

BUTLER | SNOW

January 15, 2019

VIA ELECTRONIC FILING

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

RE: *Joint Petition of Tennessee-American Water Company, and Thunder Air, Inc. d/b/a Jasper Highlands Development, Inc. for Approval of a Purchase Agreement and for the Issuance of a Certificate of Convenience and Necessity*
TPUC Docket No. 18-00099

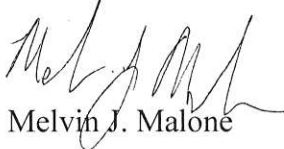
Dear Chairman Jones:

Attached for filing please find the *Direct Testimony of Melissa Schwarzell Adopting Testimony of Linda 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

Attachment

cc: Melissa Schwarzell, Tennessee-American Water Company
Daniel Whitaker, Consumer Protection and Advocate Division
William H. Horton, Counsel for Thunder Air, Inc.

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

**JOINT PETITION OF TENNESSEE-)
AMERICAN WATER COMPANY AND)
THUNDER AIR, INC. D/B/A JASPER)
HIGHLANDS DEVELOPMENT, INC.)
FOR APPROVAL OF AN ASSET)
PURCHASE AGREEMENT AND FOR)
THE ISSUANCE OF A CERTIFICATE)
OF CONVENIENCE AND NECESSITY)**

DOCKET NO. 18-00099

**DIRECT TESTIMONY OF MELISSA SCHWARZELL
ADOPTING TESTIMONY OF LINDA BRIDWELL**

Q. PLEASE STATE YOUR NAME AND PLACE OF RESIDENCE.

A. My name is Melissa L. Schwarzell, and my business address is 1 Water Street, Camden, NJ, 08102. I am employed by American Water Works Service Company, Inc. ("Service Company"). Service Company is a wholly owned subsidiary of American Water Works Company, Inc. ("American Water") that provides services to Tennessee-American Water Company ("TAWC" or "Company") and its affiliates. My current role is Senior Director of Regulatory Services.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY TODAY?

A. The purpose of my testimony is to adopt the testimony previously filed in this matter by Linda Bridwell supporting the Joint Petition filed by TAWC and Thunder Air, Inc. d/b/a Jasper Highlands Development, Inc. ("Thunder Air, Inc.") for the approval of the purchase of the assets that make up the water system owned by Thunder Air, Inc. by TAWC and for a Certificate of Public Convenience and Necessity to TAWC, with its

accompanying privilege and franchise, to serve the Thunder Air, Inc. development. A copy of Linda Bridwell's testimony is attached as Exhibit 1.

Q. ARE YOU FAMILIAR WITH THE TESTIMONY OF LINDA BRIDWELL?

A. Yes, I have reviewed the testimony of Linda Bridwell, including the exhibits, and I am familiar with its contents.

Q. IF ASKED THE SAME QUESTIONS AS ARE IN THE DIRECT TESTIMONY OF LINDA BRIDWELL, WOULD YOU ANSWER EACH QUESTION THE SAME?

A. Yes.

Q. DO YOU WISH TO ADOPT THE TESTIMONY OF LINDA BRIDWELL WITHOUT CHANGES?

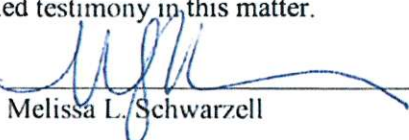
A. Yes.

No further questions.

STATE OF New Jersey)
)
COUNTY OF Camden)

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Melissa L. Schwarzell, 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.


Melissa L. Schwarzell

Sworn to and subscribed before me
this 7th day of January, 2019.


