

**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.**

October 9, 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 **REBUTTAL, AND SUPPLEMENTAL DIRECT TESTIMONY IN THIS**
6 **PROCEEDING?**

7 **A.** Yes, I am.

8 **Q. WHAT IS THE PURPOSE OF YOUR PRE-FILED REBUTTAL TESTIMONY IN**
9 **THIS PROCEEDING?**

10 **A.** The purpose of my testimony is to respond on behalf of Tennessee Water Service, Inc.
11 (“TWS” or “Company”) to certain aspects of the Second Supplemental Testimony
12 submitted by Mr. Hal Novak in this proceeding.

13 **Q. HAS THE COMPANY ACCEPTED RESPONSIBILITY FOR FAILING TO SET**
14 **REASONABLE INSURANCE COVERAGE LEVELS IN ADVANCE OF THE**
15 **GATLINBURG WILDFIRE?**

16 **A.** Yes. The Company has agreed that the creation of a regulatory liability would be
17 appropriate to account for a reasonable level of insurance coverage at the time of the
18 Gatlinburg wildfire. The only issue left to be addressed, as noted by the Tennessee
19 Public Utilities Commission (“TPUC”), is “the appropriate amount of regulatory liability,
20 if any.” *See* Tennessee Public Utility Commission, Docket No. 19-00028, Order on
21 Status Conference and Establishing Procedural Schedule for Supplemental Hearing, Page
22 4, September 13, 2019.

1 **Q. HOW HAS THE COMPANY ADDRESSED DETERMINING THE**
2 **APPROPRIATE AMOUNT OF REGULATORY LIABILITY?**

3 **A.** The Company suggests that it be held responsible to the extent it had information in
4 advance of its 2016 insurance policy renewal before the Gatlinburg wildfire and failed to
5 appropriately utilize it in setting insurance coverage. The information in-hand in the
6 months prior to the policy renewal included experience with a recently completed project
7 at the nearby Sugar Mountain, North Carolina booster station that provides a reasonable
8 comparison to the two booster station sites destroyed by the Gatlinburg Wildfire. As
9 such, the Sugar Mountain project provided a reasonable proxy that could have been used
10 to estimate the anticipated replacement costs for the TWS booster stations. Using the
11 Sugar Mountain project as a proxy for reasonableness, TWS submits that its insurance
12 policy in place at the time of the Gatlinburg wildfire resulted in an under-collection of
13 insurance proceeds of \$382,016, net of policy deductible.

14 **Q. MR. NOVAK REFERS TO THE DEDUCTIBLE IN THE COMPANY'S**
15 **CALCULATION AS "HYPOTHETICAL". IS THIS DEDUCTIBLE**
16 **HYPOTHETICAL?**

17 **A.** The deductible the Company references in its calculation is the actual deductible on its
18 property insurance policy in place at the time of the Gatlinburg wildfire. A copy of this
19 policy was provided in discovery in response to Consumer Advocate request 5-2a. There
20 is no reasonable basis to assume that no deductible would have been applied to any
21 insurance proceeds obtained in the wake of the Gatlinburg wildfire. The deductible is
22 thus a reasonable and prudent cost that the Company would have incurred regardless of

1 the replacement amount in the insurance coverage. Because the focus of the
2 determination of a regulatory liability is to rely on the extent to which the Company
3 failed to obtain insurance proceeds, the relevant deductible must be applied.

4 **Q. IN FOOTNOTE 11, PAGE 5, MR. NOVAK DESCRIBES WHAT HE CALLS A**
5 **“BONUS RETURN”. DO YOU AGREE THAT THE COMPANY IS SEEKING A**
6 **BONUS RETURN?**

7 **A.** No. As the Company understands Mr. Novak’s claim, due to the need to rebuild after
8 assets were destroyed, the Company invested an amount that would not have been needed
9 had there been insurance proceeds to recover the costs. However, this assumes that
10 insurance proceeds would have recovered the entire investment by the Company to
11 rebuild its destroyed assets. As the Company has demonstrated, it could not have
12 reasonably anticipated, at the time of policy renewal, the final replacement costs incurred.
13 The Company has presented that a reasonable level of coverage would have been to use
14 the Sugar Mountain project as a proxy for the TWS sites, for a total of \$432,016.
15 Whether the Company had coverage at \$432,016 or had no coverage at all, it does not
16 change the fact that the TWS booster station sites were destroyed and had to be rebuilt.
17 Even if it had set the policy coverage to exactly the final replacement costs incurred, the
18 deductible mentioned above would still have applied, resulting in a level of investment
19 not recovered from insurance and thus a reasonable and prudent addition to rate base.
20 There is no regulatory or legal basis to deprive a utility of recovery of its reasonable and
21 prudent costs. The regulatory liability should be set at the level of insurance coverage the
22 Company should have been expected to obtain – there is no basis to set that level at the

1 final replacement costs which were not known until approximately two and a half years
2 after the policy coverages were set.

3 **Q. IN FOOTNOTE 13, PAGE 6, MR. NOVAK IDENTIFIES AN INCONSISTENCY**
4 **IN PREMIUMS PAID FOR INSURANCE IN RELATION TO COVERAGES.**
5 **CAN YOU PLEASE CLARIFY THE INFORMATION PRESENTED IN THIS**
6 **FOOTNOTE?**

7 **A.** Yes, I would like to clarify. The \$528.50 referenced in Mr. Mendenhall's Rebuttal
8 Testimony is based on the premiums paid for the 12 months before the Gatlinburg
9 wildfire. This is based on the total Utilities, Inc. property policy premium, allocated by
10 Equivalent Residential Customer, or ERC. The \$216.48 is the allocated property policy
11 premium under the current Utilities, Inc. policy, and the allocation is based on the current
12 ERC level for TWS, which is much lower due to the customer homes lost in the
13 Gatlinburg wildfire. However, the Company updated its coverage to \$877,000 through a
14 rider to the current policy, and thus the coverage level will not be reflected in the
15 Utilities, Inc. policy premium until renewal.

16 **Q. DOES MR. NOVAK APPROPRIATELY CONSIDER THE REASONABLENESS**
17 **OF USING A PROXY PROJECT AS AN ESTIMATE FOR REPLACEMENT**
18 **COSTS?**

19 **A.** No. It appears Mr. Novak begins his analysis for a proposed regulatory liability by
20 focusing on the final replacement costs, instead of considering the facts known to the
21 Company at the time of setting insurance coverage. However, Mr. Novak has not offered
22 an alternative approach for how the Company should have proceeded when renewing its

1 insurance policy in 2016. Mr. Novak's position relies on hindsight and facts not
2 available to the Company (or anyone else) before the assets were destroyed.

3 Again, TWS accepts responsibility for its error in setting the insurance coverage levels.

4 The Company has put forth a reasonable basis for how it should have determined
5 insurance coverage at that time. The Company believes this position is a reasonable and
6 prudent basis for determining the level of insurance coverage that should have been
7 obtained before the wildfire.

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

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