

**PETITIONER'S EXHIBIT EKC-1**

**TENNESSEE-AMERICAN WATER COMPANY, INC.**

**DOCKET NO. 20- 00011**

**DIRECT TESTIMONY**

**OF**

**ELAINE K. CHAMBERS**

**ON**

**JOINT PETITION OF TENNESSEE-AMERICAN WATER COMPANY AND  
THUNDER AIR, INC. D/B/A/JASPER HIGHLANDS DEVELOPMENT, INC. FOR THE  
APPROVAL OF AN ASSET PURCHASE AGREEMENT AND FOR THE ISSUANCE OF  
A CERTIFICATE OF CONVENIENCE AND NECESSITY**

1   **Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2   A.    My name is Elaine K. Chambers and my business address is 2300 Richmond Road,  
3       Lexington, Kentucky 40502.

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

5   A.    I am employed by American Water Works Service Company ("AWW") as Director, Rates  
6       and Regulatory for Tennessee and Kentucky.

7   **Q.    HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS OR ANY**  
8       **OTHER COMMISSION?**

9   A.    Yes. I submitted an affidavit in support of Federal Energy Regulatory Commission  
10       proceeding EL05-55-001, while employed by the Midcontinent Independent System  
11       Operator ("MISO"). I also submitted testimony for Indianapolis Power and Light  
12       Company's case in chief in the following Cause Nos.: 44576, 44893, and 45029. I have  
13       also submitted testimony on behalf of Tennessee American Water Company ("Tennessee  
14       American," "TAWC" or "Company") before the Tennessee Public Utility Commission  
15       ("TPUC" or "Commission") in several dockets, including Docket Nos. 19-00010, 19-  
16       00031, 18-00120 and 19-00105.

17   **Q.    PLEASE    STATE    YOUR    EDUCATIONAL    AND    PROFESSIONAL**  
18       **BACKGROUND.**

19   A.    I have a Bachelor of Science degree from the University of Indianapolis in Accounting. I  
20       also have a Master of Business Administration from the University of Indianapolis, and I  
21       am a Certified Public Accountant in the State of Indiana.

22       I have twenty-one years of experience at Indianapolis Power and Light Company, twelve  
23       of which have been in the Rates area. I also have experience in energy consulting with

Andersen and Black & Veatch. While employed by MISO, I managed the transmission and market settlement functions, along with dispute resolution. At Exelon, I managed various Information Technology initiatives, which included merger and acquisition responsibilities.

**Q. WHAT ARE YOUR DUTIES AS DIRECTOR OF RATES AND REGULATORY?**

A. My primary responsibilities encompass the coordination of regulatory issues in Tennessee and Kentucky. This includes coordinating all reports and filings, working with regulatory staff to make sure that all information produced addresses the requirements or requests, and overseeing the preparation and filing of rate cases and tariff changes. I work with the senior management in both states on planning. I am also responsible for keeping abreast of changes in regulation, or trends in regulatory oversight across the United States that may impact our local operations. I report to the Presidents of Tennessee American Water ("Tennessee American," "TAWC" or "Company") and KAWC dually. I am located in Kentucky, but work closely with the TAWC staff in Tennessee as well.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. The purpose of my testimony is to support the Joint Petition filed by TAWC and Thunder Air, Inc. d/b/a Jasper Highlands Development, Inc. ("Thunder Air Inc.") for the approval of the purchase of the assets that make up the water system owned by Thunder Air Inc. (the "System") by TAWC and a Certificate of Public Convenience and Necessity to TAWC, with its accompanying privilege and franchise, to serve the entire Thunder Air Inc. development. The Asset Purchase Agreement between TAWC and Thunder Air Inc. (the "Purchase Agreement") is attached to the Joint Petition as **Exhibit A**, and the map of the System is attached to the Joint Petition as **Exhibit B**.