Notary Public

My Commission Expires: 4/15/2020

ANN G. ALFANO
NOTARY PUBLIC OF NEW JERSEY
ID # 50014130
My Commission Expires 4/15/2020

Exhibit 1

PETITIONER'S EXHIBIT LCB-1

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 18- 00099

DIRECT TESTIMONY

OF

LINDA C. BRIDWELL

ON

**JOINT PETITION OF TENNESSEE-AMERICAN WATER COMPANY AND
THUNDER AIR, INC. D/B/A/JASPER HIGHLANDS DEVELOPMENT, INC. FOR
THE APPROVAL OF AN ASSET PURCHASE AGREEMENT AND FOR THE
ISSUANCE OF A CERTIFICATE OF CONVENIENCE AND NECESSITY**

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 Manager
6 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 and TPUC Docket No. 15-
11 00001, and both written and oral testimony in TPUC Docket No. 14-00121, 15-00029, 15-
12 00111, 15-00131, 16-00022, 16-00126, 16-00148, 17-0002, 17-00124, 18-00009 AND 18-
13 00022 and I've provided written testimony in TPUC Docket No. 18-00022. I have also
14 provided both written and oral testimony in at least seventeen different proceedings before
15 the Kentucky Public Service Commission ("PSC"), including rate cases, special
16 investigations, and 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, and
20 I received a M.S. degree in Civil Engineering from the University of Kentucky in 1992,
21 with an emphasis in water resources. I completed a Masters of Business Administration
22 from Xavier University in Cincinnati, Ohio in 2000. I am a registered Professional
23 Engineer in the Commonwealth of Kentucky.

1 I have been employed by American Water ("AW") since 1989. I began as a
2 distribution supervisor for Kentucky American Water ("KAWC") until 1990 when I was
3 promoted to Planning Engineer. Following that I was promoted to Engineering Manager,
4 and later Director of Engineering in 1998. In July 2004, I accepted the position of Project
5 Delivery and Developer Services Manager for the Southeast Region of AWW, responsible
6 for Kentucky, Tennessee, and West Virginia. In 2008, I became the KAWC Project
7 Delivery Manager for the construction of a new water treatment plant, booster station, and
8 transmission main in Kentucky. This project was the largest project completed by
9 American Water, in any of its regulated businesses, at \$164 million. Upon completion of
10 the project in October 2010, I became the Director of Environmental Compliance and
11 Water Quality for KAWC and in February of 2012 I accepted my current position. I am
12 an active member of the American Water Works Association (AWWA), served as
13 president of the local chapter and state section of the American Society of
14 Civil Engineering (ASCE), and served as an officer in the local chapter of the National
15 Society of Professional Engineers (NSPE) and as a State officer. I have served periodically
16 as an Adjunct Professor at the University of Kentucky in the Civil Engineering
17 Department, teaching "Water Quality and Pollution Control" and the "Introduction to
18 Environmental Engineering." I served as a member of the Civil Engineering Industrial
19 Advisory Committee at the University of Kentucky from 2005 until 2012. I served as a
20 Commissioner on the Kentucky Water Resources Development Commission established
21 by Governor Patton and on the Kentucky State Board of Licensure for Professional
22 Engineers and Land Surveyors. I currently serve as Vice Chairman of the Board of
23 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 Tennessee
4 and Kentucky. This includes coordinating all reports and filings, working with regulatory
5 staff to make sure that all information produced addresses the requirements or requests,
6 and overseeing the preparation and filing of rate cases and tariff changes. I work with the
7 senior management in both states on planning. I am also responsible for keeping abreast
8 of changes in regulation, or trends in regulatory oversight across the United States that may
9 impact our local operations. I report to the Presidents of Tennessee American Water
10 ("Tennessee American," "TAWC" or "Company") and KAWC dually. I am located in
11 Kentucky, but work closely with the TAWC staff in Tennessee as well.

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

13 **A.** The purpose of my testimony is to support the Joint Petition filed by TAWC and Thunder
14 Air, Inc. d/b/a Jasper Highlands Development, Inc. ("Thunder Air Inc.") for the approval
15 of the purchase of the assets that make up the water system owned Thunder Air Inc. by
16 TAWC and a Certificate of Public Convenience and Necessity to TAWC, with its
17 accompanying privilege and franchise, to serve the Thunder Air Inc. development. The
18 Asset Purchase Agreement between TAWC and Thunder Air Inc. (the "Purchase
19 Agreement") is attached to the Joint Petition as **Exhibit A**, and the map of the Thunder Air
20 Inc. System is attached to the Joint Petition as **Exhibit B**.

