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May 30, 2019

David Foster, Director
Utilities Division
Tennessee Public Utility Commission
502 Deaderick Street
4th Floor
Nashville, TN 37243

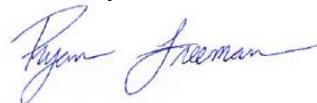
VIA HAND DELIVERY

Re: *Amended Petition of Tennessee Water Service, Inc. for Adjustment of Rates and Charges and Modification to Certain Terms and Conditions for the Provision of Water Service, Docket No. 19-00028*

Dear Mr. Foster:

Enclosed please find Tennessee Water Service, Inc.'s Amended Petition and supporting documents in response to your letter from May 22, 2019 requesting these materials. I have provided an original and four copies of the complete set of documents, as well as a CD containing the complete set of exhibits and workpapers in Excel format. Please feel free to contact me if you have any questions. Thank you.

Sincerely,



Ryan Freeman
For the Firm

RAF:kcw

Enclosures

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

IN RE:

**AMENDED PETITION OF TENNESSEE
WATER SERVICE, INC. FOR
ADJUSTMENT OF RATES AND
CHARGES AND MODIFICATION TO
CERTAIN TERMS AND CONDITIONS
FOR THE PROVISION OF WATER
SERVICE**

DOCKET NO. 19-00028

PETITION

Tennessee Water Service, Inc. ("TWS" or the "Company"), a Tennessee corporation authorized to conduct a public utility business in the State of Tennessee, pursuant to Tenn. Code Ann. § 65-5-103, files this amended petition¹ to the Tennessee Public Utility Commission ("TPUC" or the "Commission") for an increase to TWS's rates and charges for the purpose of recovering TWS's costs of providing water services to its customers and for authority to place such rates and charges into effect through a revised tariff.

In support of its Amended Petition, TWS submits the following:

1. TWS is a public utility as defined by Tenn. Code Ann. §65-4-101 and its public utility operations are subject to the jurisdiction of TPUC. In January 1984, TWS was granted its original Certificate of Convenience and Necessity in Docket No. U-83-7240 to provide water service to customers located in the Chalet Village Subdivision in Sevier County, Tennessee.

¹ This petition is being amended to remove TWS's prior request for approval of a Qualified Infrastructure Investment Program. Because of this removal, three exhibits from the initial petition have also been modified: (1) Exhibit 7 - Proposed Tariff; (2) Exhibit 8 - Testimony of Catherine Heigel; and (3) Exhibit 10 - Testimony of Dante DeStefano. Accordingly, amended copies of these exhibits are being filed concurrently with this amended petition. With the exception of these three exhibits, all other exhibits from the initial filing should be considered accurate and applicable to this rate case.

TWS currently provides water service to 218 customers located in its service territory. The name and principal address of TWS are:

Tennessee Water Service, Inc.
Catherine Heigel, President
4944 Parkway Plaza Boulevard
Suite 375
Charlotte, NC 28217

2. The currently-tariffed rates and charges of TWS were approved by TPUC on February 21, 2018, in Docket No. 17-00108 (a copy of this order is attached to the Petition as **Appendix A**). Because of the wildfires in East Tennessee during November 2016, TWS petitioned TPUC in 2017 for the authority to recover certain costs associated with damages from the wildfires and to temporarily increase rates due to revenue shortages resulting from a dramatic loss of customers whose homes were destroyed by the wildfires. The Commission approved portions of TWS's petition in Docket No. 17-00108, allowing for recovery of certain expenses and a return on replacement capital investment through the creation of two regulatory asset accounts and ordering a \$7 increase to TWS's monthly minimum service charge. The Commission also ordered that TWS file a rate case petition no later than July 1, 2019. This Petition complies with the Commission's deadline.

3. Current revenues and revenue projections under the tariff rates and charges approved in Docket No. 17-00108 are not sufficient to allow TWS a fair opportunity to recover its reasonable operating costs and to provide a fair and reasonable net operating income. In order for TWS to maintain its water system and provide safe and reliable service to its customers in accordance with TPUC's requirements, an increase to TWS's rates and charges should be granted.

Request for and Description of Base Rate Increase

4. The currently-tariffed rate and charges of TWS approved by TPUC on February 21, 2018, in Docket No. 17-00108 contain a fixed minimum monthly charge of \$25.70, which includes an allowance for 2,000 gallons of metered water consumption. Customers are then subject to a volumetric charge of \$13.30 per 1,000 additional gallons of usage beyond the allowance. The average customers uses approximately 3,479 gallons of water per month and thus has an average bill of \$49.79 (which includes a state tax of 9.75%).

5. As demonstrated in the Pre-filed Direct Testimony of Dante DeStefano filed in support of this Petition, the effects of the 2016 wildfires are still being felt today. Prior to the wildfires, TWS had approximately 564 connections. Following the destruction, only 25 connections remained. In the ensuing two years, substantial reconstruction efforts have been made in Chalet Village and customers are steadily returning and reconnecting to the water system. However, at this time TWS has only approximately 209 connections. Despite this lower customer count, operational costs and capital investment needs remain. As a result, TWS faces a significant revenue shortfall if it is unable to increase its rates.

6. As detailed in the Pre-filed Direct Testimony of Dante DeStefano, TWS proposes to eliminate this revenue deficiency by increasing certain rates and charges for water service as follows:

- a. Initiate a three-year rate plan phase-in which would increase the monthly Base Facility Charge to \$50.00 effective January 1, 2020, then increase to \$74.00 effective January 1, 2021, and finally increase to \$95.00 effective January 1, 2022. As well, initiate a three-year rate plan phase-in which would increase the monthly volumetric charge to \$16.50 per 1,000 gallons effective January

1, 2020, then increase to \$19.00 per 1,000 gallons effective January 1, 2021, and finally to \$20.65 per 1,000 gallons effective January 1, 2022.

- b. Create a separate monthly charge for Private Fire Service, applied on the basis of whether the service is part of a multi-use connection or fire-only connection, with a three-year rate phase-in. Multi-use connections would be subject to a standby charge per month of \$11.33 effective January 1, 2020, \$24.00 effective January 1, 2021, and \$35.80 effective January 1, 2022. Fire-only connections would be subject to a standby charge per month of \$22.67 effective January 1, 2020, \$48.00 effective January 1, 2021, and \$71.60 effective January 1, 2022. Furthermore, all usage would be billed volumetrically at \$16.50 per 1,000 gallons effective January 1, 2020, \$19.00 effective January 1, 2021, and \$20.65 effective January 1, 2022.

7. TWS also proposes other changes to its tariff, as detailed in the Pre-filed Direct Testimony of Dante DeStefano, related to metered service and fire service to more accurately reflect the required building codes and nature of service TWS provides to the Chalet Village System. In addition, TWS proposes changes to the name and the language related to Base Period and Base Period OCPTM Costs in the cost pass-through mechanism approved by the Commission in in Docket No. 17-00108. All of TWS's proposed changes are reflected in its Proposed Tariff, attached as Exhibit 7 to the Pre-filed Direct Testimony of Dante DeStefano.

8. In accordance with TPUC's Rule 1220-4-1-.05, TWS will notify its customers of the proposed changes in its rates and charges by publication in newspaper and by inclusion of an insert in the March billing statements sent by direct mail to the customers' billing addresses on file with TWS. A copy of the mailed notice will be filed in this docket following the filing of

this Petition and the determination of the docket number for this proceeding. A copy of the notice will also be posted at the Company's principal business office and at the clubhouse in Chalet Village and will remain displayed until the rate hearing on this matter has been conducted.

9. In order to ensure the timely submission of relevant information in this matter, TWS hereby request the entry of a protective order similar to that approved in TPUC Docket No. 17-00108. Such a proposed protective order is attached hereto as **Appendix B**.

10. In further support of this Petition, TWS has filed simultaneously with this Petition the following:

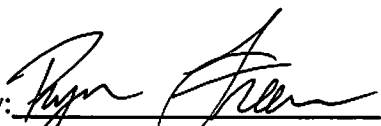
- a. Pre-filed Direct Testimony of Catherine Heigel, President of TWS, regarding the reasons for the rate request and current corporate structure implications for TWS.
- b. Pre-filed Direct Testimony, Exhibits, and Workpapers of Dante DeStefano, Financial Planning & Analysis Manager for TWS, regarding a general overview of the condition of TWS's customers and the ratemaking principles, methodologies, and calculations used to project TWS's revenue deficiency and to support the proposed rates and charges changes/additions.
- c. Pre-filed Direct Testimony, and Exhibits of Bryce Mendenhall, Vice President of Operations for TWS, regarding the capital investments made since the 2016 wildfires and the general condition of the water system and the Chalet Village community.

- d. Pre-filed Direct Testimony, Exhibits, and Workpapers of Anthony Gray, Senior Financial Analyst for TWS, regarding the explanation of pro-forma adjustments included in the revenue requirement calculations of TWS.
- e. Pre-filed Direct Testimony and Exhibits of Jared Deason, Regulatory Manager for Utilities, Inc., regarding the recommended return on equity for TWS.
- f. Proposed revised tariffs providing the adjustments to rates and charges calculated by TWS as well as other tariff language revisions.

WHEREFORE, TWS respectfully requests:

- 1. That the Commission approve this Petition and issue an order pursuant to Tenn. Code Ann. § 65-5-103, *et seq.*;
- 2. That the Commission find that the rates and charges proposed by TWS are just and reasonable and in the public interest;
- 3. That the Commission approve TWS's revised tariffs, as submitted herein; and
- 4. That this Commission grant such other and further relief as circumstances may warrant.

Respectfully submitted,

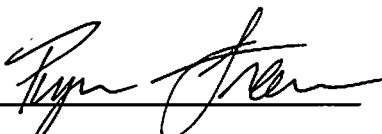
By: 
Ryan A. Freeman (#033299)
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Chattanooga, TN 37450
(423) 209-4181
rffreeman@bakerdonelson.com

Attorney for Tennessee Water Service, Inc.

CERTIFICATE OF SERVICE

I hereby certify that on March 22, 2019, a true and correct copy of the foregoing Petition was served by electronic mail upon the following:

Wayne Irvin
Senior Assistant Attorney General
Financial Division, Consumer Advocate Unit
War Memorial Building, 2nd Floor
301 6th Avenue North
Nashville, Tennessee 37243
Wayne.Irvin@ag.tn.gov


Ryan Freeman

Appendix A

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

February 21, 2018

IN RE:)	
)	
PETITION OF TENNESSEE WATER SERVICE,)	DOCKET NO.
INC. FOR APPROVAL OF AN INTERIM)	17-00108
EMERGENCY WILDFIRE RESTORATION)	
SURCHARGE, INTERIM EMERGENCY)	
WATER SERVICE AVAILABILITY)	
SURCHARGE, INTERIM EMERGENCY MAKE-)	
WHOLE SURCHARGE, AND AN INTERIM)	
EMERGENCY OPERATION COST PASS-)	
THROUGH MECHANISM)	

FINAL ORDER

This matter came before Chairman David F. Jones, Vice Chairman Robin L. Morrison 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 January 16, 2018, for consideration of the *Petition for Emergency Interim Relief* (“*Petition*”) filed by Tennessee Water Service, Inc. (“TWS” or the “Company”) on September 25, 2017.

BACKGROUND AND TRAVEL OF THE CASE

TWS is a public utility subject to the Commission’s jurisdiction, providing water service to customers located in the Chalet Village Subdivision (“Chalet Village”) in Sevier County, Tennessee.¹ Chalet Village suffered extensive damage in the wildfires that swept through the Great Smoky Mountains in late November 2016 (“the Wildfire”). Prior to the Wildfire, TWS served about

¹ *Petition for Emergency Interim Relief*, pp. 1-2 (September 25, 2017).

580 customers. After the Wildfire, approximately 90% of the customer base was lost with only 57 connections remaining active and the water system serving Chalet Village suffered damage.²

On September 25, 2017, TWS filed a *Petition* seeking emergency relief in the form of three monthly surcharges, an operational cost pass-through mechanism, and a deferral of costs and uncollectible revenues for potential future recovery. The *Petition* also proposed to file a petition for a general rate case no more than eighteen months after approval of the emergency relief requested by TPUC.³ In support of its *Petition*, the Company filed the testimony of Richard Linneman,⁴ Finance, Planning and Analysis Manager of TWS, and Bryce Mendenhall,⁵ Vice President of Operations of TWS.

On September 28, 2017, the Consumer Protection and Advocate Division of the Office of the Tennessee Attorney General (“Consumer Advocate”) filed a *Petition to Intervene*.⁶ The intervention of the Consumer Advocate was subsequently granted by the Hearing Officer.⁷ Following the submission of discovery and pre-filed testimony pursuant to a procedural schedule, the parties prepared for a hearing. In addition, written comments were received from individual Chalet Village property owners as well as persons signing an online petition.

POSITION OF THE PARTIES

POSITION OF TWS

TWS presented two alternate requests for relief, styled “Option A” and “Option B,” each of which was an amended version of the relief requested in its *Petition*.⁸ As presented, Option A consisted of the following components:

1. An Operation Cost Pass-Through mechanism allowing TWS to pass-

² *Id.* at 2-3.

³ *Id.* at 5-9.

⁴ Richard Linneman, Pre-Filed Direct Testimony (September 25, 2017).

⁵ Bryce Mendenhall, Pre-Filed Direct Testimony (September 25, 2017).

⁶ *Petition to Intervene* (September 28, 2017).

⁷ *Order Granting the Petition to Intervene Filed by the Consumer Advocate* (October 6, 2017).

⁸ Transcript of the Hearing, pp. 52-57 (December 12, 2017).

through to customers nondiscretionary increases or decreases in costs incurred for purchases of treated water and/or purchased electricity;⁹

2. A Wildlife Restoration Surcharge of \$2.52 per month for eighteen months applicable to both active and inactive customers to provide a return on the capital needed to repair fire damage and restore the water system to operational capacity;¹⁰

3. A Water Service Availability Surcharge of \$4.51 per month for eighteen months applicable to both active and inactive customers to provide a return on capital assets that are already in place to serve customers;¹¹

4. A Make-Whole Surcharge of \$11.09 per month for eighteen months applicable only to inactive customers to recover anticipated 2018 operational losses due to erosion of the customer base since the Wildfire;¹²

5. A Deferral of Prior Operating Losses for 2017 allowing TWS to accumulate and defer its operating losses incurred during 2017 into a regulator asset account for potential future recovery from customers over a proposed five-year amortization period; and,¹³

6. A Deferral of Case Expenses, deferring up to \$30,000 of case expenses amortized over a three-year period.¹⁴

TWS next presented Option B which consisted of the following components:

1. An Operation Cost Pass-Through mechanism allowing TWS to pass-through to customers nondiscretionary increases or decreases in costs incurred for

⁹ *Id.* at 55.

¹⁰ *Id.* at 55-56.

¹¹ *Id.* at 56.

¹² *Id.*

¹³ *Id.* at 56-57.

¹⁴ *Id.* at 57.

purchases of treated water and/or purchased electricity;¹⁵

2. A Deferral of Prior Operating Losses for 2017 allowing TWS to accumulate and defer its operating losses incurred during 2017 into a regulatory asset account for potential future recovery from customers over a proposed five-year amortization period;¹⁶

3. A Deferral of Prospective Operating Losses that authorizes TWS to accumulate and defer its operating losses incurred beginning January 1, 2018 for up to eighteen months into a regulatory asset account for potential future recovery from customers over a proposed five-year amortization period;¹⁷

4. A Deferral of Returns on Certain Capital Projects that authorizes TWS to calculate and accrue its currently-authorized rate of return on capital assets placed into service to repair and restore the water system from fire damage into a regulatory asset account for potential future recovery from customers over a proposed five-year amortization period; and,¹⁸

5. A Case Expenses Surcharge for recovery of case expenses of up to \$30,000 over a three year period through a surcharge of \$1.44 per month to both active and inactive customers with annual true-ups.¹⁹

TWS witness, Bryce Mendenhall, testified with regard to capital projects necessary to repair fire damage and restore the water system stating that TWS has already expended \$178,961 for Emergency System Activation, Gatlinburg Water Interconnect Repair, Meter Replacements, Valve Replacements, Service Line Replacements and Fire Hydrant Replacements.²⁰ Emergency System Activation and Gatlinburg Water Interconnect Repair projects have been completed, but repair and

¹⁵ *Id.*

¹⁶ *Id.* at 56-58.

¹⁷ *Id.* at 58.

¹⁸ *Id.*

¹⁹ *Id.* at 58-59.

²⁰ *Id.* at 45-46 & Exh. 2.

replacement of meters, valves, service lines and hydrants are ongoing.²¹ Mr. Mendenhall also provided testimony identifying proposed capital projects that have not been started, but will need to be completed in order to fully restore the water system: 1) Replacement of Well No. 1 Booster Station forecasted at \$125,000; 2) Replacement of Upper Booster Station forecasted at \$30,000; and, 3) Reconditioning of Upper Storage Reservoir forecasted at \$45,000.²² These capital projects were facilitated by the fire according to Mr. Mendenhall.²³ TWS witness Richard Linneman testified that these capital projects are the projects for which TWS seeks deferral of returns under Option B as presented.²⁴

POSITION OF THE CONSUMER ADVOCATE

The Consumer Advocate presented testimony opposing the Wildfire Restoration, Service Availability and Make-Whole Surcharges requested under Option A, questioning whether the wildfire event represented a true financial emergency justifying the surcharges, raising concerns about the uncertainty of customer counts and forecasting techniques TWS used to compute surcharge amounts, and claiming that the proposed surcharges fail to share the risks between both investors and ratepayers.²⁵ However, Consumer Advocate witness David Dittmore agreed with TWS's proposed Operational Cost Pass-Through Mechanism, provided certain modifications were incorporated.²⁶ TWS agreed with the modifications proposed by the Consumer Advocate.²⁷

In addition, the Consumer Advocate proposed that deferred accounting methods be used to authorize TWS to defer losses sustained from the Wildfire and recover deferred losses over a specified period of time.²⁸ The Consumer Advocate and TWS differ on the starting date for accrual

²¹ *Id.*

²² *Id.*

²³ *Id.* at 49.

²⁴ *Id.* at 58.

²⁵ *Id.* at 96-103, 127-129.

²⁶ *Id.* at 97.

²⁷ Transcript of the Hearing, pp. 28, 55 (December 12, 2017).

²⁸ *Id.* at 96.

of accounting losses and the amortization period over which deferred losses should be recovered.²⁹ Finally, the Consumer Advocate requested that TWS be directed to: 1) conduct a business analysis of whether insurances should be obtained on a going forward basis to protect the Company and ratepayers in the event of such disaster in the future; 2) convert its books to the NARUC Uniform System of Accounting before its next rate case; 3) provide clear guidance to customers regarding their service options; and 4) to make monthly submittals of the Company's active customer accounts in this docket.³⁰

THE HEARING

A Hearing on this matter was held on December 12, 2017, as noticed by the Commission on December 1, 2017. Participating in the Hearing were the following parties:

Tennessee Water Service, Inc. – Joe Conner, Esq. and Ryan Freeman, Esq., Baker, Donelson, Bearman, Caldwell & Berkowitz, 1900 Republic Centre, 633 Chestnut Street, Chattanooga, TN 37450.

Consumer Protection and Advocate Division – Vance Broemel, Esq. and Karen Stachowski, Esq., Office of the Attorney General and Reporter, P.O. Box 20207, Nashville TN 37202-0207.

At the Hearing, the panel heard testimony from witnesses Bryce Mendenhall and Richard Linneman on behalf of the Company. Alex Bradley and David Dittmore testified before the panel on behalf of the Consumer Advocate.³¹

In addition, members of the public were given the opportunity to present comments to the panel. Mr. Jimmy Vance, a retired attorney and Chalet Village property owner who was accompanied by his former law partner, Nick Perenich, presented comments concerning the *Petition*. No other members of the public sought recognition to comment.³²

²⁹ *Id.* at 115-116, 121-123, 129.

