

**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.)	
)	
)	
)	

**REBUTTAL TESTIMONY
OF
DANTE M. DeSTEFANO**

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

August 16, 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. ARE YOU THE SAME DANTE M. DESTEFANO WHO SUBMITTED DIRECT**
5 **TESTIMONY IN THIS PROCEEDING?**

6 **A.** Yes, I am.

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

9 **A.** The purpose of my testimony is 1) to address the Compound Inflation Factor used by
10 Tennessee Water Service, Inc. (“TWS” or “Company”) in its revenue requirement, 2)
11 address Attorney General Witness Novak’s use and calculation of historical average
12 consumption per customer, 3) address the lack of consideration by Mr. Novak of current
13 and anticipated Company costs of service, and 4) address Mr. Novak’s response to the
14 Company’s proposed modifications to the IEOPTM.

15 **Q. PLEASE DESCRIBE MR. NOVAK’S AND THE COMPANY’S POSITIONS**
16 **REGARDING THE COMPOUND INFLATION FACTOR.**

17 **A.** Both TWS and Mr. Novak have largely proposed the use of average per customer
18 historical, pre-Gatlinburg Wildfire (“Wildfire”) expense levels to generate pro-forma
19 expenses in this proceeding. Both parties also use a Compound Inflation Factor with a
20 base level of 3.3% per year to adjust the per customer historical level to an appropriate
21 Attrition Year value. This 3.3% rate is derived from the Consumer Price Index for the
22 period October 2017 to October 2018, or approximately the Test Year. However, Mr.

1 Novak has compounded the 3.3% inflation rate from the end of the Test Year, 9/30/2018,
2 to the midpoint of the Attrition Year, 6/30/2020, or 21 months. This results in a
3 Compound Inflation Factor of 5.85%. The Company has proposed using the midpoint of
4 the Test Year, 3/31/2018, to the midpoint of the Attrition year, or 27 months, for a
5 Compound Inflation Factor of 7.58%.

6 **Q. DOES THE COMPANY AGREE WITH MR. NOVAK'S COMPOUND**
7 **INFLATION FACTOR?**

8 **A.** No. The method employed by both Mr. Novak and the Company of using historical
9 average per customer expenses creates a proxy value for the Test Year from which to
10 extrapolate a pro-forma value for the Attrition Year. The Company believes the proper
11 application of an annual inflation or trend rate when using a historical average or other
12 proxy value in place of Test Year actual activity is to initiate it at the midpoint of the
13 related Test Year, and end the calculation as the midpoint of the Attrition Year. This
14 generates values that approximate the trend-adjusted annual level for the starting year as
15 well as the projected year. Initiating the inflation factor at the end of the Test Year
16 results in the proxy value not being adjusted for inflation that occurred during the Test
17 Year, and therefore understating the Test Year proxy values. The opposite would be true,
18 for example, if the inflation factor was carried to the end of the Attrition Year – it would
19 overstate the inflation impact for the Attrition Year by calculating the inflation-adjusted
20 values as of the end of the Attrition Year. The Company therefore affirms its Compound
21 Inflation Factor in this proceeding of 7.58%.

1 **Q. PLEASE DESCRIBE MR. NOVAK'S AVERAGE CUSTOMER BILLABLE**
2 **CONSUMPTION PROJECTION.**

3 **A.** Mr. Novak averaged system delivery (total pumped and purchased water) for the three
4 years prior to the Wildfires, then divided this amount by the average number of annual
5 bills to customers to determine the average system delivery per bill. He then deducted
6 lost and unaccounted for water at the three-year pre-Wildfire average rate to determine
7 average per customer consumption.