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

1 A. No, I am not sponsoring any Exhibits specifically attached to my testimony. I was
2 responsible for the preparation of the proposed tariff sheets attached to the joint petition as
3 Exhibit C.

4 **Q. WAS THE EXHIBIT MENTIONED ABOVE PREPARED BY YOU OR UNDER**
5 **YOUR DIRECTION AND SUPERVISION?**

6 A. Yes.

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

9 A. The data used to prepare the exhibits was acquired from the books of account and business
10 records of Tennessee American and Thunder Air Inc., the officers and associates of
11 Tennessee American and Thunder Air Inc., with knowledge of the facts based on their job
12 responsibilities and activities, and other internal sources which I examined in the course of
13 my investigation of the matters addressed in this testimony. The joint Petitioners' filings
14 in this TPUC Docket are complete and accurate to the best of my knowledge and belief.

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

18 A. Yes.

19 **Q. IF AN ACQUISITION ADJUSTMENT WAS RECORDED, CAN YOU EXPLAIN**
20 **TAWC'S PROPOSED REGULATORY TREATMENT OF THIS ACQUISITION**
21 **ADJUSTMENT OR ANY OTHER RELATED MATTERS?**

22 A. TAWC proposes no utility plant acquisition adjustment with this transaction. TAWC is,
23 however, seeking authorization for future recovery of various external costs necessary to

1 complete due diligence and promulgate the closing of this transaction. TAWC estimates
2 these costs to be between \$5,000 and \$15,000. TAWC is proposing that these expenses
3 be deferred until closing, not to exceed \$10,000, and upon closing be accounted for as a
4 regulatory asset to be amortized over ten years. TAWC recognizes that the authorization
5 would not be an approval of the costs themselves for immediate inclusion into rate base,
6 as such approval would be necessary after review in TAWC's next rate case.

7 **Q. WHY IS TENNESSEE AMERICAN PROPOSING A REGULATORY ASSET FOR**
8 **THE DUE DILIGENCE AND CLOSING COSTS?**

9 A. TAWC believes these expenses are a legitimate and appropriate cost of acquiring the
10 capital assets. TAWC recognizes that any regulatory guidance provided on establishing
11 the regulatory asset does not represent approval of the costs in a future rate case. While
12 there may be a number of ways to address these costs, TAWC is proposing a method that
13 is fair to both ratepayers and the Company, while providing an opportunity for full review
14 of the costs themselves in a future rate case as well.

15 TAWC reviewed the record in Docket No. 12-00157 related TAWC's acquisition of the
16 assets of the City of Whitwell, TN. Specifically, TAWC reviewed both the concerns
17 expressed by the Consumer Protection and Advocate Division and the Order issued by the
18 TPUC. In an effort to address some of those concerns, TAWC is proposing to defer the
19 due diligence and closing costs to a regulatory asset. The costs will be incurred during the
20 closing to safeguard the assets of the Company, thus protecting the interests of both the
21 shareholders and ratepayers. In the manner TAWC is proposing, the costs in excess of
22 \$10,000 will be funded solely by the shareholders, thus limiting the expense funded by
23 ratepayers.