³⁰ *Id.* at 129-130.

³¹ Transcript of Hearing (December 12, 2017).

³² *Id.* at 6-22.

FINDINGS AND CONCLUSIONS

The Commission has jurisdiction to set the rates of public utilities operating in the State of Tennessee.³³ TWS is a public utility which was granted a Certificate of Public Convenience and Necessity (“CCN”) by the Commission in Docket No. U-83-7240.³⁴ TWS’s most recent rate case was completed in 2009.³⁵ It is appropriate, under ratemaking principles, to allow for recovery of non-recurring costs when a public utility incurred such costs as a result of extraordinary circumstances outside of the control of the public utility, such as a force majeure.

TWS has presented accounting and operational information and forecasts showing the Company has sustained and will continue to sustain material financial losses resulting from the Great Smoky Mountain wildfires that swept throughout its service territory in November 2016. Although the parties disagreed as to the starting point of the deferrals, both TWS and the Consumer Advocate stated that an accounting order authorizing deferred accounting treatment of reasonable costs and losses resulting from the wildfires would be appropriate in this case. Indeed, both TWS and the Consumer Advocate recognized the benefits of deferring accounting losses in this docket to future periods.³⁶ This accounting convention, which is described in Account 186 of the Uniform System of Accounts, permits the Company to create regulatory assets for accrual of reasonable accounting costs and losses sustained as a result of the wildfires and defer probable recovery of such costs and losses to future periods.

Specifically, the procedure for deferred accounting is recognized in Account 186.A(7) of the Uniform System of Accounts (“USOA”) adopted by the Commission:

Regulatory created assets, not included in other accounts, resulting from the ratemaking actions of regulatory agencies. (See Definition 27). The amounts

³³ Tenn. Code Ann. §§ 65-4-101(6); 65-4-104; 65-5-101, *et seq.*

³⁴ *In Re: Petition of Tennessee Water Service, Inc. for a Certificate of Convenience and Necessity to Serve an Unincorporated Area of Sevier County Known as Chalet Village North and to Approve Tariffs as to Customer Rates, Rules and Regulations for Service*, Docket No. U-83-7240, *Order* (January 24, 1984).

³⁵ *In Re: Petition of Tennessee Water Service, Inc., to Change and Increase Certain Rates and Charges*, Docket No. 09-00017, *Order Approving Settlement Agreement* (September 15, 2009).

³⁶ Transcript of Hearing, pp. 57, 96 (December 12, 2017).

included in this account are to be established by those charges which would have been included in net income determination in the current period under the general requirements of the Uniform System of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing the rates that the utility is authorized to charge for its utility services. When specific identification of the particular source of a regulatory asset cannot be made, such as in plant phase-ins, Account 407.5 – Amortization of Regulatory Liabilities shall be credited. The amounts recorded in this account are generally to be charged, concurrently with the recording of the amount in rates, to the same account that would have been charged if included in income when incurred, except all regulatory assets established through the use of Account 407.5 shall be charged to Account 407.4 – Amortization of Regulatory Assets, concurrent with the recovery of the amounts in rates.

If rate recovery of all or part of an amount included in this account is disallowed, the disallowed amount shall be charged to Account 426 – Miscellaneous Nonutility Expenses, or Account 434 – Extraordinary Deductions, in the year of the disallowance.

Additionally, Definition 27 of the USOA provides:

“Regulatory Assets and Liabilities” are assets and liabilities that result from rate actions of regulatory agencies. Regulatory assets and liabilities arise from specific revenues, expenses, gains or losses that would have been included in determination of net income in one period under the general requirements of the Uniform System of Accounts but for it being probable that; 1) such items will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services; or 2) in the case of regulatory liabilities, that refunds to customers, not provided for in other accounts, will be required.

The Commission has used this procedure to defer costs related to extraordinary and unforeseen circumstances. For instance, in Docket No. 13-00121 the Commission authorized Kingsport Power Company d/b/a AEP Appalachian Power (“Kingsport Power Company”) to defer incremental storm damage costs as a regulatory asset, stating “[t]his method will allow the Company appropriate ratemaking treatment for extraordinary storm costs in a future rate proceeding.”³⁷

The panel found that deferred accounting of TWS’s Wildfire losses, as outlined in Option B, is the best approach in this case because the losses are significant in relation to TWS’s eroded

³⁷ *In re: Petition of Kingsport Power Company D/B/A AEP Appalachian Power for Approval of Deferred Accounting, Order Granting Deferred Accounting*, Docket No. 13-00121 (Nov. 13, 2013).

customer base and recovery from the Wildfire will be protracted for TWS and the customers. The deferred accounting approach will permit TWS to accumulate reasonable and necessary costs to repair and restore the water system and to track the amount of losses stemming from revenue shortfalls attributable to customer service interruptions. Giving TWS and customers additional time to recover and rebuild from the wildfires will provide a more complete picture of the financial impact of the Wildfire and will provide better financial and operational information on a going forward basis, which will be valuable in determining appropriate rates and recovery periods.

Based on the evidentiary record, the panel found that although the parties agree that deferred accounting should be used to account for the losses in this docket, they disagree about the starting point. The Consumer Advocate recommends that only prospective accounting losses beginning January 1, 2018 be allowed whereas TWS requests deferral of operating losses beginning January 1, 2017 and deferral of returns on capital assets placed in service to repair and restore the water system. Consumer Advocate witness David Dittmore testified that he did not take issue with any of the operational decisions subsequent to the Wildfire.³⁸ However, Mr. Dittmore proposed limiting the deferral of costs to the period beginning January 1, 2018 in order to share the losses between TWS and its customers.³⁹ The panel found that this Commission has addressed the issue of sharing losses resulting from storm damages previously. In dockets addressing deferral of storm damage costs, the Commission did not require shareholders of Kingsport Power Company to bear any of these costs.⁴⁰

Additionally, the relief requested by TWS does not provide full recovery itself. The panel found that while Option B would provide for deferral of actual operating losses since January 1, 2017, as well as returns on capital investments required to restore the system, TWS is not seeking to

³⁸ Transcript of Hearing, p. 121 (December 12, 2017).

³⁹ *Id.* at 115-117.

⁴⁰ *In re: Petition of Kingsport Power Company D/B/A AEP Appalachian Power for Approval of Deferred Accounting, Order Granting Deferred Accounting*, Docket No. 13-00121 (Nov. 13, 2013).

recover any operating losses for November and December 2016, nor is it seeking to earn a profit on its existing rate base investment.

Therefore, the panel voted unanimously that TWS should be authorized to create regulatory asset accounts to defer the following:

1. Actual operating losses resulting from reasonable and necessary operating expenses exceeding operating revenues, excluding any provision for return on rate base investment, incurred on operations beginning on January 1, 2017 and continuing until TWS's next rate case petition unless otherwise ordered by the Commission; and

2. Returns on capital projects necessary to repair fire damage and restore the water system to operational status, which were identified in Mr. Mendenhall's testimony, with such returns to be accrued on the actual amount of the capital assets placed into service at TWS' currently-authorized rate of return of 6.89%, and with such accruals beginning on the date the capital asset is placed into service and continuing until TWS's next rate case petition unless otherwise ordered by the Commission.

In addition, the panel voted unanimously to authorize TWS to accrue and defer up to \$30,000 of reasonable and necessary case expenses. The panel directed TWS to file quarterly reports detailing the accounting transactions and account balances for its deferred operating losses, returns on capital assets, and case expenses, with such reports being due at the same time the Company submits its routine quarterly surveillance reports to the Commission.

With regard to amortization of these regulatory assets, the panel found that due to current uncertainties surrounding rebuilding activities and future customer counts, a decision with respect to appropriate amortization periods should be postponed until the rate proceeding when recovery is considered. The panel cautioned TWS, consistent with prior Commission orders authorizing deferred accounting, that full recovery of deferred costs and losses is not guaranteed, and that TWS

should keep sufficient and appropriate financial records and documentation supporting the reasonableness and prudence of the costs and losses deferred pursuant to this docket.

Further, the panel found evidence showing that the deferred costs and losses in this docket are material, especially in relation to the Company's small customer base. Therefore, the panel voted unanimously to approve a \$7.00 per month increase to the minimum service charge for all current and future active customers effective immediately. The panel found that this rate increase will begin to address the Company's financial losses resulting from the Wildfire and will be used to offset the future amortization of the deferred regulatory assets authorized in this docket in an effort to minimize rate shock and shorten recovery periods. Accordingly, the panel voted unanimously that the Company shall report each quarter the amount of quarterly revenues and the amount of aggregate revenues collected from active customers as a result of this \$7.00 per month service rate increase. The quarterly reports shall be due at the same time the Company submits its routine quarterly surveillance reports to the Commission. For the sake of clarity, the Company shall not charge inactive customers or lot owners the minimum service charge.

TWS proposed an Operational Cost Pass-Through Mechanism to which the Consumer Advocate proposed modifications, but otherwise agreed. The voting panel found that the Operational Cost Pass-Through Mechanism, as modified by the Consumer Advocate in Mr. Dittmore's testimony at Exhibit DND-5, would adjust customer rates to reflect any increase or decrease in costs incurred for purchased water and power. Therefore, the panel voted unanimously to approve the mechanism as modified by the Consumer Advocate.

Finally, the panel voted unanimously to direct TWS to file a general rate case petition as soon as practicable in light of its recovery from the 2016 Wildfire, but in no event shall the Company file a rate case petition later than July 1, 2019, without first obtaining a Commission order extending this deadline for good cause.

The panel also voted unanimously to direct TWS to work with Commission staff to file a tariff consistent with this decision within thirty days and denied all other relief requested by the Company and the Consumer Advocate.

IT IS THEREFORE ORDERED THAT:

1. The *Petition for Emergency Interim Relief* filed on September 25, 2017 is granted as modified.
2. Tennessee Water Service, Inc. is authorized to create two regulatory asset accounts to defer: a) actual operating losses beginning January 1, 2017 until its next rate case or otherwise ordered; and, b) returns on identified capital projects necessary to repair fire damage and restore the water system to operational status, such returns to be accrued on the actual amount of the capital assets placed into service at Tennessee Water Service, Inc.'s currently-authorized rate of return of 6.89% and beginning on the date the capital asset is placed into service and continuing until its next rate case unless ordered otherwise.
3. Tennessee Water Service, Inc. is authorized to accrue and defer reasonable and necessary case expenses.
4. Tennessee Water Service, Inc. shall increase the minimum service charge for all current and future customers by \$7. Tennessee Water Service, Inc. is not authorized to charge inactive customers or lot owners the minimum service charge.
5. The Operational Cost Pass-Through Mechanism, as modified by the Consumer Protection and Advocate Division of the Office of the Tennessee Attorney General, is approved.
6. Tennessee Water Service, Inc. shall file quarterly reports detailing the accounting transactions and account balances for its deferred operating losses, returns on capital assets, rate case expenses, and the amount of quarterly revenues and the amount of aggregate revenues collected from active customers as a result of the minimum service charge increase.
7. Tennessee Water Service, Inc. shall file a rate case petition no later than July 1,

2019, unless an order from the Tennessee Public Utility Commission extending this deadline for good cause is obtained.

8. Tennessee Water Service, Inc. shall work with Tennessee Public Utility Commission staff to file a tariff consistent with this order within thirty days.

9. All other relief requested by Tennessee Water Service, Inc. and the Consumer Protection and Advocate Division of the Office of the Tennessee Attorney General is denied.

10. Any person who is aggrieved by the Tennessee Public Utility Commission's decision in this matter may file a Petition for Reconsideration with the Tennessee Public Utility Commission within fifteen days from the date of this Order.

11. Any person who is aggrieved by the Tennessee Public Utility 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 days from the date of this Order.

Chairman David F. Jones, Vice Chairman Robin L. Morrison and Commissioner Keith Jordan concur.

ATTEST:



Earl R. Taylor, Executive Director

Appendix B

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

IN RE:

**APPLICATION OF TENNESSEE
WATER SERVICE, INC. FOR
ADJUSTMENT OF RATES AND
CHARGES AND MODIFICATION TO
CERTAIN TERMS AND CONDITIONS
FOR THE PROVISION OF WATER
SERVICE**

DOCKET NO. 19-

PROPOSED PROTECTIVE ORDER

To expedite the flow of filings, exhibits and other materials, and to facilitate the prompt resolution of disputes as to the confidentiality of material, adequately protect material entitled to be kept confidential and to ensure that protection is afforded only to material so entitled, the Tennessee Public Utility Commission (TPUC) hereby orders that:

1. For the purpose of this Protective Order (Order):
 - (A) Proprietary or Confidential Information, hereinafter collectively referred to as “Confidential Information”, shall mean documents, testimony, or information in whatever form which the Producing Party, in good faith, and based on reasonable inquiry, deems to contain trade secrets, confidential research, development or other sensitive information protected by state or federal law, regulation or rule, and which has been specifically designated by the Producing Party.
 - (B) “Producing Party” shall mean the Party creating the Confidential Information as well as the Party having actual physical possession of information produced pursuant to this Order.

2. All summaries, notes, extracts, compilations or other direct or indirect reproduction from, or of any protected materials, shall be entitled to protection under this Order.

3. Documents containing Confidential Information shall be conspicuously and specifically labeled as “CONFIDENTIAL.” The documents must be produced in a way that will clearly identify to others that it contains Confidential Information. Any document so designated shall be handled in accordance with the Order. The provisions of any document containing Confidential Information may be challenged under Paragraph 14 of this Order.

4. Any individual or company subject to this Order, including Producing Parties or persons reviewing Confidential Information, shall act in good faith in discharging his/her/its obligations hereunder.

5. Parties or non-parties subject to this Order shall include Tennessee Water Service, Inc. (Company), and the Consumer Advocate and Protection Division of the Office of the Tennessee Attorney General (Attorney General). If other parties are permitted to intervene, they will be allowed access to Confidential Information only to the extent and under the conditions permitted by separate order.

6. Subject to the exceptions noted in this Paragraph, Confidential Information shall be disclosed only to the following persons:

- (A) counsel of record for the Parties in this case and associates, support staff actively engaged in assisting outside counsel of record in this Docket and any appeals therefrom;
- (B) in-house counsel for the Parties;
- (C) officers, commissioners, or employees of the Parties, including employees of the Attorney General’s Office; provided that such officers,

commissioners, and/or employees shall be subject to the provisions of this Order, and shall not disclose such information further except as otherwise permitted under the terms of this Order;

- (D) TPUC Commissioners and members of the staff of the TPUC;
- (E) outside consultants and expert witnesses employed or retained by the Parties or their counsel, who have access to Confidential Information solely for evaluation, testing, testimony, preparation for trial or other services related to this Docket, provided that to the extent that any party seeks to disclose Confidential Information to any outside consultant or expert witness who is expected to testify on that Party's behalf, the Party shall give five days written notice to the Producing Party of intention to disclose Confidential Information. During such notice period, the Producing Party may move to prevent or limit disclosure for cause, in which case no disclosure shall be made until TPUC, the hearing officer, the administrative law judge or court rules on the motion. Any such motion shall be filed within three days after service of the notice. Pre-hearing conferences may be called to confer with the Parties on the Motions to Limit Disclosure. All service shall be by hand delivery, facsimile or email. All filings by email in this Docket shall be followed up by delivering a hard copy of the filing to the Docket Manager of the TPUC; and
- (F) notwithstanding anything else to the contrary, under no circumstances shall any Confidential Information be disclosed to or discussed with anyone associated with the marketing of services in competition with the products, goods or services of the Producing Party.

7. Prior to disclosure of the Confidential Information to any of the authorized persons, the counsel representing the Party who is to receive the Confidential Information shall notify the person of this Order and notify the person where it can be found on the TPUC's website or provide a copy of the Order to the recipient Commissioner, staff member, employee or, officer, who shall be bound by the terms of this Order. Prior to disclosure of Confidential Information to any outside consultant or expert witness employed or retained by a Party, counsel shall provide a copy of this Order to such outside consultant or expert witness, who shall sign an affidavit in the form of that attached to this Order attesting that he or she has read a copy of this Order, that he or she understands and agrees to be bound by the terms of this Order, and that he

or she understands that unauthorized disclosure of the documents labeled CONFIDENTIAL constitutes a violation of this Order (Affidavit). The Affidavit shall be signed in the presence of and be notarized by a notary public. Counsel of record for each Party shall provide the Producing Party a copy of each such Affidavit for retained experts expected to be called as a witness at the hearing of this matter and shall keep the Affidavits executed by all experts or consultants retained by that Party, whether or not expected to be called as a witness, on file in their respective offices.

8. If any Party or non-party subject to this Order inadvertently fails to label documents as CONFIDENTIAL in accordance with the provisions of this Order when producing such documents, such failure shall not constitute a waiver of confidentiality, provided the Party or non-party who has produced the document shall notify the recipient of the document in writing within five days of discovery of such inadvertent failure to label the document as CONFIDENTIAL.

9. At that time, the recipients will immediately treat the subject document as Confidential Information. In no event shall the TPUC, Attorney General, or any other Party to this Order, be liable for any claims or damages resulting from the disclosure of a document while not so labeled as CONFIDENTIAL. An inadvertent failure to label a document as CONFIDENTIAL shall not, in any way, affect the TPUC's determination as to whether the document is entitled to Confidential Information status.

10. If any Party or non-party subject to this Order inadvertently fails to designate documents as CONFIDENTIAL in accordance with the provisions of this Order when producing such documents and the failure is not discovered in time to provide a five business day

notification to the recipient of the confidential nature of the documents referenced in Paragraph 3 above, the failure shall not constitute a waiver of confidentiality and a Party by written motion or by oral motion at a Pre-Hearing Conference or at the Hearing on the merits may request designation of the documents as CONFIDENTIAL, and if the motion is granted by the Hearing Officer, Administrative Law Judge, or the Commission, the recipients shall immediately treat the subject documents as CONFIDENTIAL. The TPUC, the Hearing Officer, or Administrative Law Judge may also, at his or her discretion, either before or during the Pre-Hearing Conference or Hearing on the merits of the case, allow information to be designated CONFIDENTIAL and treated as such in accordance with the terms of this Order.

11. 10. Any papers filed in this Docket that contain, quote, paraphrase, compile or otherwise disclose documents covered by the terms of this Order, or any information contained therein, shall be filed with the TPUC in sealed envelopes labeled CONFIDENTIAL. The Filing Party shall also include with the filing a public version of the papers with any Confidential Information redacted. Only the redacted public version may be placed in the TPUC's public file and /or posted on the TPUC website. In the TPUC's files, each sealed envelope shall be labeled to reflect the style and docket number of this Proceeding and to identify the subject matter of the content of the sealed envelope. Further, the envelopes at the TPUC shall be maintained in a locked filing cabinet. The envelopes shall not be opened or their contents reviewed by anyone except upon order by the TPUC, hearing officer, or administrative law judge after due notice to counsel of record. Notwithstanding the foregoing, the commissioners and the staff of the TPUC may review any paper filed as Confidential Information and labeled CONFIDENTIAL without obtaining an order of the TPUC, hearing officer, or administrative law judge, provided the

commissioners and staff maintain the confidentiality of the paper in accordance with the terms of this Order.

12. Documents, information and testimony designated as Confidential Information and labeled CONFIDENTIAL, in accordance with the Order, may be disclosed in testimony at the hearing on the merits of this Proceeding and offered into evidence in any hearing related to this Action, subject to the applicable rules of evidence and to such future orders as the TPUC, hearing officer, or administrative law judge may enter. To the extent possible, any Party intending to use documents, information, or testimony designated as Confidential Information shall inform the Producing Party and the TPUC, hearing officer, or administrative law judge, prior to the hearing on the merits of the case, of the proposed use, and shall advise the TPUC, the hearing officer, or administrative law judge, and the Producing Party before use of such information during witness examinations so that appropriate measures can be taken by the TPUC, hearing officer, or administrative law judge to protect the confidential nature of the information.

