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.	)	
	)	
	)	
	)	

PRE-FILED DIRECT SUPPLEMENTAL TESTIMONY
OF
J. BRYCE MENDENHALL

ON BEHALF OF
TENNESSEE WATER SERVICE, INC.

September 16, 2019

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

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

Q. ARE YOU THE SAME J. BRYCE MENDENHALL WHO SUBMITTED DIRECT AND REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. The purpose of my testimony is to provide further detail and support of the comparable project to the Piney Butt Tank and Booster Station ("Piney Butt") and Clubhouse Well and Booster Station ("Clubhouse") projects, to identify a reasonable replacement value at the time of the Gatlinburg Wildfires ("Wildfire").

Q. ARE YOU ADOPTING ANY EXHIBITS WITH THE SUBMISSION OF THIS SUPPLEMENTAL TESTIMONY?

A. Yes. I am adopting Exhibit 5, TWS Late Filed Exhibits in support of testimony given at the September 9, 2019 hearing.

Q. DO YOU AGREE WITH MR. DESTEFANO'S SUPPLEMENTAL TESTIMONY COMMENT THAT "THE COMPANY CONSISTENTLY LEVERAGES RECENTLY-EXPERIENCED ACTUAL PROJECT COSTS AS ITS BASIS FOR ESTIMATING A REASONABLE REPLACEMENT COST FOR AN INSURED ASSET" (PAGE 3)?

A. Yes.

Q. IN 2016, WOULD THE COMPANY HAVE NEEDED TO LEVERAGE RECENTLY-EXPERIENCED ACTUAL PROJECT COSTS TO ESTIMATE A REASONABLE REPLACEMENT COST FOR THE ASSETS IN CHALET VILLAGE?

A. Yes. At the time of the Company's insurance policy renewal in the late summer of 2016, the Piney Butt booster site and the Wellhouse #1 (Clubhouse) booster site were at least 35 years old. Because of their age, using original costs values for these assets in 2016 would not have provided a reasonable replacement cost. Therefore, using a recently completed comparable project would have been the best method to estimate a replacement cost for these assets.

Q. WHAT INFORMATION WAS AVAILABLE TO THE COMPANY TO INFORM ITS SETTING OF REASONABLE REPLACEMENT COST COVERAGES FOR THE TWS ASSETS?

As noted in my rebuttal testimony, the Company's operations department was aware of a recently completed project for its affiliate, Carolina Water Service of North Carolina, Inc. ("CWSNC") that should have been used as a reasonable estimate of the replacement cost of the aged Piney Butt and Clubhouse booster site assets.

Q. PLEASE EXPLAIN THE CRITERIA THE COMPANY CONSIDERS IN DETERMINING IF A SEPARATE COMPLETED PROJECT IS A REASONABLE PROXY FOR THE REPLACEMENT COST OF AN AGED INSURED ASSET.

A. The Company first considers if a similar site setup is available, such as tank/booster sites. Then the Company considers experiences with replacements at such sites, using modern technologies and scope of work that would be similar between the proxy and aged asset site. The Company also considers the design needs – for example, unique engineering considerations or setups within the site. The Company also prioritizes recent replacement projects- the closer to current day, the more likely that material costs, labor rates, and the bid market will be similar. However, regional availability of contractors and unique characteristics of certain regions can have an impact on the nature of the replacement project. That is, booster stations along the North Carolina coast are less similar to the Gatlinburg region than the mountain systems of western North Carolina, since the flatter coastal region relies more heavily on gravity flow in its distribution system. Additionally, availability and transport of materials as well as potential weather hazards are more notable considerations in mountain systems.

Q. PLEASE EXPLAIN HOW THE SUGAR MOUNTAIN BOOSTER STATION PROJECT WAS SUFFICENTLY SIMILAR TO A HYPOTHETICAL REPLACEMENT PROJECT FOR THE PINEY BUTT AND CLUBHOUSE BOOSTER SITES.

A. In advance of the Gatlinburg Wildfires, the Company should have looked for projects that best aligned with a pure replacement of the Piney Butt and Clubhouse booster sites. First, the Sugar Mountain and Chalet Village systems have relatively close geographic proximity and topography. This means their pumping requirements are relatively comparable and any needed contractors would require similar expertise. The Sugar

Mountain project also installed modern variable-frequency drive pumps, as would be used in a replacement of the Chalet Village booster sites. Both systems rely on ground storage tanks along with on-site booster stations. The electrical, building, and piping equipment installed at Sugar Mountain would be largely mimicked in a Chalet Village station replacement. Materials and contractor costs could be expected to be similar, as the Sugar Mountain project was completed within 3 months of the insurance policy renewal.

Q. ARE THERE DIFFERENCES BETWEEN THE SUGAR MOUNTAIN BOOSTER STATION PROJECT AND WHAT COULD HAVE BEEN REASONABLY ESTIMATED TO BE REQUIRED TO REPLACE THE TWS BOOSTER SITES' ASSETS?

A. Yes. First, the Sugar Mountain booster station contains additional pumping capacity, due to somewhat steeper elevation and wider range of volume demands. Sugar Mountain also had a hydrotank abandonment, as opposed to replacement or rehab, and the existing ground storage tank was left intact. The Sugar Mountain station also utilized a 15'x18' split-face block building, while Chalet Village sites utilized 15'x15' split-face block structures. There is also no well at the Sugar Mountain site, and the Clubhouse site does not have a ground storage tank.

Q. CAN YOU PLEASE SUMMARIZE THE REASONABLENESS OF USING THE SUGAR MOUNTAIN BOOSTER STATION PROJECT AS A PROXY FOR REASONABLE REPLACEMENT COST OF THE CHALET VILLAGE BOOSTER STATION SITES?

A. While I've noted above the significant similarities between the booster station sites, there are certain components of the Sugar Mountain booster station site project that would not have been replicated in a pure replacement of the Chalet Village booster station sites. That said, I must stress a key underlying reality in identifying a reasonable proxy project for use in estimating replacement cost of a separate asset: It is exceedingly rare that two assets are perfectly identical in every way, let alone identical in the nature of the effort and scope of a potential replacement project.

The exercise of reviewing similar assets must begin with general criteria, as I described above, to hone in on the best replacement comparable available. Therefore, in this particular case, the criteria for comparison show the Sugar Mountain Booster Station project to be a reasonable proxy for replacement cost for the Piney Butt and Clubhouse booster site assets.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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