47 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

48 A. No, I am not sponsoring any Exhibits specifically attached to my testimony. I am  
49 responsible for the preparation of the proposed tariff sheets attached to the Joint Petition as  
50 **Exhibit D.**

51 **Q. WAS THE EXHIBIT MENTIONED ABOVE PREPARED BY YOU OR UNDER**  
52 **YOUR DIRECTION AND SUPERVISION?**

53 A. Yes.

54 **Q. WHAT WERE THE SOURCES OF THE DATA USED TO PREPARE THE**  
55 **PETITIONER'S EXHIBITS LISTED ABOVE?**

56 A. The data used to prepare the exhibits was acquired from the books of account and business  
57 records of Tennessee American and Thunder Air Inc., the officers and associates of  
58 Tennessee American and Thunder Air Inc., with knowledge of the facts based on their job  
59 responsibilities and activities, and other internal sources, which I examined in the course  
60 of my investigation of the matters addressed in this testimony. The Joint Petitioners' filings  
61 in this TPUC Docket are complete and accurate to the best of my knowledge and belief.

62 **Q. DO YOU CONSIDER THIS DATA TO BE RELIABLE AND OF A TYPE THAT IS**  
63 **NORMALLY USED AND RELIED ON IN YOUR BUSINESS FOR SUCH**  
64 **PURPOSES?**

65 A. Yes.

66 **Q. WHAT IS THE PURCHASE PRICE OF THE SYSTEM?**

67 A. \$2,398,200.

68 **Q. CAN YOU EXPLAIN TAWC'S PROPOSED REGULATORY TREATMENT OF**  
69 **THE PURCHASE PRICE?**

70 A. Yes. As set forth in Article 2 of the Purchase Agreement, \$1.5 million will be paid on the  
71 Closing Date, with an additional \$898,200 remitted in Post-Closing Payments. The Post-  
72 Closing Payments of \$898,200 will be set up as Customer Advances for Construction  
73 (CAC), with refunds to be paid to the developer on a per connection basis of \$1,800, over  
74 a ten-year period. Under the Purchase Agreement, the \$1,800 is paid only after each new  
75 customer is actually added to the System and served by the System for 12 consecutive  
76 months. If at the end of the ten-year period, the total amount of \$898,200 has not been  
77 paid to the developer, the remaining amount of the Customer Advances for Construction  
78 (CAC) will be transferred to Contributions in Aid of Construction (CIAC) on TAWC  
79 books.

80 **Q. CAN YOU EXPLAIN WHY THE PROPOSED REGULATORY TREATMENT OF**  
81 **THE PURCHASE PRICE IS APPROPRIATE WITH RESPECT TO THIS**  
82 **ACQUISITION?**

83 A. Because the System is not fully subscribed at this time, the \$898,200 Customer Advances  
84 for Construction (CAC) will keep a portion of the risk with the developer until new  
85 customers are added. In the next base rate case, the \$1.5 million purchase price plus any  
86 per connection amounts will become part of TAWC's rate base.

87 **Q. PLEASE ADDRESS WHETHER, AND IF SO HOW, SUCH TREATMENT IS**  
88 **CONSISTENT WITH ACCEPTED REGULATORY PRINCIPLES?**

89 A. The setup of the \$898,200 Customer Advances for Construction (CAC) is consistent with  
90 the developer model precedence under TAWC's existing tariffs.

91 **Q. ARE THERE ANY POTENTIAL NEGATIVE CONSEQUENCES OF THE**  
92 **PROPOSED TREATMENT TO EITHER TAWC'S EXISTING CUSTOMERS OR**  
93 **TO THE CUSTOMERS OF THE SYSTEM?**

94 A. No. The book value of the system is \$4.5 million. The purchase price of \$2,398,200 is  
95 much below the book value of the system.

96 **Q. WHY IS TAWC PROPOSING A REGULATORY ASSET FOR THE DUE**  
97 **DILIGENCE AND CLOSING COSTS?**

98 A. These expenses are a legitimate and appropriate cost of acquiring the capital assets. TAWC  
99 recognizes that any regulatory guidance provided on establishing the regulatory asset does  
100 not represent approval of the costs in a future rate case. While there may be a number of  
101 ways to address these costs, TAWC is proposing a method that is fair to both ratepayers  
102 and the Company, while providing an opportunity for full review of the costs themselves  
103 in a future rate case as well.

104 TAWC reviewed the record in TPUC Docket No. 12-00157 related to TAWC's acquisition  
105 of the assets of the City of Whitwell, Tennessee. Specifically, TAWC reviewed both the  
106 concerns expressed by the Consumer Advocate and the Order issued by the TPUC. In an  
107 effort to address some of those concerns, TAWC is proposing to defer the due diligence  
108 and closing costs to a regulatory asset. The costs will be incurred during the closing to  
109 safeguard the assets of the Company, thus protecting the interests of both the shareholders  
110 and ratepayers. In the manner TAWC is proposing, the costs in excess of \$10,000 will be  
111 funded solely by the shareholders, thus limiting the expense funded by ratepayers.