13. Except for documents filed with the TPUC, all documents covered by the terms of the Order that are disclosed to the requesting party shall be maintained in files labeled CONFIDENTIAL and labeled with reference to this Order at the offices of the requesting Party's counsel of record.

14. Nothing herein shall be construed as preventing any Party from continuing to use and disclose any information:

(A) that is in the public domain,

- (B) that subsequently becomes part of the public domain through no act of such party, or violation of this Order,
- (C) that is disclosed to it by a third party, where said disclosure does not itself violate any contractual or legal obligation or terms of this Order,
- (D) that is independently developed by a Party,
- (E) that is known or used by it prior to this Proceeding, or
- (F) is otherwise not confidential under state or federal law, regulation or rule.

The burden of establishing the existence of (A) through (F) in this Paragraph shall be upon the Party attempting to use or disclose such information.

15. Any Party may contest the designation of any document or information as Confidential Information by filing a motion with the TPUC, hearing officer, administrative law judge or the courts, as appropriate, for a ruling that the documents, information, or testimony should not be so treated. All documents, information and testimony designated as Confidential Information, however, shall be maintained as such until the TPUC, hearing officer, administrative law judge, or a court orders otherwise. To the extent practicable, a motion to contest must be filed not later than five days after receipt of the material designated Confidential Information or 10 days prior to the hearing on the merits, whichever date occurs later in time or as otherwise ordered by the TPUC. Any reply seeking to protect the status of the Confidential Information must be received not later than five days prior to the hearing on the merits or as otherwise ordered by the TPUC. Motions made and subsequent replies received within the five days prior to the Hearing on the merits shall be presented to the TPUC at the hearing on the merits for a ruling.

16. No person authorized under the terms herein to receive access to documents, information, or testimony designated as Confidential Information shall be granted access until such person has complied with the requirements set forth in Paragraph 7 of this Order.

17. Any person to whom disclosure or inspection is made in violation of this Order shall be bound by the terms of this Order.

18. Upon an order becoming final in this Proceeding and conclusion of any appeals resulting from such an order, all the filings, exhibits and other materials designated Confidential Information and all copies thereof shall be returned to counsel of the party who produced the filings, exhibits and other materials within fifteen days of a written request from the Producing Party, or counsel in possession of such documents shall certify to counsel of the Producing Party that all the filings, exhibits and other materials designated as Confidential Information and all copies thereof have been destroyed. If requested to return any Confidential Information, the Attorney General may retain the Confidential Information if it deems it appropriate in the discharge of his duties or in the public interest. The requirements of this Paragraph shall become operative immediately upon any Party (including any intervenor) who withdraws or otherwise ceases to be a Party to the case, even though the case itself may continue to be pending. Subject to the requirements of Paragraph 10 above, the TPUC shall retain copies of information designated as confidential as may be necessary to maintain the record of this case intact.

19. After termination of this Proceeding, the provisions of this Order relating to the secrecy and confidential nature of confidential documents, information and testimony shall continue to be binding, upon Parties hereto and their officers, employers, employees, agents,

and/or others for five years unless this Order is vacated or modified or otherwise ordered by the TPUC.

20. Nothing herein shall prevent a party from seeking further protection for particular documents or prevent entry of a subsequent order, upon an appropriate showing, requiring that any documents, information or testimony designated as Confidential Information shall receive protection other than that provided herein.

21. The Attorney General and his staff have authority to enter into this Order and non-disclosure agreements pursuant to Tenn. Code Ann. § 65-4-118 which are consistent with state and federal law, regulations and rules.

22. The Attorney General and his staff agree to keep Confidential Information in a secure place and will not permit them to be seen by any person who is not an employee of the TPUC, the Office of the Attorney General and Reporter or a person who has signed a Non-disclosure Agreement.

23. The Attorney General and his staff may make copies of Confidential Information and any portion thereof. To the extent permitted by state and federal law, regulations and rules, all notes utilizing supporting information shall be subject to the terms of this Order to the extent factual assertions are derived from the supporting information.

24. To the extent permitted by state law, the Attorney General's Office may provide timely notice of any public records request so the Company may take any action it deems appropriate. The Attorney General may, consistent with the discharge of his duties, handle

materials received pursuant to this Order accordance with Tenn. Code Ann. §10-7-504(a)(5)(C) or any other law, regulation or rule.

25. Confidential Information is subject to this Order which is entered pursuant to Rule 26 of the Tennessee Rules of Civil Procedure and to the Tennessee Public Records Act, as set forth in the language of Tenn. Code Ann.

§ 10-7-503(a)(2)(A) “. . . unless otherwise provided by state law.”

26. The obligation of the Attorney General and his staff under this Order are further subject to the state’s Public Records Act and other open records statutes. Nothing in this Order is intended to violate or alter the state’s Public Records Act or Freedom of Information Act (FOIA). In the event that the Attorney General or member of his staff is served with a subpoena, public records request, FOIA request, or other request that calls for the production of confidential commercial information labeled as Confidential Information by the Company, the Attorney General will, to the extent permitted by state law or any orders of a court or other body issuing the subpoena or request, notify the Company by notifying its Counsel of the existence of the subpoena, public records request, FOIA request, or other request. Further, the Attorney General will notify the Company at least five business days before responding to any such request to the extent permitted by state law and orders of a court, as long as the Attorney General or his staff is able to respond to the request within a reasonable time to any such request. The Attorney General or his staff may elect to wait to produce such information as allowed by state law in order to provide the Company an opportunity to challenge said subpoena or request or to make arrangements to preserve the confidentiality of the confidential commercial information labeled as Confidential Information by the Company that is subject to such request.

27. The designation of any information, documents or things in accordance with this Order as constituting Confidential Information and the Attorney General or its staff's treatment of such material as confidential or proprietary in compliance with this Order is not an admission of agreement by the Attorney General or its staff that the material constitutes or contains confidential commercial information or trade secret information and shall not be deemed to be either a waiver of the State's right to challenge such designation or an acceptance of such designation. The Company agrees to designate information, documents or things provided to the Attorney General as Confidential Information only if it has a good faith basis for the claim. The Company will upon request of the Attorney General or its staff provide a written explanation of the details, including statutory authority that support its Confidential Information claim within five days of a written request. The Company also specifically agrees that it will not designate any documents as Confidential Information or label such documents as CONFIDENTIAL if the documents:

- (A) have been distributed to the public, consumers or others; or
- (B) are not maintained by the Company as Confidential Information.

28. Nothing in this Order shall prevent the Attorney General from using the Confidential Information received for investigative purposes in the discharge of the duties of the Office of the Attorney General and Reporter. Without limiting the scope of this Paragraph, nothing in the Order shall prevent the Attorney General from contacting consumers whose names were provided by the Company or from discussing with any consumer any materials that he or she allegedly received from the Company or confirming that a consumer actually received the materials.

29. All information, documents and things designated as Confidential Information and produced in accordance with this Order may be disclosed in testimony or offered into evidence at any TPUC or court hearing, trial, motion or proceeding of this matter, subject to the provisions of this Order, including Paragraph 10 and the applicable rules of evidence and any order the TPUC may enter to protect the confidentiality of information offered at any hearing or other proceeding. The Party who produced the information, documents and things designated as Confidential Information agrees to stipulate to the authentication of such information, documents and things in any such proceeding. If any Party identified information in the Confidential Information that indicates that unlawful conduct (civil or criminal) has occurred or may occur, nothing in the Order shall prevent such Party from reporting such alleged conduct to the appropriate law enforcement or regulatory agency.


30. Nothing in this Order is intended to restrict or alter federal or state laws, regulations or rules.

31. Any person who has signed a non-disclosure certificate or is otherwise bound by the terms of this Order shall continue to be bound by this Order and/or certificate even if no longer engaged by the TPUC or Intervenors.

HEARING OFFICER

This ____ day of March, 2019.

SUBMITTED FOR ENTRY:

BY: 

RYAN FREEMAN, B.P.R. #033299

Baker, Donelson, Bearman, Caldwell & Berkowitz, P.C.

1900 Republic Centre

633 Chestnut Street

Chattanooga, TN 37450-1800

Direct: 423.209.4181

E-mail: rfreeman@bakerdonelson.com

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

IN RE:)	
)	
APPLICATION OF TENNESSEE)	
WATER SERVICE, INC. FOR)	
ADJUSTMENT OF RATES AND)	
CHARGES AND MODIFICATION TO)	DOCKET NO. 19-
CERTAIN TERMS AND CONDITIONS)	
FOR THE PROVISION OF WATER)	
SERVICE)	
)	
)	
)	
)	

AGREEMENT TO COMPLY WITH PROTECTIVE ORDER

I have reviewed the Protective Order entered in the above captioned matter and agree to abide and be bound by its terms. I understand that unauthorized disclosure of documents labeled CONFIDENTIAL will be a violation of the Order.

_____	_____
DATE	NAME

STATE OF _____)

COUNTY OF _____)

Personally appeared before me, _____, a Notary Public,
_____ with whom I am personally acquainted, who
acknowledged that he executed the within instrument for the purposes therein contained.

WITNESS my hand, at office, this ____ day of _____, _____.

NOTARY PUBLIC

My Commission Expires: _____

Tennessee Water Service
Docket No. 19-_____
Summary of Rate Case Adjustments
Test Year: September 30, 2018

Exhibit 1

Income Statement

Water Operations	Total Per Books	Per Books Adjustment	Per Books Adjusted	Pro-Forma Adjustment	Pro-forma Adjusted Under Present Rates	Proposed Increase	Proposed After Increase
Operating Revenues							
Service Revenues - Water	86,298.54	-	86,298.54	83,024.91	169,323.45	300,443.55	469,767.00
Uncollectible Accounts	(600.88)	-	(600.88)	(578.09)	(1,178.97)	(2,091.93)	(3,270.90)
Total Operating Revenues	181,015.88	(95,318.22)	85,697.66	82,446.83	168,144.49	298,351.62	466,496.10
Maintenance Expenses							
Salaries and Wages	15,652.19	-	15,652.19	1,997.01	17,649.20	-	17,649.20
Purchased Power	2,811.57	-	2,811.57	5,855.51	8,667.08	-	8,667.08
Purchased Water / Sewer	68,275.33	-	68,275.33	48,661.28	116,936.61	-	116,936.61
Maintenance and Repair	50,585.01	(1,820.00)	48,765.01	1,407.97	50,172.98	-	50,172.98
Maintenance Testing	1,172.38	-	1,172.38	735.48	1,907.86	-	1,907.86
Meter Reading	-	-	-	-	-	-	-
Chemicals	43.80	-	43.80	197.27	241.07	-	241.07
Transportation	7,004.76	-	7,004.76	(7,002.53)	2.23	-	2.23
Operating Exp. Charged to Plant	(12,716.29)	9,617.00	(3,099.29)	-	(3,099.29)	-	(3,099.29)
Outside Services - Other	33,345.21	-	33,345.21	(26,903.22)	6,441.99	-	6,441.99
Total	166,173.96	7,797.00	173,970.96	24,948.76	198,919.72	-	198,919.72
General Expenses							
Salaries and Wages	15,549.16	(9,617.00)	5,932.16	(312.09)	5,620.07	-	5,620.07
Office Supplies & Other Office Exp.	2,711.62	-	2,711.62	223.27	2,934.89	-	2,934.89
Regulatory Commission Exp.	2,320.50	-	2,320.50	19,370.96	21,691.46	-	21,691.46
Pension & Other Benefits	4,639.83	-	4,639.83	2,240.13	6,879.96	-	6,879.96
Rent	1,466.88	-	1,466.88	567.61	2,034.49	-	2,034.49
Insurance	1,838.88	-	1,838.88	1,540.08	3,378.96	-	3,378.96
Office Utilities	811.24	-	811.24	1,559.11	2,370.35	-	2,370.35
Miscellaneous	4,176.78	-	4,176.78	59,919.78	64,096.56	-	64,096.56
Total	33,514.89	(9,617.00)	23,897.89	85,108.86	109,006.75	-	109,006.75
Depreciation	27,999.15	-	27,999.15	9,669.95	37,669.10	-	37,669.10
Payroll Taxes	410.15	-	410.15	1,529.47	1,939.62	-	1,939.62
Franchise Tax	1,791.87	-	1,791.87	-	1,791.87	-	1,791.87
Gross Receipts Tax	3.05	-	3.05	-	3.05	-	3.05
Property Taxes	15,139.36	-	15,139.36	-	15,139.36	-	15,139.36
Utility/Commission Tax	18.40	(18.40)	-	-	-	1,983.00	1,983.00
Income Taxes - Federal	-	-	-	(38,526.71)	(38,526.71)	55,227.18	16,700.47
Income Taxes - State	-	-	-	(12,753.94)	(12,753.94)	18,282.49	5,528.55
Amortization of ITC	(48.17)	-	(48.17)	-	(48.17)	-	(48.17)
Amortization of CIAC	(15,119.37)	-	(15,119.37)	-	(15,119.37)	-	(15,119.37)
Total	30,194.44	(18.40)	30,176.04	(40,081.23)	(9,905.19)	75,492.67	65,587.48
Total Operating Expenses	229,883.29	(1,838.40)	228,044.89	69,976.39	298,021.28	75,492.67	373,513.95
Net Operating Income	(48,867.41)	(93,479.82)	(142,347.23)	12,470.43	(129,876.80)	222,858.95	92,982.15

Tennessee Water Service
Docket No. 19-____
Summary of Rate Case Adjustments
Test Year: September 30, 2018

Exhibit 2

Water Operations
Rate Base and Rate of Return

Line No.	Description	Total Per Books	Per Books Adjustment	Per Books Adjusted	Pro-Forma Adjustment	Adjusted Under Present Rates	Proposed Increase	Proposed After Increase
		[a]	[b]	[c]	[d]	[e]	[f]	[g]
1.	Net Operating Income	(48,867)	(93,480)	(142,347)	12,470	(129,877)	222,859	92,982
2.	Gross Plant In Service	1,845,378	-	1,845,378	-	1,845,378	-	1,845,378
3.	Accumulated Depreciation	(459,598)	-	(459,598)	(54,325)	(513,922)	-	(513,922)
4.	Net Plant In Service	1,385,780	-	1,385,780	(54,325)	1,331,455	-	1,331,455
5.	Cash Working Capital	24,961	(228)	24,734	7,675	32,408	-	32,408
6.	Contributions In Aid of Construction	(659,969)	-	(659,969)	26,623	(633,347)	-	(633,347)
7.	Accumulated Deferred Income Taxes	(54,013)	-	(54,013)	(5,431)	(59,444)	-	(59,444)
8.	Excess Deferred Taxes	(99,031)	-	(99,031)	1,359	(97,671)	-	(97,671)
9.	Pro Forma Plant	-	-	-	623,285	623,285	-	623,285
10.	Total Rate Base	597,728	(228)	597,501	599,186	1,196,687	-	1,196,687
11.	Return on Rate Base	-8.18%		-23.82%		-10.85%		7.77%

Tennessee Water Service
Docket No. 19-_____
Summary of Rate Case Adjustments
Test Year: September 30, 2018

Exhibit 3

Balance Sheet

ASSETS:	\$	LIABILITIES AND OTHER CREDITS	\$
Plant In Service:		Capital Stock and Retained Earnings:	
Water	1,845,378	Common Stock and Paid In Capital	263,878
		Retained Earnings	173,832
Total	1,845,378	Total	437,709
Accumulated Depreciation-Water	(459,598)	Current and Accrued Liabilities:	
		Accounts Payable	129,858
		Taxes Accrued	9,864
Total	(459,598)	Customer Deposits	0
		Customer Deposits - Interest	2
		A/P - Assoc. Companies	110,158
Net Utility Plant	1,385,780	Deferred Revenue	0
		Total	249,883
Construction Work In Process-Water	373,403	Contributions In Aid of Construction:	
		Water	659,969
Total	373,403	Total	659,969
Current Assets:		Accumulated Deferred Income Tax:	
Cash	0	Unamortized ITC	1,694
Accounts Receivable - Net	(501,917)	Deferred Tax - Federal	44,583
Other Current Assets	0	Deferred Tax - State	9,430
Total	(501,917)		
Deferred Charges	146,002	Total	55,707
TOTAL ASSETS	1,403,268	TOTAL LIABILITIES AND OTHER CREDITS	1,403,268

Tennessee Water Service
Docket No. 19-_____
Summary of Rate Case Adjustments
Test Year: September 30, 2018

Exhibit 4

Capital Structure and Retention Factor

Line No.	Item	Capital Structure	Cost Rates	Retention Factor	Gross Revenue Effect
		(A)	(B)	(C)	(D)
	<u>Rate Base Factor - Water Operations</u>				
1	Debt	50.00%	5.04%	0.995750	0.025308
2	Equity	50.00%	10.50%	0.735511	0.071379
3	Total	100.00%			0.096687
4					
10		Water			
11		Operations			
12		(E)			
13	<u>Net Income Factor:</u>				
14	Total revenue	1.000000			
15	Gross receipts tax (L14 x statutory rate)	0.000000			
16	Regulatory fee (L14 x .425%)	0.004250			
17	Balance (L14 - L15 - L16)	0.995750			
18	State income tax (L14 x 6.50%)	0.064724			
19	Balance (L17- L18)	0.931026			
20	Federal income tax (L19 x 21%)	0.195515			
21	Retention factor (L19 - L20)	0.735511			

Column Calculations:

[A]- Company's capital structure

[B]- Company's cost of debt and required return on equity

[C]- Column [E] Line 17, and 21 respectively

[D]- Column [A] multiplied by Column [B] divided by Column [C]

Tennessee Water Service
Docket No. 19-_____
Summary of Rate Case Adjustments
Test Year: September 30, 2018

Exhibit 5

Rate Base Return

Water Operations						
Line No.	Description	Capitalization Ratio	Original Cost Rate Base	Embedded Cost	Overall Cost Rate	Net Operating Income
		(a)	(b)	(c)	(d)	(e)
1	<u>Present Rates:</u>					
2	Debt	50.00%	298,750	5.04%	2.52%	\$15,057
3	Equity	50.00%	298,751	10.50%	5.25%	\$31,369
4	Total	100.00%	\$597,501		7.77%	\$46,426
	<u>Company Proposed Rates:</u>					
5	Debt	50.00%	598,343	5.04%	2.52%	\$30,156
6	Equity	50.00%	598,344	10.50%	5.25%	\$62,826
7	Total	100.00%	\$1,196,687		7.77%	\$92,983

Tennessee Water Service
Docket No. 19-_____
Summary of Rate Case Adjustments
Test Year: September 30, 2018

Exhibit 6

Total Revenue Requirement

Line No.	Water Operations Description	Amount [A]	Retention Factor [B]	Revenue Requirement [C]
	<u>Operating revenue deductions:</u>			
1	Maintenance expenses	\$198,919.72		
2	General expenses	109,006.75		
3	Depreciation expense	37,669.10		
4	Amortization of CIAC	(15,119.37)		
5	Amortization of ITC	(48.17)		
6	TOTI	18,873.90		
7	Total operating revenue deductions	<u>349,301.93</u>	0.995750	\$ 350,793.00
8	<u>Net operating income for a return:</u>			
9	Debt service return	30,156.49	0.995750	30,285.00
10	Equity return	62,826.09	0.735511	85,418.00
11	Adjustment for production credit	0	0.735511	0
12				
13	Adjustment for revenues not subject to GRT	0	0.995750	<u>0</u>
14				
15	Revenue requirement			466,496.00
16				
17	Gross Up - Uncollectible Expense		0.007000	<u>3,265.00</u>
18				
19	Total Revenue Requirement			<u>\$ 469,761.00</u>
20				

TENNESSEE WATER SERVICE, INC.

