the “Petition”), is
4 to provide the required information and supporting documentation for the 2017 historical
5 review period of December 1, 2016 through November 30, 2017 to comply with the
6 previously approved PCOP rider tariff, which as noted above was approved in TPUC
7 Docket No. 13-00130 and adjusted in Docket Nos. 15-00001, 15-00131 and 16-00148.

8 The information provided in my testimony is consistent with Tenn. Code Ann. § 65-5-
9 103 *et seq.*, the decisions made in TPUC Docket No. 13-00130 and with any adjustments
10 ordered by the Commission in TPUC Docket Nos. 15-00001, 15-00131 and 16-00148.

11 **Q. CAN YOU ELABORATE ON THE PRODUCTION COSTS AND OTHER PASS-**
12 **THROUGHS RIDER TARIFF THAT WAS APPROVED BY THE TPUC ON**
13 **APRIL 14, 2014?**

14 **A.** Yes. The previously approved PCOP Rider included the concept of an annual review of
15 certain categories of operational expenses during the historical review period. The PCOP
16 differs from the Capital Recovery Riders in that the PCOP is based upon actual historical
17 expenses, rather than forward-looking projections. The PCOP is a tariff rate adjustment
18 mechanism for recovery from, or crediting to, customers incremental changes in
19 essential, non-discretionary expenses, including purchased power expense, purchased
20 chemical expense, purchased water expense, wheeling charge expense, waste disposal
21 expense and TPUC inspection fees that are above or below the level authorized for
22 recovery in the most recent rate case. At the end of a 12-month period, the PCOP looks
23 at that historical period and compares the actual production expenses to the amount of

1 production expenses authorized in the most recent rate case, which for TAWC is TPUC
2 Docket No. 12-00049. The “initial” PCOP Rider year or review period pursuant to the
3 April 14, 2014, approval of the agency was the attrition year period from that previous
4 rate case of December 1, 2012 through November 30, 2013, as compared to the actual
5 amount of production expenses that occurred between December 1, 2012 through
6 November 30, 2013. The approved tariff in Docket No. 13-00130 then identified each
7 following review period as subsequent 12-month periods. In Docket No. 15-00001,
8 TAWC used the review period of December 1, 2013 through November 30, 2014 to
9 calculate the PCOP percentage rate for an adjustment to the PCOP as the second
10 proposed adjustment. In Docket 15-00131, TAWC used the review period of December
11 1, 2014 through November 30, 2015 to calculate the PCOP percentage rate for an
12 adjustment to the PCOP as the third proposed adjustment. Last year, in Docket No. 16-
13 00148, TAWC used the review period of December 1, 2015 through November 30, 2016
14 to calculate the PCOP percentage rate for an adjustment to the PCOP as the fourth
15 proposed adjustment. The “current” review period that is the subject of this Petition is
16 from December 1, 2016 through November 30, 2017. This Petition includes the current
17 review period expenses, compared to the amounts approved in TAWC’s last general rate
18 case.

19 **Q. IS THERE A SECOND STEP TO THE PCOP RECONCILIATION PROCESS?**

20 **A.** Yes. The first step is a reconciliation adjustment of the authorized expenses to the actual
21 amount of expenses. The second step is then a reconciliation adjustment of the amount of
22 revenues for the previous year under the PCOP that was projected to be collected or
23 refunded. TAWC looks at the amount of revenues that was authorized to be collected or

1 refunded during the previous year, or the review period, and compares that to the actual
2 amount collected or refunded. TAWC has included this reconciliation in the Petition as
3 well.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 **A.** The purpose of my testimony is to support the calculation of the 2018 PCOP Rider
6 described in the Petition. Of the four riders approved by the Commission on April 14,
7 2014, in TPUC Docket No. 13-00130, the PCOP Rider is the only item included in the
8 Petition.

9 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

10 **A.** Yes I am. I am sponsoring the following exhibits:

11 **Petitioner's Exhibit – PCOP Calc Exhibit – LCB**

12 **Petitioner's Exhibit – 2017 PCOP Avg Impact--LCB**

13 **Petitioner's Exhibit -- Current Tariff Sheet No. 12 – Riders – LCB**

14 **Petitioner's Exhibit – Pending Tariff Sheet No. 12 – Riders -- LCB**

15 **Petitioner's Exhibit – Proposed Tariff Sheet No. 12 – Riders - LCB**

16
17 I will discuss these exhibits in further detail in my testimony below.

18 **Q. WERE THE PETITIONER'S EXHIBITS LISTED ABOVE PREPARED BY YOU**
19 **OR UNDER YOUR DIRECTION AND SUPERVISION?**

20 **A.** Yes.

21 **Q. WHAT WERE THE SOURCES OF THE DATA USED TO PREPARE THE**
22 **PETITIONER'S EXHIBITS LISTED ABOVE?**

23 **A.** The data used to prepare the exhibits was acquired from the books of account and
24 business records of Tennessee American, the officers and associates of Tennessee
25 American with knowledge of the facts based on their job responsibilities and activities,

1 and other internal sources which I examined in the course of my investigation of the
2 matters addressed in this testimony.