1 **Q. HOW DOES TENNESSEE AMERICAN PROPOSE TO ADDRESS THE**
2 **AMORTIZATION OF THE DEFERRED ASSET?**

3 A. Once expenses are deferred, they are essentially moved to an account on the balance sheet
4 as a regulatory asset. One method to address that regulatory asset is then to credit a small
5 amount of the balance each month as an expense, or amortize it. The amortization takes
6 place over a defined length of time. This means that the costs are spread evenly over a
7 longer period of time rather than a one-time expense. In this instance, Tennessee American
8 is proposing two things – the first is to cap the amount deferred at \$10,000. That means
9 that Tennessee American will immediately expense any amount above \$10,000.
10 Additionally, Tennessee American is further proposing to begin amortization of the costs
11 of \$10,000 or less immediately upon closing, with only the unamortized balance of the
12 regulatory asset to be addressed in the next rate case. Therefore any amount for
13 consideration during the future rate case will be only the unamortized portion of the
14 \$10,000 (or less) regulatory asset. Again, Tennessee American believes that the deferral
15 of these expenses, as legitimate costs of the assets, is an appropriate method of addressing
16 these costs. If Tennessee American were to construct the assets as part of its existing
17 system improvements or extensions, external costs for due diligence and closing costs
18 would be capitalized as a part of the cost of the project. By proposing to defer the costs to
19 a regulatory asset, the unamortized balance of the regulatory asset can be essentially
20 considered as a cost of the assets for ratemaking purposes in the next rate case. Tennessee
21 American believes this proposed method allows for a shared funding of the expenses as
22 legitimate and appropriate costs related to the acquisition.

1 **Q. ARE THERE ANY OTHER ACCOUNTING ADJUSTMENTS BEING PROPOSED**
2 **POST-CLOSING?**

3 A. Yes. TAWC proposes to adopt the current TAWC's depreciation rates and CIAC
4 amortization rates as approved by the Commission for Thunder Air Inc. upon closing.

5 **Q. WHAT IS THE RATE STRUCTURE THAT IS PROPOSED BY TAWC ONCE IT**
6 **ACQUIRES THE SYSTEM?**

7 A. The Purchase Agreement provides that TAWC will continue to provide service to Thunder
8 Air Inc.'s customers at the meter and volumetric rates they are paying now, until such time
9 as different rates may be submitted to and approved by the Commission. TAWC is
10 adopting the Thunder Air Inc. rates. TAWC would apply all other ordinary fees that are
11 applicable to all TAWC customers including any late fees, service activation fees,
12 disconnect fees, private fire service rates and returned check fees. These would be
13 consistent with TAWC's existing tariff for the sake of billing consistency. All other
14 TAWC rates would also be applied to Thunder Air Inc. customers including the Capital
15 Recovery Riders and the Production Costs and Other Pass-Throughs Rider. TAWC fully
16 expects to address several tariff issues related to Thunder Air Inc. customers in future
17 filings with the Commission, such as the implementation of a meter charge based on the
18 size of the meter, and separate rate schedules for customers of different customer
19 classifications.

20 **Q. WILL THE ACQUISITION OF THE SYSTEM IMPACT THE RATES OF**
21 **CURRENT TAWC RATEPAYERS?**

22 A. No. The System will be kept separate and apart from the TAWC's existing system for
23 purposes of accounting and ratemaking. TAWC may propose to combine the rates for both

1 the Thunder Air Inc. and the other portions or the balance of the TAWC system as
2 appropriate at a future rate proceeding. The Thunder Air Inc. system will be operated by
3 TAWC as a separate business unit in the TAWC accounting system.

4 **A. IS THE MERGER OF TENNESSEE AMERICAN WATER AND THE THUNDER**
5 **AIR INC. SYSTEMS IN THE PUBLIC INTEREST?**

6 Yes. Water utilities are extremely capital intensive. The owner and operator of a water or
7 wastewater system is constantly needing to address increasing costs, enhanced water
8 quality regulations and the ever-recurring need for capital investments. The need to
9 address aging infrastructure and technological advances consistently requires ongoing
10 study and expertise. TAWC has a proud 131 year history of providing safe, reliable
11 drinking water to its customers. During its 131 years of operation, TAWC has never
12 received a United States Environmental Protection Agency notice of violation of any type
13 (water quality or documentation). This transaction will benefit the customers of the System
14 through the professional management, long-term planning, and sustained investment by
15 TAWC. The approval of the petition is necessary and proper for the public convenience
16 and to properly conserve and protect the public interest.

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

18 **A.** I recommend that the Petition be approved.

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

20 **A.** Yes. I reserve the ability to submit further testimony as is appropriate.

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 6th day of September, 2018.

Sharon Miller
Notary Public


My Commission Expires: 7-25-2020

CERTIFICATE OF SERVICE

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

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

This the 15th day of January, 2019.



Melvin J. Malone