SCHEDULE OF RATES

FOR

WATER SERVICE

Applying to the following Territory:

Chalet Village North, City of Gatlinburg, Sevier County, Tennessee

Issued: 1 16 2018
Month Day Year

Effective: 1 16 2018
Month Day Year

Issued by: Matthew Klein
Name of Officer

President
Title

4944 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217
Address of Officer

Applies to: Chalet Village North

WATER SERVICEMETERED SERVICEBase Facility Charge per month
0 – 2,000 gallons usage per month

Effective January 1, 2020:	\$50.00
Effective January 1, 2021:	\$74.00
Effective January 1, 2022:	\$95.00

All usage over 2,000 Gallons per month

Effective January 1, 2020:	\$16.50 per 1,000 gallons
Effective January 1, 2021:	\$19.00 per 1,000 gallons
Effective January 1, 2022:	\$20.65 per 1,000 gallons

DELAYED PAYMENT CHARGE:

An additional charge amounting to ten per cent (10%) of net bill will be added to all water bills under the foregoing schedule, if not paid within twenty-one (21) days of the billing date.

NEW ACCOUNT CHARGE:

Each new account shall pay a one-time service fee of \$20 at the time application for service is filed with the Company.

RECONNECTION CHARGE:

If water service cut off by utility for good cause:	\$35.00
If water service discontinued at customer's request:	\$35.00

(Customers who ask to be reconnected within 9 months of disconnection will be charged the base facility charge for the service period they were disconnected.)

FREQUENCY OF BILLING:

Bills will be rendered monthly in arrears.

NSF CHECK CHARGE:

A charge of \$10 will be applied to customers whose check is returned by the bank due to non-sufficient funds (one charge per check each time it is returned).

Issued: TBD
Month Day Year

Effective: TBD
Month Day Year

Issued by: _____
Name of Officer

President
Title

4944 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217
Address of Officer

Applies to: Chalet Village North

PRIVATE FIRE SERVICE**FIXED SERVICE CHARGE**

Standby Charge per month	<u>Multi-Use Connection</u>	<u>Fire-Only Connection</u>
Effective January 1, 2020:	\$11.33	\$22.67
Effective January 1, 2021:	\$24.00	\$48.00
Effective January 1, 2022:	\$35.80	\$71.60

All usage will be billed:

Effective January 1, 2020:	\$16.50 per 1,000 gallons
Effective January 1, 2021:	\$19.00 per 1,000 gallons
Effective January 1, 2022:	\$20.65 per 1,000 gallons

DELAYED PAYMENT CHARGE:

An additional charge amounting to ten per cent (10%) of net bill will be added to all water bills under the foregoing schedule, if not paid within twenty-one (21) days of the billing date.

RECONNECTION CHARGE:

If private fire service cut off by utility for good cause: \$35.00
 If private fire service discontinued at customer's request: \$35.00

FREQUENCY OF BILLING:

Bills will be rendered monthly in arrears. Fire service meters will be read concurrent and included in a single monthly bill with regular water service.

NSF CHECK CHARGE:

A charge of \$10 will be applied to customers whose check is returned by the bank due to non-sufficient funds (one charge per check each time it is returned).

Issued: TBD
 Month Day Year

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Issued by: _____
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Applies to: Chalet Village North

WATER AND FIRE SERVICE

CONTRIBUTIONS IN AID OF CONSTRUCTION

ADVANCES IN AID OF CONSTRUCTION

All contributions and advances, whether in the form of property or cash, shall be increased by a cash payment to the utility, in an amount equal to 35.38% of the contribution or advance ($1 / (1 - (6.5\% + (21\% \times (1 - 6.5\%))))$), where 6.5% equals the state income tax rate and 21% equals the federal income tax rate. The contribution or advance will be equal to the "original cost" if in the form of property or face value if in the form of cash.

Issued: TBD
 Month Day Year

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 Month Day Year

Issued by: _____
 Name of Officer

President
 Title

4944 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217
 Address of Officer

Applies to: Chalet Village North

RULES, REGULATIONS AND CONDITIONS OF SERVICE**Section I. DEFINITIONS**

Company – The word "Company", whenever the same appears herein, means Tennessee Water Service, Inc., a Tennessee corporation.

Owner – The word "Owner", whenever the same appears herein, means the person, firm, corporation or association having the sole interest in any premises or property which is, or is about to be, supplied with water service by the Company, and the word "Owners" means all so interested.

Tenant – The word "tenant", whenever the same appears herein, means anyone occupying a premises or property under lease, oral or written, from the Owner and obtaining water service from the mains of the Company with the consent of his landlord.

Customer – The word "Customer" as used herein shall mean the party contracting for water service.

Section II. WATER SERVICE CONNECTIONS

1. All applications for water service connections must be made in writing on forms furnished by the Company by the person or parties desiring the same, must state the correct lot(s), block and street number of the property to be supplied, and must be signed by the Owner of the premises or his duly authorized agent.

2. A service pipe shall not be used to supply more than a single property without the consent of the Company. The minimum earth cover of the Customer's service pipe installation shall be four (4) feet.

3. Service pipes will not be installed where any portion of the pipes must pass through lands, buildings or parts of buildings which are not the property of applicant unless applicant- in writing assumes the liability therefor.

Issued: 10 4 2009
Month Day Year

Effective: 11 3 2009
Month Day Year

Issued by: Lawrence N. Schumacher
Name of Officer

CEO
Title

2335 Sanders Road, Northbrook, Illinois 60062
Address of Officer

Applies to: Chalet Village North

RULES, REGULATIONS AND CONDITIONS OF SERVICE

4. Applications for the service will be accepted subject to there being a Company main adjacent to the property to be served.

5. The Company will repair all leaks in the service pipe from the main up to and including the meter. Beyond the meter box, the Property Owner is responsible for all leaks, and the same must be repaired by him, and if such leaks are not repaired within a reasonable time, the water may be turned off.

Section III. APPLICATIONS FOR SERVICE

6. All applications for water service must be made on written forms provided by the Company. Upon acceptance thereof and payment to Company of any Commission-approved tap-on fee, such applications shall constitute a contract between the applicant as a Customer and the Company.

7. A new application must be made upon any change in tenancy where the tenant has contracted for the water service or by the new Owner upon any change in ownership where the Owner has contracted for water service. Where more than one tenant is supplied through a meter, the application for the water service must be made by the Owner of the property.

8. When an application is made, the Company reserves the right to require a deposit in cash commensurate with the probable size of the applicant's bill for the purpose of establishing or maintaining any Customer's credit. Any such deposit so made shall be subject to such terms and conditions as may be required by order of regulation of the Tennessee Public Service Commission.

9. No contract for water service will be entered into by the Company with any applicant until all arrears and charges due by such applicant for water service to any premises then or theretofore owned or occupied by him shall have been paid.

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Month Day Year

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CEO
Title

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Address of Officer

Applies to: Chalet Village North

RULES, REGULATIONS AND CONDITIONS OF SERVICE**Section IV. BILLS AND PAYMENT FOR SERVICES**

10. Customers are liable for payment for all water used on the premises or property until notice has been received at the Company's office that the use of water is no longer desired. Customers are liable for all water shown to have passed through the meter whether by use, wastage or leakage.

11. A Customer's bill will not be considered past due unless it remains unpaid subsequent to the due date printed on the bill. The due date will be twenty-one (21) days after the bill is mailed.

12. Bills for metered service shall be rendered either bi-monthly or quarterly unless otherwise specified in the rate schedule then in effect, and shall show the readings of the meter at the beginning and end of the period for which the bill is rendered as well as consumption for the period.

13. Bills for water service will be mailed or delivered to the Customer's last address as shown by the records of the Company when due, but failure to receive a bill will not relieve the Customer from the obligation to pay the same. All bills and other accounts must be paid at the office of the Company.

14. In case the meter cannot be read for any cause, the Company will require a payment on account equal to the estimated bill for the period involved.

15. In cases where for any cause the meter cannot be read for a period of two (2) billing periods, the Company will turn off the water upon five (5) days 'written notice (8 days, if mailed) unless the Customer provides access to the meter immediately.

16. Where a meter has ceased to register or is registering improperly, the quantity of water for which the bill will be rendered will be determined by the average registration of the meter for the prior three (3) billing periods.

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Applies to: Chalet Village North

RULES, REGULATIONS AND CONDITIONS OF SERVICE

Section V. RULES GOVERNING SERVICE

17. When the supply of water is to be temporarily shut off, advance notice will be given by the Company when practicable to all Customers affected by the shutting off, stating the probable duration of the interruption of service.

18. The Company will not permit its mains or services to be connected. on any premises with any service pipe or piping which is connected with any other source of supply. The Company will not permit its mains or services to be connected in any way to any piping, tank, vat or other apparatus which contains liquids, chemicals or any other matter which may flow back into the Company's service pipes or mains.

19. The Company undertakes to use reasonable care and diligence to provide a constant supply of water at a reasonable pressure but reserves the right at any time, without notice, to shut off the water in its mains for the purpose of making repairs or extensions or for other purposes.

20. The Company shall not be liable for a deficiency or failure, regardless of cause, in the supply of water or in the pressure nor for any damage caused thereby or by the bursting or breaking of any main or service pipe or any attachment to the Company's property. All applicants having boilers upon their premises depending upon the pressure in the Company's pipes to keep them supplied are cautioned against danger of collapse, and all damage occasioned by any such collapse must be borne exclusively by the Customer.

21. The Company shall require all new Customers who require both regular water service and fire protection per applicable local, state, or federal building codes to submit a request to the Company for either a multi-use service (private fire and regular water) or a separate dedicated fire service line to be installed, solely at the Company's cost. The nature of the private fire service (dedicated fire or multi-use line) will be governed by applicable building codes for the premise type.

22. The Company shall have the sole right to determine the size of meters, number of meters, valves, service lines and connections necessary to give the service applied for.

Issued: TBD
Month Day Year

Effective: TBD
Month Day Year

Issued by: _____
Name of Officer

President
Title

4944 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217
Address of Officer

Applies to: Chalet Village North

RULES, REGULATIONS AND CONDITIONS OF SERVICE

23. All use of water for any purpose or upon any premises not stated or described in the application must be prevented by the Customer.

24. Service may be discontinued for any of the following reasons:

- (a) For the use of water from Customer's facilities for any other property or purpose than that described in the application.
- (b) For waste of water due to leakage.
- (c) For tampering with or damaging any service pipe, meter, meter installation, stop cock valve, buffalo box, meter seal or other property of the Company.
- (d) For non-payment of bills for water service or any other charges of the Company.
- (e) For cross-connecting the Company's supply with any other source of supply, or with any apparatus which may endanger the quality or health standard of the Company's water supply.
- (f) For refusal of reasonable access to property for the purpose of inspecting, reading, repairing or removing meters.
- (g) For violation or refusal to comply with any of the rules and regulations of the Company filed with the Tennessee Public Service Commission.

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Month Day Year

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Applies to: Chalet Village North

RULES, REGULATIONS AND CONDITIONS OF SERVICE

25. If a Customer whose service has been discontinued for non-payment of bills or for violation of the rules and regulations of the Company desires a reconnection, such reconnection will only be made after the Customer:

- (a) has made a deposit to ensure future payment of bills (in cases only where no deposit was originally made or where such deposit has been applied to payment of the Customer's delinquent account);
- (b) has paid all unpaid bills and other charges;
- (c) has paid a reconnection fee of fifteen dollars (\$15.00)
- (d) and has corrected any condition found objectionable under the rules and regulations of the Company.

26. Automatic lawn sprinklers or sprays or other attachments requiring large quantities of water will be permitted only when water is furnished by meter measurement. The Company reserves the right to restrict lawn sprinkling by Customers whenever in its judgment there is not an adequate supply of water available for such purposes.

27. A supply of water for construction or other special purposes must be applied for in writing and the Company reserves the right to require a suitable deposit from the applicant. Water so supplied shall be discharged through a hose or pipe directly upon the material to be wet or into a barrel or other container and not upon the ground or into or through a ditch or trench, and all use of water by other than the applicant or for any purposes or upon any premises not described or stated in the application must be prevented by the applicant.

Section VI. METERED SERVICE

28. Meters, except detector devices, shall be installed, maintained and renewed by and at the expense of the Company and shall be conveniently located at a place approved by the Company, and such proper place and protection for the meter shall be provided by the applicant. A stop and waste or gate valve shall be placed on the service line on the street side of and near the meter, and a stop and waste or gate valve on the house side of such meter.

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Month Day Year

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Applies to: Chalet Village North

RULES, REGULATIONS AND CONDITIONS OF SERVICE

29. All meters placed in building shall be located in the basement or on the first floor, as near as possible to the point of entrance of the service, in clean, dry, safe place not subject to great variation in temperature and so located as to be easily accessible for installation or disconnection purposes and for reading.

30. Meters will be maintained by the Company as far as ordinary wear and tear are concerned, but damage due to freezing, hot water or external causes shall be paid for by the Customers (except for outside meter settings).

31. Rules and regulations regarding meter accuracy, meter testing and frequency of meter tests shall be as contained in the Tennessee Public Service Commission's Rules and Regulations Governing Public Utilities as from time to time revised.

Section VII. FIRE HYDRANTS

32. No person other than a Company agent or employee shall take water from any fire hydrant except for fire-fighting purposes, and no fire hydrant shall be used for sprinkling streets, flushing sewers or gutters or for any other purpose except with the advance approval of the Company in writing.

Section VIII. GENERAL CONDITIONS OF SERVICE

33. Where water is to be used for steam boilers or other uses where a stoppage of water supply might cause damage, Customers are cautioned that it is impossible for the Company to guarantee a continuous supply of water and that the Customer should, therefore, arrange for adequate storage capacity.

34. The Company will not be obliged to furnish service where service pipes are inferior, the plumbing defective or the fixtures, water closets or other fixtures leaky. When such conditions are discovered, the Company reserves the right to shut off the supply of water unless immediate repairs are made.

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Month Day Year

Effective: 11 3 2009
Month Day Year

Issued by: Lawrence N. Schumacher
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Applies to: Chalet Village North

RULES, REGULATIONS AND CONDITIONS OF SERVICE

35. Title to the main, service connections from the main up to and including the meter, stop cocks or valves, buffalo boxes, meters and meter installations is vested in the Company, and these shall at all times remain the sole property of the Company and shall not be trespassed upon or interfered with in any way.

36. Curb stops shall not be used by the Customer for turning on or shutting off the water supply. Control of the water supply by the Customer shall be by means of a valve located inside the building where the Customer is provided with water service.

37. Where two or more Customers are supplied through a single service pipe, any violation of the rules and regulations of the Company by either or any of such Customers shall be considered as a violation by all, and the Company may take such action as may be taken for a single Customer committing the violation.

38. All employees of the Company whose duty compels them to enter the Customer's premises shall, upon request, show their credentials or other evidence of authority.

39. If the Company finds that a meter seal or cover has been broken or any bypass inserted or there is evidence that the meter or meter seal or cover has been tampered with, the water will be shut off and not turned on again until the Customer has paid for the estimated quantity of water which has been used for the preceding four (4) month period and not registered plus the cost to restore the meter to proper working order and other expense incurred by the Company, plus the reconnection fee hereinabove specified.

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Month Day Year

Effective: 11 3 2009
Month Day Year

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Name of Officer

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2335 Sanders Road, Northbrook, Illinois 60062
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Applies to: Chalet Village North

RULES, REGULATIONS AND CONDITIONS OF SERVICE

Section IX. USE OF WATER FOR SUMMER COMFORT AIR CONDITIONING OR REFRIGERATION

40. In all apparatus or equipment installed for the purpose of changing the dry bulb temperature or humidity content of the air, whether used in conjunction with summer comfort air conditioning or other refrigeration, the following regulations shall apply, unless other arrangements have been approved in advance by the Company.

- (a) The use of water is prohibited when used directly from the mains as a cooling medium in air washers or any type of equipment whereby the air to be conditioned comes into direct contact with sprays or wet surfaces, or where the water is used as the direct or indirect cooling medium in coils.
- (b) The use of water is permitted in all compressor type refrigeration units having standard rated capacities of one and one-half (1-1/2) tons or less.
- (c) All compressor type refrigeration units having standard rated capacities* of over one and one-half (1-1/2) tons shall be equipped with evaporative coolers and condensers, water cooling towers, spray ponds or other water cooling equipment so that all water from the mains is used for make-up purposes only.
- (d) If other than compressor types of refrigeration units are used, the consumption of water from the mains shall be limited in amount to not more per ton of refrigeration produced than would be used by the compressor type described under (c) above when such type is operated under normal conditions.

41. Failure to comply with the above Rule 40 shall be sufficient cause to discontinue service.

* Note in (b) and (c) capacities shall be in accordance with conditions given in Standard A.S.E.E. Testing and Rating Codes.

Issued: 10 4 2009
Month Day Year

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Month Day Year

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Applies to: Chalet Village North

RULES, REGULATIONS AND CONDITIONS OF SERVICE

Section X. WATER FOR PRIVATE FIRE PROTECTION AND SPECIAL USES

42. It is specifically understood that the Company does not hold itself out to render private fire protection service for purposes of extinguishment.

Section XI. PUBLIC FIRE PROTECTION SERVICE

43. The Company does not hold itself out to furnish public fire protection service.

Section XII. DAMAGE TO COMPANY PROPERTY

44. In case of damage to the Company's property on the Customer's premises and/or damage to the buffalo box installation on the service connection to the customer, including obstruction, burying and filling thereof, the cost of repair shall be billed to and paid by the customer in accordance with the applicable schedules of rates and of rules, regulations and conditions of service pertaining to the payment of water bills.

Section XIII. CHANGES IN RULES AND REGULATIONS

45. The Company reserves the right at any time to alter, amend, change or add to these rules, regulations and conditions of service or to substitute other rules and regulations, subject to the approval of the Tennessee Public Service Commission or other regulatory body having jurisdiction thereof.

46. No representative, employee or agent of the Company has the right to alter or waive any of these rules, regulations or conditions of service without the consent or approval of the Tennessee Public Service Commission or other regulatory body having jurisdiction thereof.

Section XIV. MAIN EXTENSION POLICY

47. Any person requesting water service from Company to an area not then served by water mains will be required to pay the entire cost of a water main extension to such area. The Company will require person applying to hire contractors and pay contractors directly for main installation. Company must approve the design, main size and route of main to be installed, and Company's representatives will inspect all work for construction standards and compliance with proper procedures related to water main installation.

Issued: TBD
Month Day Year

Effective: TBD
Month Day Year

Issued by: _____
Name of Officer

President
Title

4944 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217
Address of Officer

Applies to: Chalet Village North

RULES, REGULATIONS AND CONDITIONS OF SERVICE**Section XV. CLEAR NOTICE OF RETURNED CHECK FEES**

48. The Company shall provide a clear and conspicuous notice of any returned check fee charge and other charges and fees, including the amount of the charge, on its monthly billings to customers.

Section XVI. ABILITY TO WAIVE FEES

49. The Company shall implement and establish a process to permit waiving all fees associated with late payment including, but not limited to, disconnection, reconnection, and late fees, in special circumstances such as financial distress or for disabled customers, family member of customers or customers with a unique situation.

Section XVII. PROMPT RECONNECTION

50. The Company shall provide prompt and timely reconnection service for all customers within no more than two (2) days of receiving the first installment payment from the past due customer.

Section XVIII. ALTERNATE ADDRESS NOTIFICATION

51. The Company shall establish and implement a process to permit and notify customers of the opportunity to provide an alternate address for notification of a potential disconnection. If a customer has provided such an alternate address, the Company shall be required to provide the required notice of disconnection to that address in addition to the customer's primary billing address.

Issued: 10 4 2009
Month Day Year

Effective: 11 3 2009
Month Day Year

Issued by: Lawrence N. Schumacher
Name of Officer

CEO
Title

2335 Sanders Road, Northbrook, Illinois 60062
Address of Officer

Applies to: Chalet Village North

Operational Costs Pass-Through Mechanism

Section XIX. APPLICABILITY

The Operational Costs Pass-Through Mechanism ("OCPTM") will apply to active customers of the Company.

