

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION**

**NASHVILLE, TENNESSEE**

**August 1, 2018**

**IN RE:**

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

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**DOCKET NO.  
18-00009**

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**ORDER ON DECEMBER 1, 2016 THROUGH NOVEMBER 30, 2017 PCOP RIDER EXPENSES**

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This matter came before Chairman David F. Jones, Commissioner Herbert H. Hilliard and Commissioner Keith Jordan of the Tennessee Public Utility Commission (the “Commission” or “TPUC”), the voting panel assigned to this docket, at a regularly scheduled Commission Conference held on May 14, 2018, to consider the *Petition* filed by Tennessee-American Water Company (“TAWC” or the “Company”) on January 17, 2018.

**BACKGROUND**

TAWC provides residential, commercial, industrial and municipal water service to customers in Tennessee and North Georgia. TAWC is a wholly-owned subsidiary of American Water Works Company, Inc. Pursuant to Tenn. Code Ann. § 65-5-103(d), TAWC’s initial Production Cost and Other Pass-Throughs Rider mechanism (“PCOP” or “PCOP Rider”) was approved in TPUC Docket No. 13-00130 to recover incremental changes in certain essential, non-discretionary expenses.<sup>1</sup> The Commission approved changes to the PCOP Rider tariff providing for a single reconciliation, which includes a true-up of actual expenses over twelve

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<sup>1</sup> Linda C. Bridwell, Pre-filed Direct Testimony, pp. 3-4 (January 17, 2018). *See In re: Petition of Tennessee-American Water Company for Approval of a Qualified Infrastructure Investment Program, an Economic Development Investment Rider, a Safety and Environmental Compliance Rider and Pass-Throughs for Purchased Power, Chemicals, Purchased Water, Wheeling Water Costs, Waste Disposal, and TRA Inspection Fee*, Docket No. 13-00130, *Order Approving Amended Petition* (January 27, 2016).

months and a revenue true-up over eight and one half months in TPUC Docket No. 15-00001.<sup>2</sup> Subsequently, the Commission approved changes to the PCOP Rider tariff in TPUC Docket No. 15-00131.<sup>3</sup>

The PCOP tariff approved by the Commission requires TAWC to annually file within 30 days of the end of the most recent authorized attrition year a filing calculating the PCOP percentage rate applicable to customers' bills for the twelve months following the approval of the PCOP percentage rate. The latest approved PCOP percentage was approved in TPUC Docket No. 16-00148 for the actual costs incurred during December 1, 2015 through November 30, 2016.

In accordance with the PCOP tariff, on January 17, 2018, TAWC filed the *Petition* for the period of December 1, 2016 through November 30, 2017. The Hearing Officer granted the Consumer Protection and Advocate Division of the Office of the Attorney General ("Consumer Advocate") intervention in this matter on February 22, 2018.<sup>4</sup>

### **PETITION**

Through the PCOP rider, TAWC seeks to recover the incremental changes in purchased power expense, purchased chemical expense, purchased water expense, wheeling charge expense, waste disposal expense and TPUC inspection fee amounts from those levels approved in its most recent rate case, TPUC Docket No. 12-00049. In the *Petition*, TAWC is requesting to recover changes between the actual expenses for the twelve month period ending November 30, 2017 and those approved in TPUC Docket No. 12-00049.

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<sup>2</sup> See *In re: Petition of Tennessee-American Water Company Regarding the Production Costs and Other Pass-Through Riders*, Docket No. 15-00001, *Order on December 1, 2013 Through November 30, 2014 PCOP Rider Expenses*, p. 11 (February 5, 2016).

<sup>3</sup> See *In re: Petition of Tennessee-American Water Company Regarding the Production Costs and Other Pass-Throughs Rider*, Docket No. 15-00131, *Order on December 1, 2014 Through November 30, 2015 PCOP Rider Expenses*, pp. 7-10 (July 26, 2016).

<sup>4</sup> *Order Granting the Petition to Intervene Filed by Consumer Advocate* (February 22, 2018).

In pre-filed testimony, Ms. Bridwell attests the PCOP calculations are taken from the historical records of the Company and the calculations are consistent with those approved in TPUC Dockets Nos. 13-00130, 15-00001, 15-00131, and 16-00148.<sup>5</sup> She states that all invoices were reconciled to the general ledger; the gross receipt rate, uncollectible rate, TPUC fee, and forfeited discount rate are consistent with that approved in the Company's last rate case; and the Company has provided workpapers supporting all of the calculations.<sup>6</sup>

Ms. Bridwell testified the previous filing resulted in a -0.89% PCOP surcharge with \$417,123 being refunded to customers.<sup>7</sup> Because the PCOP was not approved until July, there was not a full year of implementation. For those seven months, the earlier PCOP percentage was applied, which was higher, resulting in a larger dollar amount being refunded over the twelve month period than estimated to be refunded.<sup>8</sup> According to the Company, water sales were lower than those in the base year. Due to TAWC's efforts to increase efficiency in water treatment, production and distribution, the production cost per gallon is less than it was during the base year.<sup>9</sup> Based on these factors and calculations, Ms. Bridwell proposed a PCOP rider surcharge of -1.21% for an annualized refund of \$567,473.<sup>10</sup>

Ms. Bridwell disclosed two minor changes in the calculations of the PCOP from the previous Docket. First, due to a change in the water treatment process, the Chemical vendor "Sterling" was not utilized in 2017. Second, to aid in the review of the workpapers, vendors for sections "Fuel and Power" and "Purchased Water" have been broken up and listed individually instead of combined into one file.<sup>11</sup>

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<sup>5</sup> Linda C. Bridwell, Pre-filed Direct Testimony, pp. 4-6, 9 (January 17, 2018).