3 **Q. DO YOU CONSIDER THIS DATA TO BE RELIABLE AND OF A TYPE THAT**
4 **IS NORMALLY USED AND RELIED ON IN YOUR BUSINESS FOR SUCH**
5 **PURPOSES?**

6 A. Yes.

7 **Q. DO THE PETITIONER'S EXHIBITS LISTED ABOVE ACCURATELY**
8 **SUMMARIZE SUCH DATA AND THE RESULTS OF ANALYSIS USING SUCH**
9 **DATA?**

10 A. Yes, they do.

11 **Q. DOES THE PCOP RIDER BENEFIT THE CUSTOMERS?**

12 Yes. The PCOP is mutually beneficial to the ratepayers, the public, and TAWC. Along
13 with the Capital Recovery Riders, the Production Costs and Other Pass-Throughs Rider
14 reduce the need for general rate cases, lessen the occurrence of consumer “rate shock,”
15 and allow for more efficient, streamlined regulation. The ratepayers and the public
16 benefit from efficiently addressing changes in costs that are largely outside TAWC’s
17 control, without the expense of a general rate case. In the case of the PCOP, the
18 customers have seen a rate decrease in each year since the last general rate case of Docket
19 No. 12-00049 as TAWC’s production costs were less during each subsequent year than
20 authorized for the attrition year, or the initial period in 12-00049 of December 1, 2012
21 through November 30, 2013. In fact, since the inception of the PCOP TAWC has
22 refunded back \$1,284,216 to its customers. The Company benefits from a more efficient,

streamlined regulatory process that presents TAWC with the opportunity to timely recover its expenses.

Q. CAN YOU EXPLAIN THE CALCULATION OF THE PCOP RIDER?

A. Certainly. As set forth in the approved tariffs, the PCOP Rider is established on an annual basis. Essentially, the calculation starts with levels of purchased power, purchased chemical, purchased water, wheeling charges, waste disposal, and TPUC Inspection Fee assessments and water sales that are authorized in the Company's most recent rate case. The authorized levels of purchased power, purchased chemical, purchased water, wheeling charges, waste disposal, and TPUC Inspection Fee assessments are divided by the authorized level of water sales in hundred gallons. Then actual purchased power expense, purchased chemical expense, purchased water expense, wheeling charges, waste disposal expense, and TPUC Inspection Fee assessments are divided by the actual level of water sales in hundred gallons. The difference is the incremental change in production costs per hundred gallons of water. This incremental difference is then multiplied by the authorized level of water sales in hundred gallons. After that, the amount of the PCOP revenues from the previous period that is either over or under the anticipated amount is calculated with interest and added to the expense difference. The total amount is grossed up for the authorized gross receipts tax rate, uncollectible rate, TPUC fee and forfeited discounts from the previous rate case, and then divided by the authorized revenues from the previous case. It is expressed as a percentage for all water charges. If it is negative, the amount is to be refunded to customers. If it is positive, it is added as a surcharge to the customers' bills as additional revenues.

1 As approved, the PCOP changes on an annual basis until it resets back to zero at the
2 conclusion of the Company's next rate case filing, at which point the operational
3 expenses for these categories that are reflected and approved in that rate case filing will
4 be included within Base Rates.

5 **Q. HAVE YOU INCLUDED THE CALCULATION OF THE PRODUCTION COSTS**
6 **AND OTHER PASS-THROUGHS RIDER IN THE PETITION?**

7 **A.** Yes. I have attached an exhibit that reflects the calculation of the PCOP Rider. The
8 detailed calculations are attached in an exhibit to my testimony as Petitioner's Exhibit
9 PCOP Calc – LCB. The calculations in this Petition are consistent with the calculations
10 made pursuant to and in compliance with the approved tariff in TPUC Docket No. 13-
11 00130 and again in Docket Nos. 15-00001, 15-00131 and 16-00148. Further, to assist in
12 the streamlined regulatory process, TAWC is including with the Petition its detailed
13 work-papers supporting the calculation of the PCOP, including all of the invoices for the
14 review period. Again, these workpapers are consistent with the calculations made
15 pursuant to and in compliance with the approved tariff in TPUC Docket No. 13-00130
16 and again in Docket Nos. 15-00001, 15-00131, 16-00148.

17 **Q. HAS TAWC INCLUDED DETAILED INFORMATION REGARDING THE**
18 **EXPENSES THAT MAKE UP EACH OF THE EXPENSE CATEGORIES FOR**
19 **THE PCOP RIDER?**

20 **A.** Yes. As with TPUC Docket No. 13-00130, TAWC began with the General Ledger for
21 each of the accounts for the appropriate expenses. TAWC then reconciled the monthly
22 General Ledger charges with the actual invoices appropriate for monthly period. TAWC
23 removed any charges that were not consistent with the previous docket. This included

1 power charges that are not specific to production, late charges, or charges for service
2 periods outside the review period even if the invoice was applied to the General Ledger
3 during the review period.