The OCPTM will be calculated on a semi-annual basis with the resulting surcharge being filed with the Tennessee Public Utility Commission ("TPUC") within Docket No. 19-_____ fifteen days prior to applying the pass-through costs to active customer bills.

Section XX. DEFINITIONS

1. **"Active Customer"** - a customer that has access to the water distribution system with an active account and is currently being billed for water consumption at the time of the assessment of any increase/decrease of the Company's pass-through costs.

2. **"Adjusted Review Period OCPTM Costs"** - means the Review Period OCPTM Costs net of the Over-Under Collection Adjustment.

3. **"Base Period"** - means the relevant six-month period within the attrition year of the most recent base rate case that aligns with the calendar months of the Review Period.

4. **"Base Period OCPTM Costs"** - means the amount of expenses of the Company for purchased power expense and purchased water expense authorized in its last base rate case for the Base Period.

5. **"Consumer Advocate"** - means the Consumer Advocate and Protection Division of the Office of the Tennessee Attorney General.

6. **"OCPTM Surcharge Rate"** - means the total amount per Active Customer bills to be recovered through the OCPTM.

7. **"Over-Under Collection Adjustment"** - means the adjustment to the OCPTM Surcharge Rate applicable to the coming Review Period for the net amount of over or under collections for the prior Review Period.

8. **"Review Period OCPTM Costs"** - means the amount of actual annual expenses of the Company for purchased power expenses and purchased water expenses during the applicable Review Period.

9. **"Review Period"** - means the six month period on which the Review Period OCPTM Costs are calculated.

Issued: TBD Effective: TBD
Month Day Year Month Day Year

Issued by: _____ President
Name of Officer Title

4944 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217
Address of Officer

Operational Costs Pass-Through Mechanism

The costs recorded in these accounts, and eligible for recovery in the OCPTM surcharge, shall be limited to third-party invoiced costs for purchased water and purchased power costs.

4944 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217
Address of Officer

Applies to: Chalet Village North

Operational Costs Pass-Through Mechanism

Section XXII. DETERMINATION OF PASS-THROUGH COST PERCENTAGE

- (A) The OCPTM Surcharge Rate shall be expressed as a dollar figure to be applied to the Company's Active Customers bills, as a distinct line item on the bill, for a period of six months following an OCPTM Surcharge Rate calculation.
- (B) The OCPTM Surcharge Rate shall be calculated on a semi-annual historical basis as follows:
- $$\begin{aligned} &\text{Base Period OCPTM Costs} \\ &\text{Divided by Base Period Sales Volume in 1000 Gallons} \\ &= \text{Base Period OCPTM Costs per 1000 Gallons} \end{aligned}$$
- $$\begin{aligned} &\text{Review Period OCPTM Costs Subject to TPUC's Water Loss Limits} \\ &\text{Plus Over-Under Collection Adjustment} \\ &= \text{Review Period OCPTM Costs Adjusted for Over-Under Collections} \\ &\text{Divided by Review Period Sales Volume In 1000 Gallons} \\ &= \text{Adjusted Review Period OCPTM Costs per 1000 Gallons} \end{aligned}$$
- $$\begin{aligned} &\text{Change in OCPTM Costs per 1000 Gallons} \\ &\text{Multiplied by Review Period Sales Volume per 1000 Gallons} \\ &= \text{Net Deferred OCPTM Costs} \\ &\text{Divided by Total Gallons Sold (1000 Gallons) During Review Period} \\ &= \text{OCPTM Surcharge Rate per 1000 Gallons} \end{aligned}$$
- (C) The OCPTM Surcharge Rate shall apply to Active Customer bills for the six months following the submission of the above calculation to TPUC Staff and the Consumer Advocate.

Issued: TBD Effective: TBD
 Month Day Year Month Day Year

Issued by: _____ President
 Name of Officer Title

4944 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217
 Address of Officer

Applies to: Chalet Village North

Operational Costs Pass-Through Mechanism

Section XXIII. COMPUTATION OF THE OVER-UNDER COLLECTION ADJUSTMENT

The Company will identify and record the total amount of the OCPTM Surcharge Rate collected from Active Customer during the six month period following the calculation as defined in Section XXII. The difference between total OCPTM Surcharge Rate collected and the total Net Deferred OCPTM Costs authorized for the Review Period, as adjusted for Interest, shall constitute the Over-Under Collection Adjustment.

(A) The Over-Under Adjustment shall be computed as follows:

Total OCPTM Costs Collected from Customers for the Review Period
Less Total Deferred OCPTM Costs Authorized for Review Period
 = Subtotal of Over-Under Collection Adjustment
Plus Interest Adjustment
 = Total Over-Under Collection Adjustment

(B) Computation of Interest Adjustment.

Interest shall be computed as follows:

Subtotal of Over-Under Collection Adjustment
Multiplied by (Interest Rate Multiplied by 50%) Interest Adjustment
 = Interest Adjustment

Where "Interest Rate" equals the prime rate value published in the Federal Reserve Bulletin or in the Federal Reserve's "Selected Interest Rates" for the most recent preceding month.

Section XXIV. NEW BASE RATES

The OCPTM Surcharge Rate will be reset at zero upon the establishment of new base rates to customer billings that provide for the prospective recovery of the semi-annual costs that had theretofore been recovered under the OCPTM Surcharge Rate or after a period of six months from the submission of the calculation in Section XXII to TPUC and the Consumer Advocate.

Issued: TBD Effective: TBD
 Month Day Year Month Day Year

Issued by: _____ President
 Name of Officer Title

4944 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217
 Address of Officer

Applies to: Chalet Village North

Operational Costs Pass-Through Mechanism

Section XXV. SEMI-ANNUAL FILING

The Company will file its OCPTM Calculation following the first six month period after new base rates are effective (the "First Review Period"). The filing shall be verified by an officer of the Company. The OCPTM Surcharge Rate will become effective 30 days after the semi-annual filing is submitted to TPUC and shall be applied as an adjustment to Active Customers' bills for the six month period following the effective date of the OCPTM Surcharge Rate. The Company shall file one adjustment each subsequent six months to include both the new OCPTM Surcharge Rate based on the semi-annual production expense and the reconciliation of the Over-Under Collections Adjustment.

The Company will include in its semi-annual filing the following information at a minimum: (a) a schedule of all Review Period OCPTM Costs, including any related general ledger support; (b) actual billing determinants by month as used in the computation of the OCPTM Surcharge Rate Collected from Customers; (c) a computation of the OCPTM Surcharge Rate, including the detailed calculation of each component; (d) a schedule of any proposed prior period adjustments; (e) an affirmative statement of whether the Company is aware of any changes in market conditions that may affect whether the OCPTM Surcharge Rate is still in the public interest, including the identification of such factors if they exist; (f) the cumulative amount of OCPTM Surcharge Rate Costs collected from Customers under this mechanism; (g) the actual invoices received from the Company's wholesale water and power suppliers, respectively; and (h) such other information as TPUC may direct.

THE COMPANY WILL SIMULTANEOUSLY COPY THE CONSUMER ADVOCATE ON THIS SEMI-ANNUAL FILING.

Section XXVI. NOTICE REQUIREMENTS

The Company will file revised tariffs for TPUC approval upon 30 days' notice to implement a decrement or an increment to the OCPTM Surcharge Rate. Along with the tariff filing, the Company will include a copy of the computation of the new OCPTM Surcharge Rate. The Company will simultaneously copy the Consumer Advocate on this tariff filing.

Section XXVII. PUBLIC INTEREST REVIEW

Nothing herein shall be construed to eliminate or otherwise restrict the opportunity of the Consumer Advocate or any other interested party from seeking a review of this cost pass-through mechanism, as permitted by law and the rules and regulations of TPUC, for a reconsideration of whether it remains in the public interest.

Issued: TBD Effective: TBD
 Month Day Year Month Day Year

Issued by: _____ President
 Name of Officer Title

4944 Parkway Plaza Boulevard, Suite 375, Charlotte, North Carolina 28217
 Address of Officer

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

IN RE:)	
)	
APPLICATION OF TENNESSEE)	
WATER SERVICE, INC. FOR)	DOCKET NO. 19-00028
ADJUSTMENT OF RATES AND)	
CHARGES AND MODIFICATIONS TO)	
CERTAIN TERMS AND CONDITIONS)	
FOR THE PROVISION OF WATER)	
SERVICE.)	
)	
)	
)	

**DIRECT TESTIMONY
OF
CATHERINE E. HEIGEL**

**ON BEHALF OF
TENNESSEE WATER SERVICE, INC.**

March 22, 2019

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

2 **A.** My name is Catherine E. Heigel, and my business address is 130 South Main Street, Suite
3 800, Greenville, South Carolina 29601.

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

5 **A.** I am Interim President for Tennessee Water Service, Inc. (“TWS” or the “Company”) in
6 Tennessee and for Carolina Water Service of North Carolina, and President of Blue Granite
7 Water Company in South Carolina, all of which are subsidiaries of Utilities, Inc. (“UI”).

8 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

9 **A.** I hold a Bachelor of Arts degree from the University of South Carolina, a Juris Doctor
10 degree from The Ohio State University School of Law, and an Advanced Management
11 Program certificate from The Wharton School of Business at the University of
12 Pennsylvania. I have over 23 years of combined legal, regulatory and executive
13 management experience. I have spent most of my career working for utilities in various
14 capacities, including as president of Duke Energy Corporation’s South Carolina
15 operations and as Executive Vice President and General Counsel of American
16 Transmission Company. I also served as the chief executive of the South Carolina
17 Department of Health and Environmental Control (DHEC) from 2015-17 under Governor
18 Nikki R. Haley. While at DHEC, I led the statewide provision of public health services,
19 environmental permitting and compliance monitoring, health facility licensing and
20 regulation, and regulation of activities impacting critical tidal lands, waters and beaches. I
21 began my career in 1995 as a staff attorney with the South Carolina Department of

1 Consumer Affairs in the Office of the Consumer Advocate handling public utility and
2 insurance rate regulatory matters.

3 **Q. WHAT ARE YOUR DUTIES WITH TENNESSEE WATER SERVICE, INC.?**

4 **A.** I am currently responsible for the Company's regulated water operations in Tennessee,
5 including facility operations, finance, business development, safety, compliance,
6 regulatory affairs and customer service.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

8 **A.** The purpose of my testimony is to provide an overview of TWS's requested rate increase
9 in support of the Company's Application in this case. In my testimony, I outline the
10 primary drivers of the requested rate increase, as well as the steps we are proposing to
11 minimize the impact of the Company's proposed rate increase to customers while also
12 ensuring revenues are increased sufficiently to allow the Company to continue to provide
13 safe, reliable, and cost-effective service to our customers. I discuss the benefits of our
14 corporate affiliations and our recent efforts to engage our customers. I also discuss the
15 Company's request for a Qualified Infrastructure Investment Program to support
16 continued restoration and redevelopment of the Chalet Village Subdivision ("Chalet
17 Village"). Finally, I describe how the requested rate increase will allow the Company to
18 remain a financially strong utility for the benefit of our customers.

19 **Q. PLEASE DESCRIBE THE TWS SERVICE TERRITORY IN TENNESSEE.**

20 **A.** TWS is a public utility subject to the Commission's jurisdiction, providing water utility
21 service to customers located in the Chalet Village in Sevier County, Tennessee. In
22 November 2016, Chalet Village suffered extensive damage in the wildfires that swept

1 through the Great Smoky Mountains (the "Wildfire"). Prior to the Wildfire, the Company
2 served approximately 564 customers and after the Wildfire, only 25 connections
3 remained active representing more than a 95% loss of customer base. As further
4 described in the testimony of Witness Mendenhall, the TWS water system serving Chalet
5 Village suffered extensive damage.

6 **Q. WHO ARE THE OTHER WITNESSES PRESENTING TESTIMONY IN**
7 **SUPPORT OF THE COMPANY'S APPLICATION IN THIS PROCEEDING?**

8 **A.** The Company's other witnesses filing direct testimony in support of this case are:

- 9 • J. Bryce Mendenhall, Vice President of Operations, who is testifying in support of
10 the Company's Tennessee water system operations and the capital investments
11 made in the Chalet Village system since the Wildfires.
- 12 • Dante DeStefano, Financial Planning and Analysis Manager, who is testifying in
13 support of the Company's cost of service, revenue requirement, rate design and
14 capital structure.
- 15 • Anthony Gray, Senior Financial Analyst, who is testifying in support of the pro-
16 forma adjustments for customer count, present rate revenues, and operating
17 expenses.
- 18 • Jared Deason, Regulatory Manager, who is testifying in support of the Company's
19 proposed Return on Equity.

20 **Q. PLEASE EXPLAIN WHY THE COMPANY IS FILING FOR A RATE**
21 **INCREASE.**

1 A. On September 25, 2017, TWS filed a Petition seeking emergency relief in the form of
2 three monthly surcharges, an operational cost pass-through mechanism, and a deferral of
3 costs and uncollectible revenues for potential future recovery. The Petition also proposed
4 to file a petition for a general rate case no more than eighteen months after approval of
5 the emergency relief requested by TPUC. *Petition for Emergency Interim Relief*
6 (September 25, 2017) (the “Emergency Petition”). Prior to the Company’s 2017
7 Emergency Petition, its most recent general rate proceeding was completed in 2009.

8 During the Emergency Petition proceeding, the Company presented accounting
9 and operational information and forecasts showing the Company had sustained and
10 would continue to sustain material financial losses resulting from the Wildfire that swept
11 throughout its service territory. The panel found that deferred accounting of TWS's
12 Wildfire losses was the best approach because the losses were significant in relation to
13 TWS's eroded customer base and recovery from the Wildfire would be protracted for
14 TWS and its customers. The deferred accounting approach has permitted TWS to
15 accumulate reasonable and necessary costs to repair and restore the water system and to
16 track the amount of losses stemming from revenue shortfalls attributable to customer
17 service interruptions. The Commission’s Order in the Emergency Petition proceeding has
18 given TWS and our customers additional time to recover and rebuild from the Wildfire
19 and now provides the Commission with a more complete picture of the financial and
20 operational impact of the Wildfire. It is with the benefit of this additional time that the
21 Company now puts forth its general rate increase request in compliance with the

1 Commission panel's direction to file a general rate case petition as soon as practicable in
2 light of its recovery from the Wildfire, but in no event later than July 1, 2019.

3 In summary, TWS is filing the present rate increase request as required by the
4 Commission's Final Order in Docket No. 17-00108 to recover (1) capital investments
5 made after the Wildfire to restore the TWS water utility system, (2) actual operating
6 losses sustained as a result of customer losses since the Wildfire (current customer count
7 totals 209 connections as of December 31, 2018), and (3) incremental cost increases since
8 the Company's last base rate case in 2009.

9 **Q. WHAT IS THE REVENUE REQUIREMENT REQUESTED BY TWS IN THIS**
10 **PROCEEDING?**

11 **A.** The Company proposes a revenue requirement of \$469,767, an increase of 177% over
12 pro-forma present rate revenues of \$169,323.

13 **Q. IS TWS PROPOSING A PHASE-IN OF NEW RATES IN ORDER TO MANAGE**
14 **THE IMPACT TO CUSTOMERS?**

15 **A.** Yes. The Company is proposing a three-year phase-in of rate increases to implement the
16 proposed revenue requirement. TWS recognizes the substantial impact on customers of a
17 proposed 177% rate increase and proposes to mitigate the impact by phasing in collection
18 of the revenue increases over time. The Company's proposed rate design, among other
19 factors: (1) provides for a gradual phasing-in of TWS's water utility rates, thereby
20 mitigating some of the initial "rate shock" resulting from the increases in water utility
21 rates for our customers; and (2) balances the interests of customers and that of TWS and
22 provides customers with thirty-six months to adjust to the overall increase in revenues

1 over present rates. Consistent with TWS's request, its revised tariff sheets, which include
2 the three-step, thirty-six-month phase-in of new water utility rates, shall take effect from
3 January 1, 2020 as further described in the testimony and exhibits of Witness DeStefano.

4 **Q. IF APPROVED, WHAT WOULD BE THE IMPACT OF THE COMPANY'S**
5 **REQUESTED INCREASE TO THE TYPICAL WATER CUSTOMER**
6 **CONSUMING 3,479 GALLONS/MONTH?**

7 **A.** The Company seeks to recover its total revenue increase of \$469,767 from customers
8 through a three year rate phase-in beginning with a revenue increase of \$108,758 on
9 January 1, 2020, followed by an increase of \$103,823 on January 1, 2021 and \$87,862 on
10 January 1, 2022. Under the Company's proposal a typical residential customer using
11 3,479 gallons/month would see an increase of approximately \$31.86 per month beginning
12 with the rate effective date in this case, requested to be January 1, 2020, and then an
13 increase of \$30.40 per month beginning January 1, 2021 and an additional \$25.73 per
14 month beginning January 1, 2022. The specific monthly Base Facility Charge would
15 increase from \$25.70 to \$50.00 effective January 1, 2020, then increase to \$74.00
16 effective January 1, 2021, and finally increase to \$95.00 effective January 1, 2022. As
17 well, the rate phase-in would increase the monthly volumetric charge from \$13.30 per
18 1,000 gallons to \$16.50 per 1,000 gallons effective January 1, 2020, then increase to
19 \$19.00 per 1,000 gallons effective January 1, 2021, and finally to \$20.65 per 1,000
20 gallons effective January 1, 2022. More details can be found in the testimony of Witness
21 DeStefano.

1 **Q. HAS THE IMPACT OF THE TAX ACT BEEN INCORPORATED INTO THE**
2 **COMPANY’S REQUEST?**

3 **A.** Yes. The proposed rates include a reduction from the corporate income tax rate from 35
4 percent to 21 percent as set forth in the Tax Cuts and Jobs Act (“TCJA”). with the excess
5 deferred balance due to the tax rate change reclassified as a regulatory liability. The
6 Company has computed an amortization period of 59 years for the protected portion of
7 the excess deferred balance consistent with IRS normalization rules, and proposes a five
8 year amortization for the unprotected portion, consistent with the regulatory asset deferral
9 amortization proposals described in Witness DeStefano’s testimony. The Company’s
10 plan ensures that as customers benefit from the TCJA, the Company is able to maintain
11 the same financial strength it had prior to the TCJA’s passage.

12 The Company believes its TCJA proposal provides appropriate near-and longer-
13 term solutions that will lower customers’ bills immediately from what they would
14 otherwise be and help offset future rate increases. Also, the Company is proposing rates
15 be set on a regulated capital structure that includes a 50 percent equity component as
16 supported by Witness DeStefano and a return on equity (“ROE”) of 10.50 percent as
17 supported by Witness Deason.

18 **Q. PLEASE EXPLAIN TWS’S RELATIONSHIP WITH UTILITIES INC.?**

19 **A.** Utilities, Inc. (“UI”) is relatively unique within the water and sewer industry in certain
20 respects. From its inception 53 years ago, UI has concentrated on the purchase,
21 formation, and expansion of smaller water and sewer utility systems. UI has grown over
22 the years and at the present time, UI has over 16 subsidiary operating companies –

1 including TWS – which provide water and sewer utility service to approximately 197,732
2 customers in 18 states.

3 **Q. PLEASE EXPLAIN THE BENEFITS TWS CUSTOMERS RECEIVE FROM THE**
4 **COMPANY’S RELATIONSHIP WITH UTILITIES, INC. AND CORIX.**

5 **A.** The affiliation with UI has many benefits for TWS customers. One of the primary
6 benefits is that TWS has access to a large pool of human resource capabilities upon
7 which to draw. There are experts in various critical areas, such as construction,
8 engineering operations, accounting, data processing, billing, regulation, and customer
9 service. UI has a high level of combined expertise and experience, allowing it to provide
10 service in a more cost-effective manner.

11 Although operating only water and sewer systems, UI personnel can meet the
12 challenges of the rapidly changing utility industry. Because the UI companies are
13 focused on the water and sewer industry, our companies enjoy some unique advantages,
14 one of which is that capital is available for improvements and expansion at a reasonable
15 cost. With increasingly more stringent health, safety, and environmental standards, ready
16 access to capital is vital to continued quality service in the water and sewer utility
17 business.

