

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

August 21, 2019

IN RE:)	
)	
PETITION OF TENNESSEE-AMERICAN WATER)	DOCKET NO.
COMPANY REGARDING THE PRODUCTION)	19-00010
COSTS AND OTHER PASS-THROUGHS RIDER)	

ORDER ON DECEMBER 1, 2017 THROUGH NOVEMBER 30, 2018 PCOP RIDER EXPENSES

This matter came before Vice Chair Kenneth C. Hill, Commissioner John Hie, and Commissioner David F. Jones 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 July 15, 2019 to consider the *Petition* filed by Tennessee-American Water Company (“TAWC” or the “Company”) on January 16, 2019.

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.¹ The Commission approved changes to the PCOP Rider tariff providing for a single reconciliation, which includes a true-up of actual expenses over twelve

¹ *Petition*, pp. 3-4 (January 16, 2019). 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. 15-00001.² Subsequently, the Commission approved changes to the PCOP Rider tariff in TPUC Docket No. 15-00131.³

The PCOP tariff approved by the Commission requires TAWC to annually file within thirty 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 Commission approved the most recent PCOP percentage rate in TPUC Docket No. 18-00009 for the actual costs incurred during December 1, 2016 through November 30, 2017. In accordance with the PCOP tariff, on January 16, 2019, TAWC filed the *Petition* for the period of December 1, 2017 through November 30, 2018. The Hearing Officer granted the Consumer Advocate Unit in the Financial Division of the Office of the Tennessee Attorney General ("Consumer Advocate") intervention in this matter on March 13, 2019.⁴

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, 2018 and those approved in TPUC Docket No. 12-00049.

² 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).

³ 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).

⁴ *Order Granting the Petition to Intervene Filed by Consumer Advocate* (March 13, 2019).

In Pre-Filed Testimony, Ms. Elaine K. Chambers asserts the calculations are consistent with previously approved PCOP filings and Commission decisions, including the application of the 15% water loss usage level.⁵ The Company asserts there is a difference between the amount of the PCOP that was authorized to be refunded in the previous PCOP filing in TPUC Docket No. 16-00148 and what was actually refunded.⁶ Ms. Chambers's testimony explains this was due to a number of reasons. First, the PCOP being calculated assumed a full year of recovery, but was delayed and not implemented until May.⁷ Additionally, the water sales were less than those utilized in the last rate case which resulted in the PCOP being applied to fewer water sales. TAWC has also become more efficient in its production and delivery of water to customers resulting in a lower production cost per gallon.⁸

TAWC identifies two changes to its calculations of the PCOP. First, the waste disposal vendor "Clean Harbors" was added for sludge removal and second, Chemical vendor, UNIVAR, was used due to lower prices.⁹ TAWC's filing in this docket proposes a PCOP Rider of -0.91% resulting in an annual refund of \$428,411.¹⁰ Ms. Chambers states this is a decrease of \$158,322 from the previously approved refund of \$586,733. The Company calculates that a typical residential customer using 4,154 gallons of water per month will have a decrease of \$0.20 per month whereas the previous PCOP was a \$0.27 decrease per month.¹¹

POSITION OF 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. Mr. Bradley's comparison of the requested gross amount of Pass-Through

⁵ Elaine K. Chambers, Pre-Filed Direct Testimony, Exhibit EKC-1, pp. 3, 11 (January 16, 2019).

⁶ *Id.* at 11.

⁷ *Id.*

⁸ *Id.* at 11-12.

⁹ *Id.* at 14.

¹⁰ *Id.* at 15.

¹¹ *Id.* at 16.

Expense for the PCOP Rider set in TPUC Docket No. 18-00009 of \$3,786,293 and the gross amount of Pass-Through Expenses incurred in the current review period of \$3,821,844 results in an overall increase of \$35,551.¹²

Mr. Bradley states the Company's revised calculation for water loss is 21.8%, which is 6.8% greater than the baseline amount of 15% for water loss.¹³ The effect of this water loss over the baseline amount results in a recoverability factor of 93.2% of the fuel and purchased power expense and chemicals expense incurred over the Review Period and increases the recoverability of the Pass-Through Expenses by \$184,074.¹⁴ The revised 93.2% recoverable factor reduces the recoverable amount of Purchased Power Expense by \$152,356 and the recoverable amount of Chemicals Expenses by \$62,547 for a total reduction in recoverable PCOP rider expense of \$214,903. The total amount of recoverable Pass-Through Expenses is reduced from \$3,821,844 to \$3,606,941.¹⁵