4 **Q. HOW ARE THE PCOP EXPENSES RECOVERED?**

5 A. The PCOP is expressed as a percentage. The current tariff Ninth Sheet No. 12 – Riders –
6 1 is attached to my testimony as **Petitioner’s Exhibit Current Tariff Sheet No. 12 –**
7 **Riders – LCB.** Additionally, TAWC proposed new Capital Recovery Riders in Docket
8 No. 17-00124. The new proposed tariff sheet in that case, Tenth Revised Sheet No. 12 –
9 Riders – 1, is still pending, and is attached to my tariff as **Petitioner’s Exhibit Pending**
10 **Tariff Sheet No. 12—Riders – LCB.** The proposed tariff sheet Eleventh Revised Sheet
11 No. 12 – Riders - 1 is attached to my testimony as **Petitioner’s Exhibit Proposed Sheet**
12 **No. 12 – Riders – LCB.** The PCOP is applied to the total amount billed to each
13 customer under the otherwise applicable rates and charges for basic service, metered
14 usage charges, and private fire charges, and is applied prior to the inclusion of any other
15 taxes, charges, or surcharges. The Capital Recovery Riders are combined into one line
16 item on the bill of each customer, while the PCOP Rider is a second line item on the bill
17 of each customer.

18 **Q. WHAT WILL HAPPEN TO THE PCOP RIDER UPON APPROVAL OF NEW**
19 **RATES IN A RATE CASE PROCEEDING?**

20 A. The PCOP will be reset to zero as of the effective date of the new base rates which Base
21 Rates then provide for the recovery of the operational expenses in Base Rates.

22 **Q. WHAT GROSS RECEIPT RATE IS UTILIZED IN THE FORMULA OF THE**
23 **PCOP?**

1 A. The gross receipt rate is the established rate in the Company's immediately preceding
2 Base Rate Case Order, currently TPUC Docket No. 12-00049.

3 **Q. WHAT UNCOLLECTIBLES RATE IS USED TO DETERMINE THE PCOP?**

4 A. The uncollectible rate is the established rate in the Company's immediately preceding
5 Base Rate Case Order, currently TPUC Docket No. 12-00049.

6 **Q. WHAT TPUC FEE RATE IS USED TO DETERMINE THE PCOP?**

7 A. The TPUC Fee is the percentage established in the Company's immediately preceding
8 Base Rate Case Order, currently TPUC Docket No. 12-00049.

9 **Q. WHAT FORFEITED DISCOUNT RATE IS USED TO DETERMINE THE PCOP?**

10 A. The forfeited discount rate is the established rate in the Company's immediately
11 preceding Base Rate Case Order, currently TPUC Docket No. 12-00049.

12 **Q. HAS TAWC MADE ADJUSTMENTS TO THE PCOP FOR UNACCOUNTED-
13 FOR WATER PERCENTAGES?**

14 A. Yes. The fuel and power expenses, and chemical expenses have been reduced to assume
15 an authorized level of 15%. TAWC has been working on reducing its unaccounted for
16 water levels, but they currently remain above the TPUC authorized rate of 15%.

17 **Q. HOW ARE ANNUAL REVENUES DETERMINED FOR THE PCOP?**

18 A. The projected annual revenues will be the authorized water services revenues from the
19 last case, TPUC Docket No. 12-00049, including all service charges and volumetric
20 charges for all classes that are subject to the Capital Recovery Riders.

21 **Q. IS THERE A RECONCILIATION OF THE CURRENT AUTHORIZED PCOP?**

22 A. Yes. There is a difference between the amount of the PCOP that was authorized to be
23 refunded in TPUC Docket No. 16-00148 and what was actually refunded. This occurred

1 for two reasons. First, the PCOP was calculated assuming a full year of implementation,
2 but was not authorized until July. Therefore, there were fewer months to apply the PCOP
3 refund than anticipated in the original filing. However, during that time period, the
4 authorized PCOP remained at the previous period level. Therefore, the previous period
5 amount of actual refund was slightly more than was authorized in the previous PCOP
6 filing. Second, the water sales were below the authorized amount from the base year in
7 Docket No. 12-00049. This means there were less water sales to which the PCOP can be
8 applied. However, TAWC has continued to drive efficiencies into its water treatment
9 process meaning that the amount of expense to produce the additional water that was sold
10 was less on a per gallon produced. TAWC was more efficient in its efforts to produce
11 and distribute to customers. This created a lower cost per gallon of production costs.
12 This third amount (the efficiencies in the costs of water treatment) is offset by the first
13 and second amounts (less being refunded over the 7-month period and lower sales to
14 apply the refund to). The reconciliation of the under refund amount, with interest, has
15 been included in the PCOP calculation.

16 **Q. YOU INDICATED THAT TENNESSEE AMERICAN IS ONLY INCLUDING**
17 **CHANGES TO THE PCOP RIDER FOR 2018 IN THIS FILING. WHEN WILL**
18 **TENNESSEE AMERICAN ADDRESS THE CAPITAL RECOVERY RIDERS?**

19 **A.** Consistent with the approved tariffs, Tennessee American filed a petition for the
20 adjustment of the Capital Recovery Riders for 2018 on November 7, 2017 in TPUC
21 Docket No. 17-00124. That petition only addressed the 2018 projected Capital Rider
22 projects. Additionally, TAWC will file a reconciliation for the Capital Recovery Riders
23 no later than March 1, 2018. There are actually two steps to the reconciliation. The first

1 is an adjustment for budget to actual investment. This is a regulatory oversight and
2 public interest component of the mechanism that results in a true-up if the investment did
3 not occur (up or down) as forecasted. The second is an adjustment for the over or under
4 recovery of revenues as projected, including interest. In this way, the consumers are
5 protected if sales exceed the amount authorized in the previous rate case proceeding.
6 This may occur if there is a significant amount of customer growth or if dry and hot
7 conditions occur in any given year. This second adjustment also allows TAWC to adjust
8 if sales are less than the amount authorized in the last case, as may occur with declining
9 usage that TAWC has experienced in recent years. The reconciliation percentage for the
10 Capital Recovery Riders, pending approval by April 1, 2018, as contemplated in the
11 tariffs, will be applied to customer bills for 9 months in 2018.