18 In addition, the UI group of companies has national purchasing power, resulting
19 in lower costs to ratepayers. Expenditures for insurance, vehicles, and meters reflect
20 examples of purchases where national contracts provide tangible benefits to customers.

21 TWS also benefits from corporate governance services (“Governance Services”)
22 provided by Corix to the UI group of companies. Generally speaking, Governance

1 Services include setting policy, providing oversight, developing strategy, managing
2 investor relations, and ensuring legal and regulatory compliance with applicable local,
3 state, and federal laws in the United States and Canada. These Governance Services are
4 provided in the following functional areas: the Group CEO (who is the primary conduit to
5 shareholders), finance and tax, information technology, legal, communications, project
6 management, corporate development, human resource services, and health, safety and
7 environment.

8 Similar to the discussion of the Company's affiliation with UI, TWS benefits
9 from receiving Governance Services from Corix because it can obtain these services at a
10 lower cost through a cost allocation made to all of the Corix Group of Companies than if
11 TWS were to provide these important services to itself. TWS is a very small business
12 unit compared to other competing entities in the water and wastewater utility sector and
13 having greater scale benefits our Tennessee customers by ensuring they receive these
14 valuable Governance Services but without having to solely bear the costs of them,
15 including important and often expensive investments in technology, security, safety and
16 environmental compliance. The sharing of these Governance Services costs over a
17 broader base of business unit results in lower costs for each business unit (and their
18 customers) compared to what they would otherwise have to pay if they were standalone
19 businesses.

20 **Q. WHAT CUSTOMER EDUCATION AND OUTREACH EFFORTS HAS THE**
21 **COMPANY MADE WITH ITS CUSTOMERS IN CHALET VILLAGE SINCE**
22 **THE WILDFIRE?**

1 A. To enhance our customers' engagement with the Company, we have implemented
2 multiple communication channels from Facebook, Twitter, and a newly designed
3 Tennessee Water Service (TWS) webpage, to bill inserts, phone calls, and face-to-face
4 meetings. In addition, the Company has just launched a new customer portal application
5 called MyUtility Connect to our Tennessee customers. Using this new online tool,
6 customers can (1) pay their bills on the go; (2) elect to receive service notifications
7 through the application; and (3) monitor their water usage through the application. The
8 Company has used social media outlets to inform customers and HOAs about this new
9 tool and will be providing more information via bill inserts. In order to initially access the
10 application, customers can visit our website or search for MyUtilityConnect in the Apple
11 App Store or Google Play Store.

12 Another customer engagement avenue led by our Communications Coordinator,
13 Ms. Deb Clark, includes the creation of WordPress sites (*i.e.*, free web pages) for our
14 customers in Chalet Village North to provide updates on projects, water saving tips, and
15 frozen pipes prevention tips. Additionally, Company employees routinely attend
16 meetings with the Homeowner Associations (HOAs). Topics discussed during the HOA
17 meetings have included TWS planned capital projects, project schedules, conservation
18 and sustainability ideas, and other issues of customer interest. The Chalet Village HOA
19 Manager also receives articles from TWS for inclusion in their newsletters. These articles
20 include stories ranging from updates on projects and services to water conservation tips.
21 TWS has also increased its efforts to improve customer engagement and awareness about

1 service protocols and rates is an essential component of the service provided by the
2 Company.

3 TWS remains fully committed to excellent customer relationships and providing
4 adequate, efficient, and reliable service. We will continue to evaluate new ways of
5 interacting with our customers.

6 **Q. WHAT IS THE KEY OBJECTIVE OF THE COMPANY'S**
7 **REQUESTED GENERAL RATE ADJUSTMENT?**

8 **A.** The Company's most important objective is to continue providing safe,
9 reliable, and affordable water utility service to our customers in Chalet Village with
10 high quality customer service, both today and in the future. Our request for a
11 rate increase is made to support investments that benefit our customers while
12 preserving the Company's financial position. In order to attract the capital necessary to
13 continue to restore and rebuild the water infrastructure serving Chalet Village, TWS
14 requires the opportunity to earn a reasonable return on its invested capital. Witness
15 Deason discusses return on equity in his testimony. We strive to ensure that the
16 investments TWS makes in Tennessee are cost-effective and appropriately balance
17 reliable service and affordable rates for our customers.

18 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

19 **A.** Yes, it does. However, I reserve the right to update or amend this testimony upon receipt
20 of additional data or other information that may become available.

STATE OF South Carolina)

:SS

County of Greenville)

DATED this 21 day of March, 2019.

Catherine Heigel

Catherine E. Heigel

SUBSCRIBED AND SWORN TO before me this 21 day of March, 2019.

Katherine Poston

Notary Public for the State of South Carolina



**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

IN RE:)	
)	
APPLICATION OF TENNESSEE)	
WATER SERVICE, INC. FOR)	DOCKET NO. 19-
ADJUSTMENT OF RATES AND)	
CHARGES, APPROVAL OF A)	
QUALIFIED INFRASTRUCTURE)	
INVESTMENT MECHANISM, AND)	
MODIFICATIONS TO CERTAIN)	
TERMS AND CONDITIONS FOR THE)	
PROVISION OF WATER SERVICE.)	
)	

**DIRECT TESTIMONY
OF
J. BRYCE MENDENHALL**

**ON BEHALF OF
TENNESSEE WATER SERVICE, INC.**

February 28, 2019

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

2 **A.** My name is J. Bryce Mendenhall, and my business address is 4494 Parkway Plaza
3 Boulevard, Suite 375, Charlotte NC 28217.

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

5 **A.** I am Vice President of Operations for Tennessee Water Service, Inc. (“TWS”) in Tennessee
6 and for Carolina Water Service of North Carolina, both of which are subsidiaries of Utilities,
7 Inc. (“UI”).

8 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

9 **A.** I have been employed with UI since March of 2017. I graduated from Appalachian State
10 University in 1993 with a degree in Geographic Information Systems and Cartography. I
11 have been employed in the water and wastewater profession for twenty-six years
12 collectively. Just prior to my employment with UI, I worked for more than a decade as
13 the Utilities Director for Franklin County, North Carolina.

14 **Q. WHAT ARE YOUR DUTIES WITH TENNESSEE WATER SERVICE, INC.?**

15 **A.** I am responsible for making sure our customers in North Carolina and Tennessee receive
16 the best possible service. Accordingly, I am responsible for operating personnel,
17 facilities, maintenance, and capital projects, as well as being responsible for
18 communicating with state and federal regulators regarding operational and capital issues.

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

20 **A.** The purpose of my testimony is to provide the Tennessee Public Utility Commission
21 (“TPUC”) with a brief overview of the operations of TWS as it specifically relates to

capital improvements/projects initiated due to damage sustained from the wildfires that ravaged the area in and around Gatlinburg, TN on November 28, 2016 (the “Wildfire”).

Q. WOULD YOU BRIEFLY DESCRIBE THE COMPANY’S WATER OPERATIONS HERE IN TENNESSEE?

A. TWS currently serves approximately 209 water customers located in the Chalet Village North system in Sevier County. We deliver safe and reliable water service to our customers' homes through the pumping and treatment of ground water via our (2) public water supply wells as well as via an interconnect with the municipal system of the City of Gatlinburg.

Q. CAN YOU PLEASE EXPLAIN HOW THE COMPANY’S WATER SERVICE WAS IMPACTED BY THE WILDFIRE IN NOVEMBER 2016?

A. Yes. The Chalet Village water system received extensive damage to several major components and temporarily was unable to deliver potable water service or fire protection to those structures that remained. The Piney Butt ground storage tank and booster pump station received direct fire contact. The radiant heat damaged the tanks exterior integrity and allowed for internal heat contact. The booster station that resided on the roof of the tank was destroyed. The Clubhouse booster station and well structure was subjected to intense radiant heat and fire impingement compromising the integrity of internal components including all electrical panels, electrical wiring, and piping networks. The wellhead protective covering and associated electrical wiring were also destroyed. As the water distribution system was pressurized staff members discovered leaks in multiple

1 components including but not limited to the City of Gatlinburg interconnect, water
2 meters, fire hydrants, water valves, and water lines (service and mains).

3 **Q. PLEASE SUMMARIZE THE COMPANY’S CUSTOMER RELATIONS**
4 **ACTIONS SINCE THE WILDFIRE IN 2016.**

5 **A.** The Wildfire presented a unique challenge to TWS much like the rest of the Gatlinburg
6 community. However, TWS immediately and voluntarily acted on behalf of its customers
7 within Chalet Village. Specifically, TWS immediately suspended payments for ALL
8 customers until March 31, 2017. Second, and perhaps most importantly, TWS decided to
9 stop all new billing for customers directly impacted by the Wildfire.

10 TWS maintains regular communication with our customers through email, voice
11 reach phone messaging, social media, and the Tennessee Water Service website. In
12 addition to the above-mentioned communication with Chalet Village, several on-site
13 meetings with the TWS management team and the Homeowners Association Board
14 (“HOA Board”) members and community manager have been held over the past year.
15 Topics shared with the Board included updates on the status of the repairs and restoration
16 activities. Staff in the field also frequently interact with customers to answer any
17 questions while on-site.

18 **Q. PLEASE DESCRIBE THE CAPITAL INVESTMENTS MADE BY TWS SINCE**
19 **THE WILDFIRE.**

20 **A.** The Wildfire caused damage to several vital pieces of TWS infrastructure that provide
21 service to Chalet Village. The Piney Butt 100,000-gallon groundwater storage tank and
22 booster station received extensive damage from direct fire contact. The tank’s interior

1 and exterior surfaces were recoated, and an accompanying booster pump station was
2 replaced after being destroyed.

3 The Clubhouse booster pump station and well enclosure also received extensive
4 damage from direct fire contact. The current capital project involves replacement of the
5 previous structure enclosing the booster station and wellhead. The project also involves
6 the replacement of all electrical panels, electrical wiring, and associated piping found in
7 the structure.

8 Additional projects related to the damage include the replacement of SCADA
9 components at each site to re-establish communication between the facilities.
10 Furthermore, repair and/or replacement was required to the following: City of Gatlinburg
11 interconnect, multiple fire hydrants, meters, meter boxes, and individual water services.

12 **Q. WHAT FUTURE CAPITAL PROJECTS MAY ALSO BE UNDERTAKEN?**

13 **A.** TWS is exploring three major capital projects within Chalet Village: (1) Helium testing
14 for leak detection (2) Removal of a 10,000-gallon storage tank in the Outback section,
15 and (3) AMR meter installation.

16 A water audit and water loss control study was conducted in early 2018 on the
17 Chalet Village distribution system. A recommendation of the study was to perform a
18 leak detection study once the occupancy of the system met or exceeded 50% of its
19 occupancy. Now that we are marginally close to achieving that occupancy rate TWS will
20 seek to perform helium leak testing on the entire system. The company has utilized this
21 technology in neighboring systems with successful results. Findings from the testing will
22 be analyzed to determine capital improvements to help mitigate water losses.

1 Supply to the upper Outback section of the development is supplemented by a
2 10,000-gallon storage tank. To promote efficiency of water delivery TWS intends to
3 remove the tank and regulate demand flow via the installation of variable frequency
4 drives (VFD's) on the pump controls. In our experience, this technology has not only
5 increased water quality but also decreased electric operational cost.

6 TWS has openly discussed the installation of AMR meter technology with the
7 Chalet Village HOA Board. Most recently in December 2018, Board representatives
8 joined a presentation by the Company's AMR vendor to educate them on the value of the
9 technology. AMR meters would provide three main benefits: (1) accuracy of readings for
10 billing, (2) decreased operating expenses associated with manual meter reading
11 operations, and (3) reduction of water loss through replacement of aged meters.

12 **Q. PLEASE PROVIDE THE CURRENT OPERATIONAL STATUS OF THE TWS**
13 **WATER SYSTEM.**

14 **A.** The system currently serves nearly fifty percent of the homes that were present prior to
15 the wildfires. As such, portions of the system remained closed off pending occupancy or
16 take-down of vacant lots. Construction activities and connections have resumed over the
17 past several months with a mix of full-time and seasonal occupancy. Notwithstanding, the
18 system has continued to delivery quality water service as evidenced by the 2017 Annual
19 Water Quality Report which demonstrates TWS performed all required testing for
20 contaminants and no violations of drinking water regulations were received. Although it
21 has not been published at this date, I anticipate that the same response will accompany
22 the 2018 report as well.

1 Currently purchased water from the City of Gatlinburg is the primary supply for
2 Chalet Village customers with limited supplement from two wells as their facilities
3 undergo pump station replacement as described above. As the capital projects are
4 completed it is the intention of TWS that primary water supply will convert to the
5 production wells with the municipal source serving as a supplement as needed.

6 Additionally, TWS staff members continue to seek out sources of water loss
7 throughout the system. When individual issues are found or reported they are repaired in
8 a timely fashion to curtail the loss.

9 **Q. WHEN WAS THE LAST TIME THAT TWS REQUESTED RATE RELIEF?**

10 **A.** The last base rate case was filed on January 30, 2009, with rates effective September 15,
11 2009 [Docket No. 09-0017]. The Company filed an emergency petition for rate relief
12 related to the Wildfire on September 25, 2017, with a final order effective February 21,
13 2018.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 **A.** Yes, it does. However, I reserve the right to update or amend my testimony as new data
16 or information becomes available.

STATE OF North Carolina)

:SS

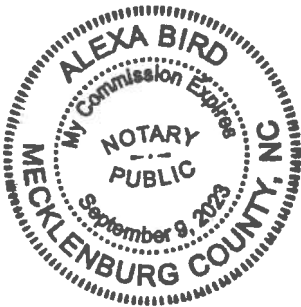
County of MECKLENBURG)

DATED this 27th day of February, 2019.


Bryce Mendenhall

SUBSCRIBED AND SWORN TO before me this 27th day of February, 2019.


Notary Public for the State of North Carolina



**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

IN RE:

**APPLICATION OF TENNESSEE
WATER SERVICE, INC. FOR
ADJUSTMENT OF RATES AND
CHARGES AND MODIFICATIONS TO
CERTAIN TERMS AND CONDITIONS
FOR THE PROVISION OF WATER
SERVICE.**

DOCKET NO. 19-00028

**DIRECT TESTIMONY
OF
DANTE M. DeSTEFANO**

**ON BEHALF OF
TENNESSEE WATER SERVICE, INC.**

March 22, 2019

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

2 **A.** My name is Dante M. DeStefano, and my business address is 4494 Parkway Plaza
3 Boulevard, Suite 375, Charlotte NC 28217.

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

5 **A.** I am Financial Planning and Analysis Manager for Tennessee Water Service, Inc. (“TWS”
6 OR “Company”) in Tennessee and for Carolina Water Service of North Carolina
7 ("CWSNC"), both of which are subsidiaries of Utilities, Inc. (“UP”).

8 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

9 **A.** I have been employed by CWSNC since October 2018. I graduated from Rutgers
10 University with a Major in Accounting and am a Certified Public Accountant in the state
11 of New Jersey. Prior to joining CWSNC, I was employed by American Water Works for
12 10 years - first as a Senior Accountant in the Accounting Department for two years, then
13 in the Rates and Regulatory Department for eight years. During my last eight years with
14 American Water, my duties consisted of preparing and assisting in regulatory filings and
15 related activities for the Eastern Division. My responsibilities included preparing work
16 papers and exhibits, providing testimony in support of rate applications and other
17 regulatory filings, and addressing rate and tariff related matters.

18 **Q. WHAT ARE YOUR DUTIES WITH TENNESSEE WATER SERVICE, INC.?**

19 **A.** My primary responsibilities include forecasting, budgeting, and financial analysis for the
20 Company. I am also responsible for the oversight of gathering data and preparation of
21 rate cases, filing applications for rate cases, and providing data request responses for
22 support of rate case filings.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

2 **A.** The purpose of my testimony is 1) to explain the preparation and structure of the filed
3 exhibits and schedules, 2) identify the historical test year and attrition year, 3) detail the
4 impacts of the Company's 2017 Emergency Petition and the Tax Cuts and Jobs Act
5 ("TCJA"), 4) explain the Company's plan for implementing the proposed revenue
6 requirement, 5) describe the pro-forma adjustments to rate base, 6) summarize the pro-
7 forma capital structure, and 7) discuss updates to the TWS tariff.

8 **Q. PLEASE DETAIL THE COMPANY'S SUPPORTING EXHIBITS AND**
9 **SCHEDULES IN THIS FILING.**

10 **A.** The Company's general rate case filing includes the following exhibits:

11 **Exhibit 1 – Income Statement**

12 **Exhibit 2 – Rate Base**

13 **Exhibit 3 – Balance Sheet**

14 **Exhibit 4 – Capital Structure and Retention Factor**

15 **Exhibit 5 –Rate Base Return**

16 **Exhibit 6 – Total Revenue Requirement**

17 **Exhibit 7 – Proposed Tariff**

18 **Exhibit 8 – Testimony of Catherine E. Heigel**

19 **Exhibit 9 – Testimony of J. Bryce Mendenhall**

20 **Exhibit 10 – Testimony of Dante M. DeStefano**

21 **Exhibit 11 – Testimony of Anthony Gray**

22 **Exhibit 12 – Testimony of Jared Deason**

1 The Company submits the following schedules to support its filing:

2 **Schedule A** – Pro-Forma Present and Proposed Revenues, Rate Design, and
3 Customer Bill Comparisons

4 **Schedule B** – Pro-Forma Plant Additions

5 **Schedule C** – Pro-Forma Plant ADIT

6 **Schedule D** – Pro-Forma Deferred Charges

7 **Schedule E** – 2017 and 2018 Operating Losses

8 **Schedule F** – Return on Replacement Capital Investment

9 **Schedule G** – Pro-Forma O&M Expense Adjustments

10 **Schedule H** – Pro-Forma Purchased Water Expense

11 **Schedule I** – Pro-Forma Salary & Wages, Payroll Taxes

12 **Q. PLEASE EXPLAIN THE CALCULATION OF THE COMPANY’S PROPOSED**
13 **REVENUE REQUIREMENT.**

14 **A.** TWS utilizes the rate base-rate of return method for computing its revenue requirement.
15 This means that the proposed rate of return is multiplied by the pro-forma rate base to
16 obtain an operating income level. Then, operating expenses are added to the computed
17 operating income, and income tax and other operating gross-ups are calculated to
18 determine the required revenue level, or revenue requirement, to produce the calculated
19 operating income. The Company has included the new federal income tax rate of 21%,
20 the Tennessee state income tax rate of 6.5%, the 0.425% regulatory fee, and an
21 uncollectible expense rate in the gross-up formula.

1 **Q. PLEASE DESCRIBE THE COMPANY’S TEST YEAR AND ATTRITION YEAR**
2 **IN THIS PROCEEDING.**

3 **A.** The Company is utilizing a Test Year of the twelve months ending September 30, 2018.
4 TWS selected this Test Year period for several reasons. First, the Company selected a
5 period that would allow for adequate time between the end of the Test Year and the rate
6 case filing date to review historical activity and identify the nature and level of pro-forma
7 adjustments. Additionally, TWS recognizes that much of its activities since the
8 November 2016 Wildfire (the "Wildfire") are not necessarily representative of
9 normalized operations for its water system, and therefore a significant amount of pro-
10 forma adjustment would be required to any selected Test Year period. The Company
11 endeavored to reflect a normalized level of operating expenses for its revenue
12 requirement, which is better demonstrated by pre-Wildfire levels of expenses versus post-
13 Wildfire expenses. Thus, utilizing a twelve-month period ending September 30th allowed
14 historical twelve-month periods ending September 30th that occurred before the Wildfire
15 to be leveraged for per-customer pro-forma determinations, without the “noise” of
16 Wildfire-influenced activities.