<sup>6</sup> *Id.* at 9-11.

<sup>7</sup> *Id.* at 16.

<sup>8</sup> *Id.* at 12.

<sup>9</sup> *Id.* at 11-12.

<sup>10</sup> *Id.* at 16.

<sup>11</sup> *Id.* at 15.

Ms. Bridwell testifies she is not aware of any market conditions affecting the continuation of the PCOP remaining in the public interest. Since its inception the PCOP has resulted in a rate decrease for customers resulting in a total refund of \$1,284,216.<sup>12</sup> Ms. Bridwell estimates the average residential customer living in the City of Chattanooga will see a monthly credit (decrease) on their bill of \$0.26 or \$3.12 annually.<sup>13</sup> Further, she asserts the PCOP remains in the public interest by encouraging a timely recovery of expenses while reducing the costs to consumers for regulatory review and implementation.<sup>14</sup>

### **THE CONSUMER ADVOCATE**

In his pre-filed direct testimony on behalf of the Consumer Advocate, Mr. Alex Bradley indicated he had reviewed this filing, along with all exhibits, workpapers and discovery responses. All but two line items reflect a decrease in cost, yielding an overall decrease of approximately \$634,000 from the last Reconciliation Filing.<sup>15</sup> In response to the Consumer Advocate's Discovery Request #2, the Company acknowledged that one Waste Disposal invoice that should be included in the 2019 Reconciliation Filing in the amount of \$18,000 was erroneously included in this filing.<sup>16</sup> According to Mr. Bradley, this adjustment decreases the proposed PCOP percentage from -1.21% to -1.25%. In summary, he found no other material errors in the Company's calculations or documentation, and therefore, Mr. Bradley recommends adoption of a PCOP surcharge of -1.25%.<sup>17</sup>

### **MAY 14, 2018 HEARING AND APPEARANCES**

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<sup>12</sup> *Id.* at 4-7.

<sup>13</sup> *Id.* at 17.

<sup>14</sup> *Id.*

<sup>15</sup> Alex Bradley, Pre-filed Direct Testimony, pp. 3-5 (April 9, 2018).

<sup>16</sup> TAWC's Responses To Second Discovery Requests Of The CAD, Question 1 (March 23, 2018).

<sup>17</sup> Alex Bradley, Pre-filed Direct Testimony pp. 6-7 (April 9, 2018).

A Hearing in this matter was held before the voting panel on May 14, 2018, as noticed by the Commission on May 4, 2018. Prior to the hearing, TAWC filed a letter indicating that the parties had no outstanding disputes or contested issues and the parties have waived opening statements, closing statements and cross-examination of the respective expert witnesses.<sup>18</sup> Participating in the hearing were the following parties and their respective counsel:

TAWC - Melvin J. Malone, Esq., Butler Snow, LLP, 150 3<sup>rd</sup> Avenue South, Suite 1600, Nashville, Tennessee 37201.

Consumer Advocate – Vance Broemel, Esq., Office of the Attorney General, P.O. Box 20207, Nashville, TN 37202.

The voting panel heard testimony by Ms. Linda Bridwell on behalf of the Company and the testimony of the Consumer Advocate's expert, Mr. Alex Bradley. During the hearing, the public was given an opportunity to offer comment, but no member of the public sought to comment on the *Petition*. Following the conclusion of the testimony, the voting panel considered the *Petition*.

### **FINDINGS AND CONCLUSIONS**

Upon review of the entire evidentiary record in this matter, the panel voted unanimously to adopt \$3,390,407 as the total actual net PCOP expense for the year ending November 30, 2017 as agreed to by the parties. This amount includes \$869,209 for Chemical Expense, \$2,123,434 for Fuel & Power Expense, \$326,010 for Waste Disposal Expense, \$31,610 for Purchased Water Expense and \$213,948 for TPUC Inspection Fee Expense. Additionally, \$173,805 is included due to the Company over-refunding amounts to customers in the 2017 PCOP Rider. Since inception of the PCOP, overall expenses have decreased. Adopting the above expenses results in a total PCOP Rider surcharge of -1.25%, which will reduce the average Chattanooga residential customer's bill by 27 cents per month.

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<sup>18</sup> Joint Position of the Parties That This Matter is Ripe for Consideration on the Merits by the TPUC (April 27, 2018).

Further, the panel found that the PCOP Rider benefits the Company by allowing timely recovery of expenses without the need having to file a full-fledged rate case. In turn, consumers benefit through reduced rate case filings and legal expenses which may result from a rate case proceeding. Consumers also benefit by receiving a refund in the form of lower bills when expenses within the PCOP Rider decrease. For those reasons and within the context and facts of this docket, the panel found the PCOP Rider is in the public interest and directed Tennessee American Water Company to file the PCOP percentage and tariffs consistent with this motion.

**IT IS THEREFORE ORDERED THAT:**

1. The total actual net Production Cost and Other Pass-Through Rider expense for the year ending November 30, 2017 is \$3,390,407. This includes \$869,209 for Chemical Expense, \$2,123,434 for Fuel & Power Expense, \$326,010 for Waste Disposal Expense, \$31,610 for Purchased Water Expense and \$213,948 for TPUC Inspection Fee Expense. Additionally, \$173,805 is included due to the Company over-refunding amounts to customers in the 2017 PCOP Rider.

2. Tennessee-American Water Company shall file the Production Cost and Other Pass-Throughs Rider expense percentage and tariffs consistent with the approved Production Costs and Other Pass-Throughs Rider expense.

**Chairman David F. Jones, Commissioner Herbert H. Hilliard and Commissioner Keith Jordan concur.**

**ATTEST:**



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**Earl R. Taylor, Executive Director**