12 **Q. MS. BRIDWELL, IN YOUR TESTIMONY IN TPUC DOCKET NO. 15-00001,**
13 **DID YOU INDICATE THAT THERE WERE SOME ISSUES REGARDING THE**
14 **RECONCILIATION OF THE INITIAL FILING APPROVED BY THE**
15 **COMMISSION ON APRIL 14, 2014? IF SO, CAN YOU ELABORATE ON**
16 **THOSE ISSUES AT THIS TIME?**

17 **A.** Yes, I did indicate that, and I can elaborate too. Based upon Tenn. Code Ann. § 65-5-103
18 *et seq.*, in TPUC Docket 13-00130, Tennessee American proposed tariffs that it
19 anticipated would be approved and be in place in January 2014. As the tariffs became
20 effective on April 15, 2014 rather than earlier in January, TAWC did not begin applying
21 the Capital Rider or PCOP Rider surcharges until mid-April. Because of this, if these
22 dates are strictly applied, an annual reconciliation of the first filing approved on April 14,
23 2014, would have to be completed in two steps – a) one to capture the amount of

1 expenses for the review period which could be filed by December 30, 2014; and b) one to
2 capture the difference in dollars refunded through the rider from April 15, 2014 through
3 April 14, 2015, which would not be able to be filed until mid to late June, 2015. Filing in
4 this manner would create a mismatch of reconciliation periods that would remain until a
5 new rate case is filed and approved by the TPUC and the filing periods would be re-set.
6 The mismatch of reconciliation periods would have created an additional expense for
7 TAWC, and a heightened, though avoidable, resource burden to the Commission and the
8 Tennessee Consumer Advocate and Protection Division (“CAPD”), relative to the
9 preparation and review of an additional reconciliation. Further, this mismatch would
10 result in two adjustments to customer bills over a 12-month period on the PCOP alone,
11 which may lead to some customer confusion.

12 **Q. WHAT HAS BEEN DONE TO ADDRESS THIS RECONCILIATION ISSUE?**

13 **A.** TAWC proposed to only file one reconciliation for the review period of December 1,
14 2013 through November 30, 2014, to incorporate both steps, and thus eliminate the
15 mismatch of the reconciliation periods. In Docket No. 15-00001, the TPUC approved the
16 one annual reconciliation for the review periods going forward. This was applied again
17 in Docket No. 15-00131 and Docket No. 16-00148.

18 **Q. AGAIN, WHY IS TENNESSEE AMERICAN NOT INCLUDING THE**
19 **RECONCILIATION COMPONENT OF THE 2017 CAPITAL RECOVERY**
20 **RIDERS IN THIS FILING?**

21 **A.** The QIIP, EDI, and SEC Capital Recovery Riders were approved to cover the calendar
22 year 2017. Although the year has been completed, the reconciliation cannot accurately
23 be calculated consistent with the tariffs until after the books are closed. As established in

1 the tariffs, the reconciliation will occur in early 2018 and be filed no later than March 1,
2 to be effective in rates April 1, 2018.

3 **Q. WILL THE CAPITAL RECOVERY RIDERS HAVE A TWO-STEP**
4 **RECONCILIATION PROCESS?**

5 **A.** Yes. Similar to the PCOP Rider, the Capital Recovery Riders reconciliation has 1) the
6 reconciliation of the budget of investments compared to actual made as part of the Capital
7 Recovery Riders for calendar year 2017; and 2) the difference in dollars collected
8 through the riders in calendar year 2017.

9 **Q. HAS TENNESSEE AMERICAN MADE ANY CHANGES TO ITS**
10 **CALCULATIONS OR WORKPAPERS FROM THE PREVIOUS DOCKET?**

11 **A.** Yes. There are 2 minor changes to the workpapers formats from the previous docket.
12 They are:

13 1) The Chemical vendor “Sterling”, which provided magnafloc E30 in 2016, was not
14 utilized in 2017 due to a change in the treatment process.

15 2) The invoices included in the workpapers for Fuel and Power, and Purchased
16 Water have now been broken up by individual vendors where in prior years all invoices
17 were combined into one file by production cost category. This change was made to make
18 the workpapers more user-friendly, easier to review, and easier to update throughout the
19 year.

1 **Q. TENNESSEE AMERICAN WATER HAS NOW HAD FIVE CONSECUTIVE**
2 **FILINGS WHERE THE PCOP IS PROPOSED AS A REFUND. DOES THAT**
3 **MEAN TAWC OVERSTATED ITS EXPENSES IN DOCKET NO. 12-00049?**

4 **A.** Not at all. What it means is that TAWC has been able to balance its operating expenses,
5 allowing the customers to receive the immediate benefit of those efficiencies instead of
6 waiting until the next general rate case. This means that savings have been realized in
7 some areas of expense covered by the PCOP where other areas of expense are increasing.
8 For example, the waste disposal expense has increased while the power expenses have
9 decreased. Additionally, in 2016 TAWC experienced unusually high sales volumes due
10 to the long and persistent drought conditions which actually lowered the per unit
11 production costs in 2016. TAWC believes this immediate benefit to the customer,
12 without the additional expense of a rate case, has demonstrated that these mechanisms
13 continue to be in the public interest.