Mr. Bradley expressed concern with the actual water sales during the review period. Historic data demonstrates that typical water system sales and system delivery are positively correlated; however, in the most recent review period this was not true.¹⁶ In response to a Consumer Advocate data request, the Company corrected the error and updated the actual water sales number to 99,751,414 (100 gallons). The Company's correction changes the proposed PCOP percentage from -0.91% to -1.10%.¹⁷

RESPONSE OF TENNESSEE-AMERICAN WATER COMPANY

In accordance with the Company's agreement with the Consumer Advocate's observation, the PCOP was revised and updated from -0.91% to -1.10%. As a result, the

¹² Alex Bradley, Pre-Filed Direct Testimony, p. 5 (May 10, 2019).

¹³ Alex Bradley, Pre-Filed Direct Testimony, pp. 5-6 (May 10, 2019).

¹⁴ *Id.*

¹⁵ *Id.* at 6.

¹⁶ *Id.* at 8.

¹⁷ *Id.* at 8-9.

Company calculated the average residential customer in Chattanooga would see a credit on their monthly bill of (\$0.24) or (\$2.88) per year.¹⁸

JULY 15, 2019 HEARING AND APPEARANCES

A Hearing in this matter was held before the voting panel on July 15, 2019, as noticed by the Commission on July 3, 2019. Prior to the hearing, TAWC filed a letter on behalf of the parties indicating there were no outstanding disputes or contested issues and the parties waived opening statements, closing statements, and cross-examination of the respective expert witnesses.¹⁹ The Company further sought permission to have a witness, Ms. Chambers, appear telephonically which was granted by the Hearing Officer.²⁰ Participating in the Hearing were the following parties and their respective counsel:

TAWC – Melvin J. Malone, Esq., Butler Snow, LLP, 150 3rd Avenue South, Suite 1600, Nashville, Tennessee 37201.

Consumer Advocate – Karen Stachowski, Esq., Office of the Tennessee Attorney General, P.O. Box 20207, Nashville, TN 37202.

The voting panel heard testimony by Ms. Elaine K. Chambers on behalf of the Company. 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 \$3,606,941 as the total actual PCOP expense for the year ending November 30, 2018. This amount includes \$859,734 for Chemical Expense; \$2,094,201 for Fuel & Power Expense; \$416,185 for Waste Disposal Expense; \$25,572 for Purchased Water Expense; and \$211,249 for the Commission Inspection Fee Expense. In addition, the total PCOP expense to be collected

¹⁸ Elaine K. Chambers, Pre-Filed Rebuttal Testimony, p. 2 (June 10, 2019).

¹⁹ Letter to Chair Person Morrison from Mr. Melvin J. Malone, Esq. (Butler Snow LLP) (June 12, 2019).

²⁰ Order Granting Electronic Participation in Hearing (July 10, 2019).

from customers is reduced by \$72,416 due to the Company's over-collections from the PCOP Rider. This results in a net PCOP expense of \$3,534,525. The panel found that since inception of the PCOP, overall expenses have decreased, and its decision results in a total PCOP Rider surcharge of -1.10%, which will reduce the average Chattanooga residential customer's bill by \$0.24 cents per month.

Further, the panel found that the PCOP Rider benefits the Company by allowing timely recovery of expenses without having to file a rate case. In turn, consumers benefit by not having to pay for expensive rate cases that the Company might otherwise have to pursue if expenses increase, while also allowing customers to receive immediate refunds when expenses within the PCOP Rider decrease. For these reasons, the panel concluded the PCOP Rider remains in the public interest. Finally, the panel ordered TAWC to file the PCOP percentage and tariffs consistent with its decision.

IT IS THEREFORE ORDERED THAT:

1. The total actual net Production Cost and Other Pass-Through Rider expense for the year ending November 30, 2018 is \$3,606,941. This includes \$859,734 for Chemical Expense; \$2,094,201 for Fuel & Power Expense; \$416,185 for Waste Disposal Expense; \$25,572 for Purchased Water Expense; and \$211,249 for the Tennessee Public Utility Commission Inspection Fee Expense. This amount is reduced by \$72,416 to account for over-collections, resulting in a net Production Cost and Other Pass-Through Rider expense of \$3,534,525.

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.

3. Any person who is aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within fifteen (15) days from the date of this Order.

4. Any person who is aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order.

Vice Chair Kenneth C. Hill, Commissioner John Hie, and Commissioner David F. Jones concur.

ATTEST:



Earl R. Taylor, Executive Director