

**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
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