17 The Company is utilizing an Attrition Year of the twelve months ending
18 December 31, 2020 in this proceeding. A vital factor in the Company’s selection of this
19 Attrition Year period is the ability to include projected customer reconnections that can
20 be used for supporting pro-forma present rate revenue levels. Identifying a reasonable
21 pro-forma customer count into the next calendar year boosts the present revenue levels
22 due to anticipated further customer reconnections, which helps mitigate the per-customer

1 impact of the proposed revenue requirement to be borne by the customer base. In
2 addition, utilizing a calendar year Attrition Year period allows a natural, clean flow to the
3 Company's proposed rate phase-in plan, as well as management of the existing
4 Operational Cost Pass-Through Mechanism and filing of required periodic reports.

5 **Q. PLEASE EXPLAIN TWS'S BOOK ADJUSTMENTS ON EXHIBIT 1.**

6 **A.** The Company removed the accrual of 2017 Operating Losses from Miscellaneous
7 Revenues, as this amount is requested to be amortized to the income statement in this
8 proceeding. TWS also removed \$1,820 from Maintenance and Repair expense related to
9 tank painting amortizations that will conclude before the Attrition Year. Salaries &
10 Wages and Operating Expense Charged to Plant included a one-time adjustment for labor
11 that occurred prior to the Test Year and thus was removed from the respective Test Year
12 book amounts.

13 **Q. PLEASE SUMMARIZE THE COMPANY'S 2017 EMERGENCY PETITION,**
14 **INCLUDING THE KEY AUTHORIZED PROVISIONS PER THE TPUC.**

15 **A.** On September 25, 2017, TWS filed a petition seeking emergency relief in the form of
16 three monthly surcharges, an operational cost pass-through mechanism, and a deferral of
17 costs and uncollectible revenues for potential future recovery. The deferral components
18 consisted of operating losses beginning in 2017, returns on capital projects to restore the
19 water system from its Wildfire damage incurred, and filing and processing costs related
20 to the petition.

21 The Commission Final Order was issued February 21, 2018. The Order
22 authorized certain deferrals and other actions for TWS: 1) deferral of actual operating

1 losses incurred, beginning January 1, 2017, 2) deferral of return on capital projects
2 necessary to repair Wildfire damage and restore the water system to operational status, 3)
3 deferral of up to \$30,000 of reasonable and necessary rate filing expenses, 4) increase of
4 the TWS monthly base charge per active customer from \$18.70 to \$25.70, 5)
5 establishment of an Interim Emergency Operational Cost Pass-Through Mechanism
6 (“IEOCPTM”) to address increases or decreases in costs for purchased water and power,
7 6) requirement to file a base rate case petition by July 1, 2019.

8 **Q. HOW HAS TWS CONSIDERED THESE PROVISIONS IN THIS FILING?**

9 **A.** The Company is filing the current base rate case request in order to comply with the
10 required filing of a general rate case by July 1, 2019. The pro-forma present rate
11 revenues are calculated using the \$25.70/month base charge as authorized in the 2017
12 petition. TWS has also calculated the operating losses for 2017 and 2018, as well as the
13 return on replacement asset additions as of their respective in-service dates, net of
14 retirements and accumulated depreciation. These regulatory asset balances, as well as the
15 costs incurred for the filing and processing of the 2017 petition, are proposed to be
16 amortized over five years. Please see Schedules D, E, and F for more detail on these
17 deferral calculations.

18 As the operating loss calculations have effectively captured increased costs for
19 purchased water and power, the Company has yet to submit a filing for the IEOCPTM.
20 Please see the proposed tariff, beginning on Sheet No. 13, for the Company’s requested
21 modifications to the IEOCPTM.

22 **Q. WHAT IS THE PROPOSED REVENUE REQUIREMENT FOR TWS?**

1 **A.** The Company proposes a revenue requirement of \$469,767, an increase of 177% over
2 pro-forma present rate revenues of \$169,323.

3 **Q. PLEASE DESCRIBE HOW TWS PLANS TO IMPLEMENT THE PROPOSED**
4 **REVENUE REQUIREMENT?**

5 **A.** In an effort to mitigate the initial impact of the proposed revenue requirement on
6 customers, the Company proposes to initiate a three-year rate plan phase-in, which would
7 break up the revenue increase into three rate changes, effective each January 1st for 2020,
8 2021, and 2022. The Company also requests that 2019 operating losses be deferred, and
9 60 days after new base rates are effective January 1, 2020 the Company will file its 2019
10 operating loss calculation in order to initiate a temporary surcharge, effective July 1,
11 2020. Please see Schedule A for the pro-forma present rate revenues and proposed
12 phase-in rate design and revenues, as well as a comparison of average customer bills.

13 **Q. PLEASE EXPLAIN THE PRO-FORMA ADJUSTMENTS TO RATE BASE.**

14 **A.** The Company has reflected continued depreciation of the Test Year end depreciable plant
15 and continued amortization of the Test Year end Contributions in Aid of Construction,
16 through the mid-point of the Attrition Year. In addition, the Cash Working Capital
17 balance was adjusted to reflect 1/8th of the pro-forma expense levels. Pro-forma plant
18 additions, net of retirements, accumulated depreciation and accumulated deferred income
19 taxes, are included as pro-forma adjustments to rate base. Please see Schedules B and C
20 for the list of pro-forma projects and resulting calculated rate base adjustments. Pro-
21 forma plant additions consist of service lines, meters, and meter installations due to
22 projected continued reconnections to the mid-point of the Attrition Year, as well as two

1 booster station projects that will be completed after the end of the Test Year and an
2 upgraded SCADA system.

3 **Q. PLEASE EXPLAIN THE IMPACTS TO THE COMPANY OF THE TAX CUTS**
4 **AND JOBS ACT.**

5 **A.** On December 22, 2017, President Donald Trump signed into law the Federal Tax Cuts
6 and Jobs Act, or TCJA. The most impactful portion of the TCJA was the reduction of the
7 federal corporate tax rate from 35% to 21%. This portion not only impacts the current
8 tax rate for corporations but also impacts the deferred income taxes recorded on the
9 Company's books prior to the TCJA. The second significant component of the TCJA is
10 the fact that contributed plant is now treated as a form of income and subject to the
11 corporate income tax.

12 The Company has reflected the 21% federal tax rate in this filing where
13 applicable for purposes of computing revenue requirement. In addition, the Company
14 remeasured its Accumulated Deferred Income Tax Liability as of December 31, 2017,
15 with the excess deferred balance due to the tax rate change reclassified as a regulatory
16 liability. This excess deferred balance consists of what the Internal Revenue Service
17 ("IRS") tax code refers to as "protected" (i.e., subject to tax normalization rules) and
18 "unprotected" deferrals. The Company has thus computed an amortization period of 59
19 years for the protection portion of the excess deferred balance consistent with IRS
20 normalization rules, and proposes a five year amortization for the unprotected portion,
21 consistent with the regulatory asset deferral amortization proposals described earlier in
22 my testimony.

1 In addition, the Company proposes to update tariff Sheet No. 1.1 for
2 Contributions in Aid of Construction, to reflect the change in effective federal income tax
3 rate at 21% as stated in the TCJA. Please see Exhibit 7 for the proposed TWS tariff.

4 **Q. WHAT IS THE COMPANY'S PROPOSED CAPITAL STRUCTURE?**

5 **A.** The Company's filing includes a 50%/50% split for long-term debt and equity. This ratio
6 is consistent with the recent history of the TWS's parent, Utilities, Inc. TWS is a wholly
7 owned subsidiary of UI, which raises capital for its subsidiaries. Accordingly, adopting
8 UI's capital structure to determine the overall cost of capital for TWS is appropriate. As
9 shown in Exhibit 4, the Company is utilizing a pro-forma cost of long-term debt of
10 5.04%, and proposing a return on equity of 10.50%. The capital structure results in a rate
11 of return of 7.77% and pre-tax rate of return of 9.63%.

12 **Q. WHAT CHANGES DOES THE COMPANY PROPOSE TO THE EXISTING TWS**
13 **TARIFF, IN ADDITION TO THOSE REFERENCED ABOVE?**

14 **A.** The Company proposes changing certain language on Sheet Nos. 5, 7, and 11 related to
15 metered service and fire service to more accurately reflect the required building codes
16 and nature of service TWS provides to the Chalet Village system.

17 TWS also proposes certain changes to Sheet No. 13 through 17 to modify the
18 language and calculations of the IEOPTM, authorized in Docket No. 17-000108. First,
19 the Company recommends removing "Interim Emergency" from the mechanism's name,
20 in order to utilize the mechanism on a going-forward basis after new base rates and
21 authorized expense levels are effective. Likewise, the Company proposes to modify the
22 language related to Base Period and Base Period OCPTM Costs on Sheet No. 13. This

1 change would allow the authorized expense levels in this proceeding to be utilized for
2 reconciliation with actual Review Period expenses on a going-forward basis. The
3 Company has modified the first paragraph on Sheet No. 17 accordingly to reflect the
4 updated reconciliation process.

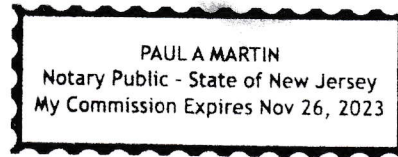
5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 **A.** Yes, it does. However, I reserve the right to update or amend this testimony upon receipt
7 of additional data or other information that may become available.

STATE OF New Jersey)

County of Atlantic)

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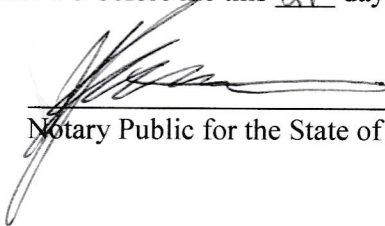


DATED this 21st day of March, 2019.



Dante DeStefano

SUBSCRIBED AND SWORN TO before me this 21st day of March, 2019.



Notary Public for the State of New Jersey

SUMMARY OF RESULTS

(A) Single-Stage DCF ROE	9.09%
<u>(C) CAPM ROE</u>	<u>9.49%</u>
AVERAGE	9.29%
Plus Bond Yield Differenital	0.64%
Plus Private Placement Premium	0.50%
 Recommended Cost of Equity	 10.50%

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

IN RE:)	
)	
APPLICATION OF TENNESSEE)	
WATER SERVICE, INC. FOR)	DOCKET NO. 19-
ADJUSTMENT OF RATES AND)	
CHARGES, APPROVAL OF A)	
QUALIFIED INFRASTRUCTURE)	
INVESTMENT PROGRAM, AND)	
MODIFICATIONS TO CERTAIN)	
TERMS AND CONDITIONS FOR THE)	
PROVISION OF WATER SERVICE.)	
)	

**DIRECT TESTIMONY
OF
ANTHONY GRAY**

**ON BEHALF OF
TENNESSEE WATER SERVICE, INC.**

February 28, 2019

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

2 **A.** My name is Anthony Gray, and my business address is 4494 Parkway Plaza Boulevard,
3 Suite 375, Charlotte NC 28217.

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

5 **A.** I am the Senior Financial and Regulatory Analyst for Tennessee Water Service, Inc.
6 (“TWS” or “Company”) in Tennessee and for Carolina Water Service of North Carolina,
7 both of which are subsidiaries of Utilities, Inc. (“UI”).

8 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

9 **A.** I am a graduate of the University of Charleston with a Bachelor of Science in Accounting
10 and Finance. I have been with the Company for 4 years and have held the positions of
11 Financial Analyst I, Financial Analyst II, and my current role as Senior Financial and
12 Regulatory Analyst. Prior to joining UI, I was an employed with Sam’s Mart Inc, and the
13 Public Service Commission of West Virginia in the capacity of Staff Accountant and
14 Utilities Analyst I respectively.

15 **Q. WHAT ARE YOUR DUTIES WITH TENNESSEE WATER SERVICE, INC.?**

16 **A.** My primary responsibilities include supporting the financial planning and forecasting,
17 budgeting, and financial analysis processes for the Company. I am also responsible for
18 supporting the preparation, filing, and processing of rate applications.

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

20 **A.** The purpose of my testimony is to support the Company’s pro-forma adjustments for
21 customer count, present rate revenues, and operating expenses.

22 **Q. PLEASE EXPLAIN THE COMPANY’S PRO-FORMA CUSTOMER COUNT.**

1 **A.** The Company started with the actual customer count of 209 at December 31, 2018. Using
2 the monthly reconnects experienced in 2018 as an estimate for additions, the company
3 was able to extrapolate to the midpoint of the Attrition Year, June 2020, to arrive at a
4 total projected customer count of 311.

5 **Q. PLEASE EXPLAIN THE CALCULATION OF THE COMPANY’S PRESENT**
6 **RATE REVENUES.**

7 **A.** Present rate revenues were calculated using the pro-forma customer count at June 2020
8 and the average billable usage per customer in the Test Year Ended September 30, 2018.
9 The Company utilized the currently effective tariff rates, inclusive of the base charge
10 adjustment approved by TPUC in the 2017 Emergency Petition (Docket No. 17-00108).

11 **Q. PLEASE DESCRIBE THE COMPANY’S METHOD FOR CALCULATING PRO-**
12 **FORMA OPERATING EXPENSES.**

13 **A.** The Company started by calculating the 3-year average cost per customer for each
14 operating expense line item using historical data for the three years ending September 30,
15 2014, 2015, and 2016. The operating years chosen are representative of normal
16 operations for TWS and excludes any financial impact the Company has experienced
17 from the wildfire that affected the greater Gatlinburg area in November 2016. Once the 3-
18 year average costs per customer were determined, the product of the per customer cost
19 for each expense line item and the estimated customer count at the mid-point of the
20 Attrition Year (311) was adjusted using a Consumer Price Index inflator of 7.58%, to
21 account for inflation between the midpoint of the Test Year and midpoint of the Attrition
22 Year. The following costs incurred by the Company for the Test Year were adjusted to

1 reflect the levels determined by these calculations; Chemicals, Insurance, Maintenance
2 and Repair, Maintenance Testing, Miscellaneous, Office Supplies, Office Utilities,
3 Outside Services, Pension & Other Benefits, Purchased Power, Rent, and Transportation.

4 **Q. DID THE COMPANY UTILIZE ANY OTHER METHODOLOGY IN**
5 **DETERMINING PRO-FORMA ADJUSTMENTS FOR OPERATING**
6 **EXPENSES?**

7 **A.** Yes. The following expenses were determined using a different methodology: 1) Salaries
8 and Wages, 2) Purchased Water, 3) Rate Case Expense, 4) Uncollectible (Bad Debt
9 Expense), and 5) Corporate Cost Allocations.

10 Pro-forma Salaries and Wages for this filing was derived from the Company's
11 operating budget and forecast for 2020. Headcount during the Test Year was updated to
12 reflect current state as of October 1, 2018. The base annual salary for each employee was
13 updated to reflect the expected levels for operating year 2020. Overtime pay for hourly
14 employees were calculated using the Test Year hours times the new hourly rate. Expected
15 bonuses in 2020 were also included in this calculation. The sum of the new base salary,
16 overtime pay and expected bonus payouts were used to arrive at the annual going-level
17 salaries and wages amount. Payroll taxes were also updated to reflect the impact of the
18 pro-forma salaries and wages amounts calculated (*See Schedule I – Pro-Forma Salary &*
19 *Wages, Payroll Taxes*).

20 Pro-forma purchased water expense was calculated by first determining the total
21 system delivery (pumped and purchased gallons) per customer per month ("SDPCPM.")
22 during the Test Year. The SDPCPM was then updated to reflect the estimated customer

1 count at the mid-point of the Attrition Year to calculate the Company's going-level
2 annual amount for total system delivery. The going-level purchased water gallons were
3 derived using the three-year average of the ratio between pumped and purchased gallons
4 ending September 30, 2016. The current purchased water vendor rates were then applied
5 to the gallons to determine the annual expense (*See Schedule H – Pro-Forma Purchased*
6 *Water Expense*).

7 Pro-forma rate case expense was updated to reflect the deferred balance of the
8 2017 Emergency Petition plus the estimated cost for the current proceeding to be
9 amortized over a 5-year period (*See Schedule D – Pro-Forma Deferred Charges*).

10 Pro-forma bad debt expense was updated using the Test Year actual rate times the
11 proposed service revenues calculated for this proceeding.

12 For corporate cost allocations, a portion of the pro-forma adjustment for outside
13 services-other and rent expense line items were derived using the 2020 budget from the
14 Company's shared service group. The amounts allocated to TWS was approximately
15 0.07% of the total corporate cost and was derived by using the customer count of TWS as
16 percentage of all subsidiaries of UI (*See Schedule G – Summary of O&M Pro-Forma*
17 *Adjustments, Column E*).

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

19 **A.** Yes, it does. However, I reserve the right to update or amend this testimony upon receipt
20 of additional data or other information that may become available.

STATE OF North Carolina)

County of Mecklenburg :SS

DATED this 27th day of February, 2019.

A. Gray
Anthony Gray

SUBSCRIBED AND SWORN TO before me this 27th day of February, 2019.

Alexa Bird
Notary Public for the State of North Carolina



Tennessee Water Service

Schedule A

Docket No. 19-_____

Test Year Ended: September 30, 2018

Pro-Forma Present Rate Revenue - Attrition Year Ending 12/31/2020

WATER SERVICE

<u>Customer Bills</u>	<u>Avg Billed Usage/Mo *</u>	<u>Billable Usage*</u>	<u>Base Charge</u>	<u>TG Charge</u>	<u>Base Revenue</u>	<u>Usage Revenue</u>	<u>Total Revenue</u>
3,732	1,479	5,519,628	\$ 25.70	\$ 13.30	\$ 95,912.40	\$ 73,411.05	\$ 169,323.45

Pro-Forma Proposed Rate Revenue - Phase-in Year 1

WATER SERVICE

<u>Customer Bills</u>	<u>Avg Billed Usage/Mo *</u>	<u>Billable Usage*</u>	<u>Base Charge</u>	<u>TG Charge</u>	<u>Base Revenue</u>	<u>Usage Revenue</u>	<u>Total Revenue</u>
3,732	1,479	5,519,628	\$ 50.00	\$ 16.50	\$ 186,600.00	\$ 91,073.86	\$ 277,673.86

PRIVATE FIRE SERVICE

<u>Service Type</u>	<u>Customer Bills</u>	<u>Base Charge</u>	<u>Base Revenue</u>	<u>Total Revenue</u>
Multi-Use Line	36	\$ 11.33	\$ 408.00	\$ 408.00
Fire Only Line	-	\$ 22.67	\$ -	\$ -
Total Service Revenues				<u>\$ 278,081.86</u>

Pro-Forma Proposed Rate Revenue - Phase-in Year 2

WATER SERVICE

<u>Customer Bills</u>	<u>Avg Billed Usage/Mo *</u>	<u>Billable Usage*</u>	<u>Base Charge</u>	<u>TG Charge</u>	<u>Base Revenue</u>	<u>Usage Revenue</u>	<u>Total Revenue</u>
3,732	1,479	5,519,628	\$ 74.00	\$ 19.00	\$ 276,168.00	\$ 104,872.93	\$ 381,040.93

PRIVATE FIRE SERVICE

<u>Service Type</u>	<u>Customer Bills</u>	<u>Base Charge</u>	<u>Base Revenue</u>	<u>Total Revenue</u>
Multi-Use Line	36	\$ 24.00	\$ 863.99	\$ 863.99
Fire Only Line	-	\$ 48.00	\$ -	\$ -
Total Service Revenues				<u>\$ 381,904.92</u>

Pro-Forma Proposed Rate Revenue - Phase-in Year 3

WATER SERVICE

<u>Customer Bills</u>	<u>Avg Billed Usage/Mo *</u>	<u>Billable Usage*</u>	<u>Base Charge</u>	<u>TG Charge</u>	<u>Base Revenue</u>	<u>Usage Revenue</u>	<u>Total Revenue</u>
3,732	1,479	5,519,628	\$ 95.00	\$ 20.65	\$ 354,540.00	\$ 113,980.32	\$ 468,520.32

PRIVATE FIRE SERVICE

<u>Service Type</u>	<u>Customer Bills</u>	<u>Base Charge</u>	<u>Base Revenue</u>	<u>Total Revenue</u>
Multi-Use Line	36	\$ 35.80	\$ 1,288.79	\$ 1,288.79
Fire Only Line	-	\$ 71.60	\$ -	\$ -
Total Service Revenues				<u>\$ 469,809.11</u>

* First 2,000 gallons included in base charge.