8 **Q. DOES THE COMPANY AGREE WITH MR. NOVAK'S RECOMMENDED**
9 **AVERAGE CUSTOMER CONSUMPTION?**

10 **A.** No. The Company believes that using current consumption levels is more appropriate
11 than historical, pre-Wildfire consumption. First, as virtually all connected premises are
12 newly constructed homes, they are likely to consistently contain modern fixtures with
13 lower flow rates. Many of the homes in Chalet Village that were destroyed were
14 approximately 35 years old or more, and current standard flow rates for many household
15 fixtures are significantly lower¹. Also, it is commonly accepted that water utilities have
16 experienced declining customer consumption due to such stricter standards as well as an
17 improving conservation ethic among water users². As such, it should be expected that
18 present customer usage patterns would generate lower metered consumption.
19 Second, most customer premises being reconnected require a new meter, which will run
20 and be read with more accuracy and consistency. The Company is also inspecting

¹ Energy Policy and Conservation Acts of 1992 and 2005, Energy Independence & Security Act of 2007

² <http://pacinst.org/wp-content/uploads/2015/04/Water-Use-Trends-Report.pdf>

1 connections for leaks near the meter when installing replacement meters, which
2 minimizes the potential for overstated bills. In contrast to Mr. Novak's claim that using
3 historical data minimizes influence of the Wildfires on pro-forma figures, the Company
4 asserts that current data is more likely to be clean and representative of average usage
5 going forward.

6 Based on the foregoing, the Company reaffirms its use of Test Year data to determine
7 average customer consumption for pro-forma revenue purposes.

8 **Q. PLEASE EXPLAIN MR. NOVAK'S POSITION REGARDING DIVERGING**
9 **FROM THE HISTORICAL AVERAGE OF PRE-WILDFIRE EXPENSES FOR**
10 **DETERMINING PRO-FORMA AMOUNTS.**

11 **A.** As noted above, Mr. Novak generally uses an average of per customer pre-Wildfire
12 expense levels to determine the Attrition Year expense line items.

13 **Q. ARE THERE AREAS THAT SHOULD NOT USE HISTORICAL PRE-**
14 **WILDFIRE AVERAGE COSTS TO PROJECT ATTRITION YEAR EXPENSES?**

15 **A.** The Company believes that where certain costs have permanently changed due to
16 organizational changes, new contracts, or new allocation methods, those changes should
17 be considered and reflected in the determination of pro-forma expense levels.

18 For example, as was noted on Schedule G in the Company's filing, the Company's shared
19 services affiliate, WSC, moved to a new office in May 2019, which required entering into
20 a new lease and the sale of its former office. The Company has reflected the estimated
21 lease expense in the Rent Expense line item in its filing. Mr. Novak however has ignored
22 this operating change and the Company's pro-forma adjustment.

1 As similarly noted on Schedule G, the parent of Utilities, Inc. (“UI”), Corix Infrastructure
2 (“Corix”), has begun in 2019 the allocating of corporate and governance costs to UI and
3 therefore to the UI subsidiaries, including TWS. These costs were included as a pro-
4 forma adjustment to Outside Service Expense in this proceeding. Mr. Novak however
5 has ignored this allocation change and the Company’s pro-forma adjustment.

6 The Company reaffirms the reasonableness of its inclusion of the post-Test Year WSC
7 Rent Expense and Corix corporate and governance cost adjustments in its revenue
8 requirement in this proceeding.

9 **Q. WHAT IS MR. NOVAK’S RECOMMENDATION FOR THE INTERIM**
10 **EMERGENCY OPERATIONAL COST PASS-THROUGH MECHANISM**
11 **(“IEOCPTM”)?**

12 **A.** Mr. Novak recommends the IEOCPTM tariff provision be terminated.

13 **Q. DOES THE COMPANY AGREE WITH TERMINATING THE IEOCPTM?**

14 **A.** No. First, Mr. Novak states that the Company’s original QIIP mechanism proposal
15 would account for production cost changes. While the Company has amended its initial
16 petition and testimony to remove the request for a QIIP mechanism in this proceeding,
17 the original proposal did not include a mechanism for reconciling increases in production
18 costs. This is precisely why the Company proposed to update the existing IEOCPTM,
19 modify its parameters and implement a permanent version.

20 Mr. Novak states his recommended termination of the IEOCPTM is also based on the
21 existing approval for deferring operating losses per Docket No. 17-00108, which
22 accounts for changes in operating expenses not recovered in current rates, including

1 purchased water and power. While this is correct, and both Mr. Novak and the Company
2 recognize losses may be deferred until the start of the Attrition Year, the OCPTM
3 proposed by the Company will have utility and benefit beyond the Attrition Year as
4 additional customers continue to reconnect and variable costs inevitably rise.

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.