14 **Q. WHAT IS THE PROPOSED NEW PCOP RIDER?**

15 **A.** TAWC is proposing a PCOP Rider that results in an annualized revenue refund of
16 \$567,473, or a surcharge of -1.21%. This is an increase of \$150,350 from the previously
17 approved refund of \$417,123. The previously approved PCOP Rider is -0.89%, and this
18 new proposed PCOP Rider is a change of -0.32 %.

19 **Q. HAS TENNESSEE AMERICAN FILED A TARIFF ADDRESSING THE**
20 **PROPOSED PCOP RIDER?**

21 **A.** Yes. A new tariff Eleventh Revised Sheet No. 12 – Riders – 1 reflects the PCOP Rider
22 and is attached to my testimony as Petitioner’s Exhibit Proposed Sheet No. 12- Riders
23 - LCB.

1 **Q. WHAT IS THE IMPACT TO THE AVERAGE CUSTOMER BILL?**

2 **A.** The typical residential customer living in the City of Chattanooga, and using an average
3 of 4,154 gallons per month will see a decrease, or credit on their bill of \$0.26 per month,
4 or \$3.12 per year from the PCOP Rider. This is a change from the previous PCOP Rider
5 which was a decrease in their monthly bill of \$0.19. A summary of this information is
6 attached to my testimony as **Petitioner's Exhibit 2018 PCOP Avg. Impact – LCB.**

7 **Q. IS THE PCOP RIDER STILL IN THE PUBLIC INTEREST?**

8 Yes. Tennessee American understands that the purpose of the legislation was, in part, to
9 encourage timely recovery of expenses to enhance financial stability, while reducing the
10 costs to consumers and utilities for regulatory review and implementation, and promoting
11 rate gradualism for consumers. TAWC believes the approved Production Costs and
12 Other Pass-throughs Rider is achieving that goal. Without the approved alternative rate
13 mechanisms of the PCOP and Capital Recovery Riders, TAWC would likely be
14 preparing another general rate case. With the PCOP, TAWC has been able to
15 immediately pass along expense savings to its customers over the last year and will
16 continue in this year. In this way, customers benefit from immediate expense savings
17 without the cost of a rate case, which we believe to be in the public interest.

18 **Q. ARE YOU AWARE OF ANY CHANGES IN MARKET CONDITION OR OTHER**
19 **FACTORS THAT MAY AFFECT WHETHER THE PCOP RIDER REMAINS IN**
20 **THE PUBLIC INTEREST?**

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

22 **Q. WHAT DO YOU RECOMMEND WITH REGARD TO THIS PETITION?**

23 **A.** I recommend that the petition be approved for the adjustment in the PCOP Rider.

1 **Q.** **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

2 **A.** Yes.

Tennessee American Water Company
Docket No. 17-

Calculation of Production Costs and Other Pass-Throughs ("PCOP") Including Non-Revenue Water
To Determine PCOP Tariff Rider
Actuals for the Year Ending November 30, 2017

Line Number	Description	Amount
<u>I. Calculation of the Base Rate Cost of Production Costs and Other Pass-Throughs as authorized in the Base Rate case (*):</u>		
1	Pro Forma Production Costs and Other Pass-Throughs	\$4,062,167
2	Pro Forma Water Sales (WS) in 100 Gallons	100,578,654
3	Base Rate Cost per 100 Gallons WS (Line 1 / Line 2)	<u>\$0.04039</u>
<u>II. Deferral calculation - Actual Non-Revenue Water Cost Production Costs and Other Pass-Throughs (adjusted for 15% NRW) vs. the Base Rate Cost (**):</u>		
4	Actual Production Costs and Other Pass-Throughs	\$3,582,211
5	Over-Under Collection Adjustment	(173,805)
6	Review Period PCOP Costs Adjusted for Over-Under Collections	3,408,407
7	Actual Water Sales (100 Gallons)	<u>97,522,641</u>
8	Actual Rate Cost Production Costs and Other Pass-Throughs per 100 Gallons WS (Line 6 / Line 7)	\$0.03495
9	Base Rate Cost per 100 Gallons WS (Line 3)	<u>0.04039</u>
10	Incremental Change in Production Costs and Other Pass-Throughs per 100 Gallons WS (Line 9 - Line 8)	(\$0.00544)
11	Base Rate Case Water Sales 100 Gallons (Line 2)	<u>100,578,654</u>
12	Deferral Amount (Line 10 * Line 11)	<u>(\$546,953)</u>
<u>III. Calculation of Production Costs and Other Pass-Throughs ("PCOP") Tariff Rider</u>		
13	Total Deferred Amount (Line 12)	(\$546,953)
14	Total Deferred Amount Grossed Up for revenue taxes (Line 13 / (1.0-.03616) (**))	(567,473)
15	Projected Annual Base Rate Revenue subject to PCOP (*)	<u>47,073,724</u>
16	PCOP % (Line 14 / Line 15)	<u>-1.21%</u>