Pro-Forma Proposed Rate Revenue - Bill Comparison

	Current		Phase-in Yr 1		Phase-in Yr 2		Phase-in Yr 3	
	Rate	Billed	Rate	Billed	Rate	Billed	Rate	Billed
WATER SERVICE								
Base Charge	\$ 25.70	\$ 25.70	\$ 50.00	\$ 50.00	\$ 74.00	\$ 74.00	\$ 95.00	\$ 95.00
Volume Charge - over 2 TG	13.30	19.67	16.50	24.40	19.00	28.10	20.65	30.54
State Tax	9.75%	4.42	9.75%	7.25	9.75%	9.95	9.75%	12.24
Total Bill		\$ 49.79		\$ 81.66		\$ 112.06		\$ 137.78
% Increase				64%		37%		23%
Total Revenue		\$ 169,323		\$ 277,674		\$ 381,041		\$ 468,520
Amount Increase				\$ 31.86		\$ 30.40		\$ 25.73

Tennessee Water Service
Docket No. 19-_____
Pro-Forma Adjustments
Test Year: September 30, 2018

Schedule B

Pro- Forma Plant Additions

Line No.	Project Description	NARUC Asset Account	In-Service Date	Cost thru 9/30/2018	Additional Costs to be Incurred	Total Cost	Retirements	A/D thru Attrition Year Midpoint 6/30/2020	Base thru Attrition Year Midpoint 6/30/2020
				[A]	[B]	[C]	[D]	[E]	[F]
1	Tank/Booster Station Rehab	304	1/31/2019	97,668	233,815	331,483	(8,000)	(7,458)	316,025
2	Well #1/Booster Station Rehab	304	3/31/2019	25,345	284,655	310,000	(65,000)	(5,813)	239,188
3	Reconnected Service Lines	333	various		9,479	9,479	(4,269)	(1,493)	3,717
4	Reconnected Meters/Installations	334	various		36,442	36,442	(15,471)	(5,740)	15,231
5	SCADA	346	4/30/2019		50,000	50,000	-	(875)	49,125
6						-	-		-
7									
8									
9	Total			123,013	614,392	737,404	(92,741)	(21,378)	623,285

Column Calculations:

[A]- Actual cost incurred for the project per Pro-Forma List
[B]- Additional cost to complete the project based on estimates
[C]- Sum of Column [A] & [B]
[D]- Amounts based on estimates
[E]- Amounts being included in rate base for current rate case
[F]- Sum of [C], [D], [E]

Tennessee Water Service
Docket No. 19-_____
Pro-Forma Adjustments
Test Year: September 30, 2018

Schedule C

Pro-Forma Plant ADIT

Line No.	Project Description	NARUC Asset Account	In-Service Date	Total Cost	Retirements	Net Additions	Annual Tax Depreciation	Annual Book Depreciation	Depreciation Difference thru 6/30/2020
				[A]	[B]	[C]	[D]	[E]	[F]
1	Tank/Booster Station Rehab	304	1/31/2019	331,483	(8,000)	323,483	12,939	4,852	(11,457)
2	Well #1/Booster Station Rehab	304	3/31/2019	310,000	(65,000)	245,000	9,800	3,675	(7,656)
3	Reconnected Service Lines	333	various	9,479	(4,269)	5,210	208	78	(114)
4	Reconnected Meters/Installations	334	various	36,442	(15,471)	20,971	839	315	(459)
5	SCADA	346	4/30/2019	50,000	-	50,000	2,000	750	(1,094)
6									
7									
8									
9									
10									
11	Total			<u>737,404</u>	<u>(92,741)</u>	<u>644,664</u>	<u>25,787</u>	<u>9,670</u>	<u>(20,779)</u>

Column Calculations:

[A]- Total cost for the project per Pro-Forma List

[B]- Amounts based on estimates

[C]- Sum of Columns [A] & [B]

[D]- Uses 4% MACRS

[E]- Based on current applicable depreciation rate

[F]- Difference of Columns [E] & [D]

Blended Tax Rate 26.14%
ADIT Adjustment (5,431)

Tennessee Water Service
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Pro-Forma Adjustments
Test Year: September 30, 2018

Schedule D

Pro-Forma Deferred Charges

Line No.	Project Description	Cost thru 9/30/2018	Additional Costs to be Incurred	Total Cost	Amortization Months	Annual Amortization	Unamortized Balance at Attrition Year Midpoint 6/30/2020
		[A]	[B]	[C]	[D]	[E]	[F]
1	2017 Emergency Petition	48,757		48,757	(1)	9,751	43,882
2	2019 Rate Case		59,700	59,700	(1)	11,940	53,730
3	2017 Operating Losses	95,789	11,411	107,200	(2)	21,440	96,480
4	2018 Operating Losses	101,741	36,364	138,105	(2)	27,621	124,295
5	2019 Operating Losses			-	(3)	-	-
6	Return on Replacement Capital	20,501	60,696	81,197	(4)	16,239	73,078
7							
8							
9	1 total	<u>266,788</u>	<u>168,171</u>	<u>434,959</u>		<u>86,992</u>	<u>391,463</u>

2019 Rate Case

Travel	2,000	Hotel, Airfare for 2 employees, 2 trips each
Company Employees	30,300	600 hours
Legal - Baker Donelson	23,400	Outside Legal Counsel
Notices, Copies, Mailings	<u>4,000</u>	Required legal notices and office supplies
Total	59,700	

(1) Amortizations flow to Exhibit 1 - Regulatory Commission Expense

(2) See Schedule E

The Company proposes actual 2019 Operating Losses be compiled and filed with TPUC after the conclusion of this base rate case. Recovery of any losses will be

(3) recovered via a surcharge to be implemented on July 1, 2020, effective for 2 years.

(4) See Schedule F

Column Calculations:

[A]- Total cost incurred at Test Year End

[B]- Remaining cost post-Test Year to complete

[C]- Sum of Columns [A] & [B]

[D]- 5 year proposed amortization

[E]- Annual amortization of Column [C]

[F]- Column [C] less 6 months of amortization

Tennessee Water Service
Docket No. 19-_____
Operating Loss Summary - 2017 and 2018

Schedule E
Page 1 of 2

NARUC Start	NARUC End	Acct Description	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
461	461	Residential Sales	1,791	1,205	1,975	3,999	1,659	4,667	6,265	7,874	4,167	4,786	4,945	4,842
		Commercial Sales	0	0	0	0	0	0	0	0	0	0	0	0
470	474	Other Revenues	(374)	10	35	35	0	35	(0)	0	0	0	0	1,800
		Total Operating Revenues	1,417	1,215	2,010	4,034	1,659	4,702	6,265	7,874	4,167	4,786	4,945	6,642
601	601	Salaries & Wages - Employees	(789)	323	463	573	871	830	1,011	1,197	1,289	1,293	1,339	1,202
603	603	Salaries & Wages - Officers	13	20	28	32	36	41	44	48	49	52	53	58
604	604	Employee Pensions & Benefits	77	93	166	177	215	239	215	303	318	272	278	675
610	610	Purchased Water	8,859	(3,593)	3,785	(153)	1,500	662	2,559	2,039	4,454	(1,017)	1,542	7,776
615	615	Purchased Power	1,233	365	1,121	856	938	(4,576)	272	148	224	218	175	260
616	616	Fuel for Power Production	0	0	0	0	0	0	0	0	0	0	0	0
618	618	Chemicals	0	0	0	0	0	0	44	44	0	44	0	0
620	620	Materials & Supplies	0	0	0	1	1,703	0	0	0	0	0	0	1
630	636	Contractual Services	190	2,944	26	111	44	580	6,497	273	52	3,279	533	15,874
640	640	Rent	56	56	57	57	717	57	57	57	57	57	57	57
650	650	Transportation Expense	398	45	142	114	185	192	87	101	113	109	135	839
655	655	Insurance Expense	0	0	0	0	0	0	0	0	0	0	0	0
660	660	Advertising Expense	0	0	0	0	0	0	0	0	0	0	0	0
665	665	Regulatory Commission Expense	0	0	0	0	0	0	0	0	0	0	0	0
668	668	Water Resource Conservation	0	0	0	0	0	0	0	0	0	0	0	0
670	670	Bad Debt	42	1,143	533	286	3,019	(2,588)	(850)	(72)	17	266	(2)	17
675	675	Misc. Expense	2,598	4,428	5,087	4,325	3,680	4,537	4,616	4,703	4,231	3,698	5,127	5,396
		Total O&M Expense	12,678	5,824	11,409	6,377	12,908	(27)	14,553	8,841	10,802	8,271	9,239	32,157
403	403	Depreciation	2,261	2,269	2,278	2,289	2,293	2,347	2,296	2,291	2,293	2,298	2,306	2,308
407	407	Amortization	(1,255)	(1,255)	(1,255)	(1,255)	(1,255)	(1,255)	(1,255)	(1,255)	(1,255)	(1,255)	(1,255)	(1,255)
		Total Depreciation	1,006	1,015	1,024	1,034	1,038	1,093	1,041	1,037	1,038	1,043	1,051	1,054
408	408	TOTI	962	965	997	1,343	372	1,234	1,028	1,035	1,037	1,045	1,048	345
		Operating Income/(Loss)	(13,229)	(6,588)	(11,419)	(4,720)	(12,659)	2,402	(10,357)	(3,038)	(8,711)	(5,573)	(6,393)	(26,914)
		Annual Income/(Loss)												(107,200)

Note: This schedule does not include accruals for deferral of operating losses. Residential Revenue includes \$7/month base charge increase per Docket 17-000108.

[illegible]

[illegible]

NARUC Account	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Balance at Rate Case Effective Date
Addition:																			
304	-	-	-				331,482.95		310,000.00										654,588.25
307	-	-	-																9,446.77
311	-	-	357.68																38,208.04
320	-	-	-																-
330	-	-	-																4,414.85
331	-	470.59	3,413.58																10,549.22
333	-	4,005.61	496.88	419.43	251.66	251.66	335.55	503.32	671.10	587.21	754.98	335.55	503.32	503.32	251.66	419.43	251.66	251.66	20,803.96
334	6,558.19	-	-	1,841.59	1,104.95	1,104.95	1,473.27	2,209.90	2,946.54	2,578.22	3,314.86	1,473.27	2,209.90	2,209.90	1,104.95	1,841.59	1,104.95	1,104.95	91,342.67
335	10,135.00	-	-																106,927.65
336	-	-	-																2,091.38
345	-	-	-																-
347	-	-	-																1,933.03
Retirement:																			
304	-	-	-				(8,000.00)		(65,000.00)										(73,000.00)
307	-	-	-																-
311	-	-	-																(1,923.51)
320	-	-	-																-
330	-	-	-																-
331	-	(178.68)	(1,296.12)																(4,038.41)
333	-	(1,804.11)	(223.79)	(188.91)	(113.35)	(113.35)	(151.13)	(226.69)	(302.26)	(264.48)	(340.04)	(151.13)	(226.69)	(226.69)	(113.35)	(188.91)	(113.35)	(113.35)	(9,436.15)
334	(2,784.24)	-	-	(781.83)	(469.10)	(469.10)	(625.47)	(938.20)	(1,250.93)	(1,094.57)	(1,407.30)	(625.47)	(938.20)	(938.20)	(469.10)	(781.83)	(469.10)	(469.10)	(39,307.44)
335	(3,718.67)	-	-																(40,160.74)
336	-	-	-																-
345	-	-	-																-
347	-	-	-																-
Net Addition:																			
304	-	-	-	-	-	-	323,482.95	-	245,000.00	-	-	-	-	-	-	-	-	-	581,588.25
307	-	-	-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	9,446.77
311	-	-	357.68	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	36,284.53
320	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
330	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,414.85
331	-	291.91	2,117.46	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,510.81
333	-	2,201.50	273.09	230.52	138.31	138.31	184.42	276.63	368.84	322.73	414.94	184.42	276.63	276.63	138.31	230.52	138.31	138.31	11,367.81
334	3,773.95	-	-	1,059.75	635.85	635.85	847.80	1,271.70	1,695.60	1,483.65	1,907.55	847.80	1,271.70	1,271.70	635.85	1,059.75	635.85	635.85	52,035.23
335	6,416.33	-	-																66,766.91
336	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,091.38
345	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
347	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,933.03
Total Net Addition	10,190.28	2,493.41	2,748.23	1,290.27	774.16	774.16	324,515.17	1,548.33	247,064.44	1,806.38	2,322.49	1,032.22	1,548.33	1,548.33	774.16	1,290.27	774.16	774.16	772,439.57
Cummulative Net Addition	179,360.86	181,854.27	184,602.50	185,892.77	186,666.94	187,441.10	511,956.27	513,504.60	760,569.04	762,375.43	764,697.92	765,730.14	767,278.47	768,826.80	769,600.96	770,891.24	771,665.40	772,439.57	
A/D	(3,255.17)	(3,482.49)	(3,713.24)	(3,945.60)	(4,178.94)	(4,413.24)	(5,053.19)	(5,695.07)	(6,645.78)	(7,598.75)	(8,554.62)	(9,511.78)	(10,470.88)	(11,431.91)	(12,393.91)	(13,357.53)	(14,322.11)	(15,287.66)	
Cummulative Net Plant Addition	176,105.70	178,371.78	180,889.26	181,947.17	182,488.00	183,027.86	506,903.09	507,809.54	753,923.26	754,776.68	756,143.30	756,218.36	756,807.59	757,394.89	757,207.05	757,533.71	757,343.29	757,151.91	
Pre-Tax ROR	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	
Return on Net Plant Additions	1,171.18	1,186.25	1,202.99	1,210.03	1,213.62	1,217.21	3,371.12	3,377.15	5,013.91	5,019.58	5,028.67	5,029.17	5,033.09	5,037.00	5,035.75	5,037.92	5,036.65	5,035.38	81,197.30

Tennessee Water Service

Schedule G

Docket No. 19-_____

Summary of Rate Case Adjustments

Test Year: September 30, 2018

Summary of O&M Pro-Forma Adjustments

Expense Category	Total Per Books Adjusted	3-Year Avg. of Years Ending 9/30/2014, 2015, 2016	With CPI Inflator Thru Attrition Year Mid-point (6/30/2020)	Pro-Forma Expense at Projected Customer Count	Additional Pro- Forma Adjustment	Pro-Forma Adjusted Under Present Rates
	[A]	[B]	[C]	[D]	[E]	[F]
Maintenance Expenses						
Purchased Power	2,811.57	14,609.80	15,717.01	8,667.08		8,667.08
Maintenance and Repair	48,765.01	4,599.81	4,948.41	2,728.78	47,444.20 [1]	50,172.98
Maintenance Testing	1,172.38	3,216.01	3,459.74	1,907.86		1,907.86
Chemicals	43.80	406.36	437.16	241.07		241.07
Transportation	7,004.76	3.75	4.04	2.23		2.23
Outside Services - Other	33,345.21	3,440.42	3,701.16	2,040.99	4,401.01 [2]	6,441.99
General Expenses						
Office Supplies & Other Office Exp.	2,711.62	2,520.60	2,711.62	2,934.89		2,934.89
Pension & Other Benefits	4,639.83	-		6,879.96		6,879.96
Rent	1,466.88	-		1,516.57	517.92 [3]	2,034.49
Insurance	1,838.88	-		3,378.96		3,378.96
Office Utilities	811.24	-		2,370.35		2,370.35
Miscellaneous	4,176.78	-		1,514.96	62,581.59 [4]	64,096.56

Column Calculations:

[A]- Company's Adjusted Book Amounts, per Exhibit 1

[B]- Average of historical expenses for the three years ending September 30, 2014, 2015, and 2016

[C]- CPI Index - Water and Sewer Maintenance rate of 3.30% applied to Column [B] for 2.25 years (midpoint of Test Year to mid-point of Attrition Year)

[D]- Adjust Column [C], which reflects 564 average customers, to pro-forma customer count.

[E]- See below for explanations:

Maintenance and Repair: Expense for contract operator removed from Columns [B] through [D] calculations, add back Test Year expense from Column [A]**Outside Services - Other:** Add estimated corporate allocation expenses, not included in Test Year.**Rent:** Add estimated corporate office rent expense, new in 2019, not included in Test Year.**Miscellaneous:** Includes amortizations of 2017 Operating Loss, 2018 Operating Loss and Return on Replacement Capital (See Schedule D), as well as the following amortizations of protected and unprotected EDIT due to Tax Cuts and Jobs Act:

	Balance	Amortization Years	Annual Amortization
Protected	(95,102.31)	49	(1,933.09)
Unprotected	(3,928.50)	5	(785.70)

[F]- Sum of Column [D] & [E]

Tennessee Water Service

Schedule H

Docket No. 19-_____

Pro-Forma Adjustments

Test Year: September 30, 2018

Pro-Forma Purchased Water Expense

<u>Test Year System Delivery in Gallons</u>	<u>Test Year Customers</u>	<u>Pro-Forma Customers</u>	<u>Historical Purchase Ratio</u>	<u>Pro-Forma Gallons Purchased</u>	<u>Pro-Forma Expense</u>
[A]	[B]	[C]	[D]	[E]	[F]
19,917,000	2,007	3,732	69.30%	25,666,302	\$ 116,936.61

Column Calculations:

[A]- Total produced and purchased water in system in Test Year

[B]- Sum of active customers for 12 months in Test Year

[C]- Pro-Forma customer count multiplied by 12 months

[D]- Average of purchased vs. produced water ratio, three years ending September 2014, 2015, and 2016. See table below.

<u>Year Ending</u>	<u>Purchase Ratio</u>
9/30/2014	70.24%
9/30/2015	69.13%
9/30/2016	68.54%
Average	69.30%

[E]- Calculation of $[A] / [B] * [C] * [D]$

[F]- Column [E] at rates for City of Gatlinburg Water - $(([E] / 100) - 20) * 0.454 + ((42.38 + 1.00) * 12)$

Minimum charge of \$42.38/month covers 2,000 gallons, \$1/month administration charge, \$0.454/100 gallon volume charge

Tennessee Water Service
Docket No. 19-_____
Test Year: September 30, 2018

Schedule I

Pro-Forma Salary & Wages, Payroll Taxes

Line No .	Item	Total Per Books Adjusted	Pro-Forma Adjustment	Adjustment Needed
	<u>Shared Services Staff</u>	[A]	[B]	[C]
1	Pro-Forma Salaries & Wages	5,893.88	5,110.58	(783.30)
2	FICA	225.50	302.82	77.32
3	Federal Unemployment Tax	2.22	28.85	26.63
4	State Unemployment Tax	18.79	27.40	8.61
	Total	6,140.39	5,469.64	(670.75)
	<u>TWS Leadership Staff</u>			
5	Pro-Forma Salaries & Wages	260.87	732.08	471.21
6	FICA	160.71	91.35	(69.36)
7	Federal Unemployment Tax	0.77	3.91	3.14
8	State Unemployment Tax	2.16	1.03	(1.13)
	Total	424.51	828.37	403.86
	<u>TWS Operations Staff</u>			
9	Pro-Forma Salaries & Wages	15,429.60	17,426.61	1,997.01
10	FICA	-	1,333.14	1,333.14
11	Federal Unemployment Tax	-	119.36	119.36
12	State Unemployment Tax	-	31.77	31.77
	Total	15,429.60	18,910.88	3,481.28

Calculations:

Column [A] - Per Exhibit 1

Column [B] - Per Company's workpapers

Column [C] -Difference of Column [B] - Column [A]