(*) The numbers are taken from the settlement agreement in Docket No. 12-00049

(**) The numbers are actuals for the year ended November 30, 2017 including Non-Revenue Water for Purchased Power and Chemicals

(***) Assumes Gross Receipts Tax @ 3.0%, Uncollectibles @ 1.0571%, TRA Fee @ 0.4250%, and Forfeited Discount Rate @ -0.8661%

Tennessee American Water Company
Production Costs and Other Pass-Throughs
Average Residential Bill Impact
5/8" Meter and Usage of 5.55 CCF (or 41.54 100 Gallons)

Line Number	Area	Meter Fee	Volumetric Charges	Bill Before Surcharges	2017 Authorized Capital Surcharges at 13.95%	2018 PCOP at -1.21%	2018 QIIP Surcharges at 3.25%	2018 EDI Surcharges at 0.11%	2018 SEC Surcharges at 0.47%	2018 Proposed Capital Adjustments	Total Proposed Surcharges
1											
2	Chattanooga	\$ 13.96	\$ 7.60	\$ 21.56	\$ 3.01	\$ (0.26)	\$ 0.70	\$ 0.02	\$ 0.10	\$ 0.82	\$ 3.57
3											
4	Lookout Mountain	\$ 15.66	\$ 12.39	\$ 28.05	\$ 3.91	\$ (0.34)	\$ 0.91	\$ 0.03	\$ 0.13	\$ 1.07	\$ 4.64
5											
6	Lakeview	\$ 15.66	\$ 9.16	\$ 24.82	\$ 3.46	\$ (0.30)	\$ 0.81	\$ 0.03	\$ 0.12	\$ 0.96	\$ 4.12
7											
8	Suck Creek	\$ 30.60	\$ 16.12	\$ 46.72	\$ 6.52	\$ (0.57)	\$ 1.52	\$ 0.05	\$ 0.22	\$ 1.79	\$ 7.74
9											
10	Whitwell	\$ 42.03	\$ 35.68	\$ 77.71	\$ 10.84	\$ (0.94)	\$ 2.53	\$ 0.09	\$ 0.37	\$ 2.99	\$ 12.89

TENNESSEE-AMERICAN WATER COMPANY

TPUC NO. 19

Ninth Revised Sheet No. 12-Riders-1

CLASSIFICATION OF SERVICE**SUMMARY OF RIDERS****1. Applicability**

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider (SEC"), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

For the Riders defined in the tariffs:

QIIP	7.52 %	
EDI	0.34 %	
<u>SEC</u>	<u>6.09 %</u>	
Subtotal of all Capital Recovery Riders	13.95 %	
QIIP Annual Reconciliation Percentage	1.763 %	(I)
EDI Annual Reconciliation Percentage	-0.031 %	(D)
<u>SEC Annual Reconciliation Percentage</u>	<u>-0.826 %</u>	(D)
Subtotal of all Reconciliation Percentages	0.906 %	(I)
Total of Capital Recovery Riders and Reconciliation Percentages	14.856%	
PCOP	-0.89 %	

(D) Indicates Decrease
(I) Indicates Increase

ISSUED: September 12, 2017

EFFECTIVE: August 16, 2017

BY:

Valoria Armstrong
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

CLASSIFICATION OF SERVICE

SUMMARY OF RIDERS

1. Applicability

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider (SEC"), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

For the Riders defined in the tariffs:

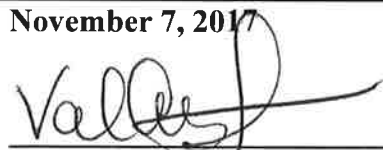
QIIP	10.77 %	(I)
EDI	0.45 %	(I)
<u>SEC</u>	<u>6.56 %</u>	(I)
Subtotal of all Capital Recovery Riders	17.78 %	
QIIP Annual Reconciliation Percentage	0.000 %	(D)
EDI Annual Reconciliation Percentage	0.000 %	(I)
<u>SEC Annual Reconciliation Percentage</u>	<u>0.000 %</u>	(I)
Subtotal of all Reconciliation Percentages	0.000 %	(D)
Total of Capital Recovery Riders and Reconciliation Percentages	17.7800%	
PCOP	-0.89 %	

(D) Indicates Decrease

(I) Indicates Increase

ISSUED: November 7, 2017 EFFECTIVE: January 1, 2018

BY:


Valoria Armstrong
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

CLASSIFICATION OF SERVICE**SUMMARY OF RIDERS****1. Applicability**

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider (SEC"), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

For the Riders defined in the tariffs:

QIIP	10.77 %
------	---------

EDI	0.45 %
-----	--------

<u>SEC</u>	<u>6.56 %</u>
------------	---------------

Subtotal of all Capital Recovery Riders	17.78 %
---	---------

QIIP Annual Reconciliation Percentage	0.000 %
---------------------------------------	---------

EDI Annual Reconciliation Percentage	0.000 %
--------------------------------------	---------

<u>SEC Annual Reconciliation Percentage</u>	<u>0.000 %</u>
---	----------------

Subtotal of all Reconciliation Percentages	0.000 %
--	---------

Total of Capital Recovery Riders and Reconciliation Percentages	17.7800%
---	----------

PCOP	-1.21 %	(I)
------	---------	-----

(D) Indicates Decrease

(I) Indicates Increase

ISSUED: January 16, 2018

EFFECTIVE: March 15, 2018

BY:


Valoria Armstrong
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

CLASSIFICATION OF SERVICE**SUMMARY OF RIDERS****1. Applicability**

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider (SEC"), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

For the Riders defined in the tariffs:

QIIP	10.77 %	(I)
EDI	0.45 %	(I)
<u>SEC</u>	<u>6.56 %</u>	(I)
Subtotal of all Capital Recovery Riders	17.78 %	
QIIP Annual Reconciliation Percentage	0.000 %	(D)
EDI Annual Reconciliation Percentage	0.000 %	(I)
<u>SEC Annual Reconciliation Percentage</u>	<u>0.000 %</u>	(I)
Subtotal of all Reconciliation Percentages	0.000 %	(D)
Total of Capital Recovery Riders and Reconciliation Percentages	17.7800%	
PCOP	-0.89 %	

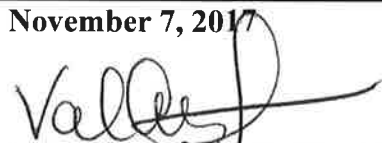
(D) Indicates Decrease

(I) Indicates Increase

ISSUED: November 7, 2017

EFFECTIVE: January 1, 2018

BY:



Valoria Armstrong
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

CLASSIFICATION OF SERVICE**SUMMARY OF RIDERS****1. Applicability**

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider (SEC"), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

For the Riders defined in the tariffs:

QIIP	10.77 %	
EDI	0.45 %	
<u>SEC</u>	<u>6.56 %</u>	
Subtotal of all Capital Recovery Riders	17.78 %	
QIIP Annual Reconciliation Percentage	0.000 %	
EDI Annual Reconciliation Percentage	0.000 %	
<u>SEC Annual Reconciliation Percentage</u>	<u>0.000 %</u>	
Subtotal of all Reconciliation Percentages	0.000 %	
Total of Capital Recovery Riders and Reconciliation Percentages	17.7800%	
PCOP	-1.21 %	(I)

(D) Indicates Decrease

(I) Indicates Increase

ISSUED: January 16, 2018

EFFECTIVE: March 15, 2018

BY:


Valoria Armstrong
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

**Tennessee American Water
2017 PCOP Reconciliation****Workbook Name:** TAW_EXH_LCB_1_011618.xlsx**Workbook Information:** This workbook calculates the PCOP surcharge percentage based on the reconciliation of PCOP related costs for the year December 2016 - November 2017.

Worksheet Name	Description / Purpose of Worksheet
1. Link In	1. Links in from each expense, authorized expense and sales from last rate case, current sales and system delivery and over-under collection.
2. PCOP Calc Exhibit	2. Calculation of the current PCOP rate.
3. Support Workpaper	3. Current expenses adjusted for Non-Revenue Water compared to authorized expenses from the last rate case.
4. Usage	4. Usage and system delivery for the 12 months ending November 2017.
5.	5.
6.	6.
7.	7.
8.	8.
9.	9.
10.	10.
11.	11.
12.	12.
13.	13.
14.	14.
15.	15.
16.	16.
17.	17.
18.	18.
19.	19.
20.	20.

There are three (3) other worksheets that are left blank intentionally and are used to identify and separate the Other Support, Exhibit and Workpaper worksheets.

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Tennessee American Water Company
Docket No. 18-
For the Twelve Months Ending November 30, 2017
PCOP Actual Expenses
Link In Page

Description	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Total
Purchased Water	4,239	3,085	2,071	1,751	2,140	1,608	3,605	2,801	3,854	4,022	1,082	1,352	31,610
Purchased Power	198,657	193,148	177,331	173,798	174,933	186,543	201,879	208,054	211,370	187,411	186,774	181,115	2,281,013
Chemicals	126,743	66,400	47,600	65,379	74,119	4,795	135,485	5,073	170,689	106,866	64,730	65,834	933,712
Waste Disposal	31,718	15,890	16,439	13,102	13,457	30,189	38,865	14,868	64,005	12,554	19,075	73,847	344,010
TRA Inspection Fee (Amortized in 16530000)	16,187	16,187	16,187	21,561	17,978	17,978	17,978	17,978	17,978	17,978	17,978	17,978	213,948
Total	377,543	294,711	259,629	275,589	282,628	241,112	397,812	248,775	467,897	328,831	289,639	340,126	3,804,293

Amounts Approved in Docket 12-00049	Total	
Purchased Power	2,678,772	Y:\Departmental Folders\Finance\Rates\TN\Rate Cases\2012 Rate Case\Settlement Discussions\Final Settlement Agreement 10-01-2012\CAPD Exhibits for Revenue Requirement in TAWC Rate Case 12-00049--SETTLEMENT6.xlsx
Chemicals	986,930	
Purchased Water	51,331	
TRA Inspection Fee	131,826	
Waste Disposal	213,308	
Authorized Sales in 100 Gallons	100,578,654	R:\Departmental Folders\Finance\Rates\TN\Rate Surcharges (QIP and Trackers)\2013 Application\[Production Cost and Other Pass Throughs v3 10-03-13.xlsx]Exh PCOP Surcharge!\\$E\$17
Projection of Annual Revenues from Last Rate Order:	47,073,724	R:\Departmental Folders\Finance\Rates\TN\Rate Surcharges (QIP and Trackers)\2013 Application\[Surcharge Worksheet v7 9-24-13.xlsx]WKP PreTax ROR & Conv Factor!\\$E\$35

[illegible]

5.xls

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Tennessee American Water Company
Docket No. 17-Calculation of Production Costs and Other Pass-Throughs ("PCOP") Including Non-Revenue Water
To Determine PCOP Tariff Rider
Actuals for the Year Ending November 30, 2017

Line Number	Description	Amount
<u>I. Calculation of the Base Rate Cost of Production Costs and Other Pass-Throughs as authorized in the Base Rate case (*):</u>		
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<u>II. Deferral calculation - Actual Non-Revenue Water Cost Production Costs and Other Pass-Throughs (adjusted for 15% NRW) vs. the Base Rate Cost (**):</u>		
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8	Actual Rate Cost Production Costs and Other Pass-Throughs per 100 Gallons WS (Line 6 / Line 7)	\$0.03495
9	Base Rate Cost per 100 Gallons WS (Line 3)	<u>0.04039</u>
10	Incremental Change in Production Costs and Other Pass-Throughs per 100 Gallons WS (Line 9 - Line 8)	(\$0.00544)
11	Base Rate Case Water Sales 100 Gallons (Line 2)	<u>100,578,654</u>
12	Deferral Amount (Line 10 * Line 11)	<u>(\$546,953)</u>
<u>III. Calculation of Production Costs and Other Pass-Throughs ("PCOP") Tariff Rider</u>		
13	Total Deferred Amount (Line 12)	(\$546,953)
14	Total Deferred Amount Grossed Up for revenue taxes (Line 13 / (1.0-.03616) (***)	(567,473)
15	Projected Annual Base Rate Revenue subject to PCOP (*)	<u>47,073,724</u>
16	PCOP % (Line 14 / Line 15)	<u>-1.21%</u>

(*) The numbers are taken from the settlement agreement in Docket No. 12-00049

(**) The numbers are actuals for the year ended November 30, 2017 including Non-Revenue Water for Purchased Power and Chemicals

(***) Assumes Gross Receipts Tax @ 3.0%, Uncollectibles @ 1.0571%, TRA Fee @ 0.4250%, and Forfeited Discount Rate @ -0.8661%

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Tennessee American Water Company
Docket No. 18-
For the Twelve Months Ending November 30, 2017
PCOP Actual Expenses

Line #	Description	A	B	C	D	E	F
					C - B		E - D
		For the 12 Months Ending 11/30/2017	**NRW Limited 12 Mos Ending 11/2017 (Column A, Lines 2 and 3 x Line 18 Recoverable %)	Authorized Amount Per Docket 12-00049	Difference NRW Limited from Authorized Docket 12-00049	Adjust Difference for TRA Fee Recovered Via SEC, EDI, or QIIP 12 Months Ending 11/30/2017	Adjusted Difference
1	Purchased Water Including Wheeling Charges	\$31,610	\$31,610	\$51,331	(\$19,721)	\$0	(\$19,721)
2	Purchased Power**	2,281,013	2,123,434	2,678,772	(555,338)		(555,338)
3	Chemicals**	933,712	869,209	986,930	(117,721)		(117,721)
4	Waste Disposal	344,010	344,010	213,308	130,702		130,702
5	TRA Inspection Fee	213,948	213,948	131,826	82,122		82,122
6							
7	Total	\$3,804,293	\$3,582,211	\$4,062,167	(\$479,956)	\$0	(\$479,956)
8							
9							
10	Sales in 100 Gallons	97,522,641	97,522,641	100,578,654		97,522,641	
11							
12	Cost per 100 Gallons (Line 7 / Line 10)	\$0.03901	\$0.03673	\$0.04039	(\$0.00366)	\$0.00000	(\$0.00366)
	Recoverable % for Production Costs	For the 12 Months Ending 11/30/2017					
13	Sales	97,522,641					
14	System Delivery	124,882,147					
15	Non-Revenue Water % [1 - (Line 13 / Line 14)]	21.9%					
16	Non-Revenue Water % Authorized	15.0%					
17	Variance (If Line 15 > Line 16 then Line 15 - Line 16)	6.9%					
18	Recoverable % (1 - Line 17)	93.1%					

**Non-Revenue Water is only applied to purchased power and chemicals.

Tennessee American Water Usage
Docket No.
12 Months Ending November 2017

	Water Usage	System Delivery	NRW
2016 Dec	847,698	1,077,278	21.31%
2017 Jan	811,783	1,053,983	22.98%
2017 Feb	730,241	898,772	18.75%
2017 Mar	760,454	989,982	23.19%
2017 Apr	627,403	997,622	37.11%
2017 May	901,925	967,456	6.77%
2017 Jun	862,657	1,068,100	19.23%
2017 Jul	805,145	1,124,167	28.38%
2017 Aug	913,173	1,162,307	21.43%
2017 Sep	901,371	1,074,406	16.11%
2017 Oct	850,269	1,086,657	21.75%
2017 Nov	740,146	987,484	25.05%
	9,752,264	12,488,215	21.91%
		Average NRW	21.84%