112 **Q. IS THIS POSITION CONSISTENT WITH THE COMMISSION'S ORDER IN**  
113 **DOCKET NO. 12-00157?**

114 Yes. The Company believes that its request to recover relevant transaction and closing  
115 costs is well founded and consistent with the Commission's Order. First, the costs  
116 requested for recovery are operationally necessary. They relate to due diligence of the  
117 assets being acquired, including the research of property deeds to ensure the purchased  
118 assets are free of liens and issues. Additionally, the costs are incurred to ensure that all  
119 assets and property rights, including easements are transferred from Thunder Air Inc. to  
120 the Company and filed on the land records to ensure the property transfers are legally  
121 undertaken and finalized. Per sound accounting principles, the utility is to procure, if  
122 possible, all existing records relating to the property acquired. Researching the property  
123 deeds, liens, and easements associated with the purchased property is thus a necessary  
124 operating expense.

125 Second, these acquisition costs will not be double-recovered. The costs the Company is  
126 seeking recovery for were or will be incurred for third party services specific to the  
127 completion of this acquisition. They are not currently included in the Company's base rates  
128 and this proceeding is the only effective way for the Company to recover these prudently  
129 incurred costs.

130 Finally, prudent transaction and closing costs benefit the customer base. Performing due  
131 diligence on property to be acquired is protective of the financial integrity of the utility and  
132 of the operational resources dedicated to customer service. Customers benefit when the  
133 utility is able to focus on water quality, infrastructure investment, service reliability and  
134 customer care, and performing adequate due diligence safeguards these benefits, as it  
135 prevents legal and other complications which could divert resources.

For the foregoing reasons, the recovery of these transaction costs is consistent with the requirements described by the Commission in its Order in Docket 12-00157.

**Q. COULD DISALLOWANCE OF SUPPORTABLE ACQUISITION/DUE DILIGENCE COSTS BE A DISINCENTIVE TO POTENTIAL ACQUIRING UTILITIES IN TENNESSEE?**

A. Yes. In fact, TPUC's Commissioner Hill recognized this during the deliberations regarding the Whitwell acquisition by TAWC. Commissioner Hill "expressed concern that by not granting deferral of the costs necessary to fully evaluate the acquisition, the [Commission] may be providing a disincentive to beneficial acquisitions in the future[.]"<sup>1</sup>

**Q. HOW DOES TAWC PROPOSE TO ADDRESS THE AMORTIZATION OF THE DEFERRED ASSET?**

A. Once expenses are deferred, they are essentially moved to an account on the balance sheet as a regulatory asset. One method to address that regulatory asset is then to credit a small amount of the balance each month as an expense or amortize it. The amortization takes place over a defined length of time. This means that the costs are spread evenly over a longer period of time rather than a one-time expense. In this instance, Tennessee American is proposing two things - the first is to cap the amount deferred at \$10,000. That means that Tennessee American will immediately expense any amount above \$10,000. Additionally, Tennessee American is further proposing to begin amortization of the costs of \$10,000 or less immediately upon closing, with only the unamortized balance of the

---

<sup>1</sup> Order Approving Purchase Agreement, Franchise Water Agreement and Certificate of Public Convenience and Necessity, TPUC Docket No. 12-0057, p. 22, fn 96 (Oct. 15, 2013). See also Transcript of Proceedings, Tennessee Public Utility Commission Conference Re: TAWC, TPUC Docket No. 12-00157, p. 5, ll 3-8 (June 17, 2013) (Comm'r Hill, dissenting) ("I would prefer that we allow deferral of the expenses so that they can be considered in the company's next general rate proceeding. At that time, the [Commission] can fully vet the expenses incurred related to due diligence and make a determination on the merits of each expense and its necessity.").



regulatory asset to be addressed in the next rate case. Therefore, any amount for consideration during the future rate case will be only the unamortized portion of the \$10,000 (or less) regulatory asset. Again, deferral of these expenses, as legitimate costs of the assets, is an appropriate method of addressing these costs. If Tennessee American were to construct the assets as part of its existing system improvements or extensions, external costs for due diligence and closing costs would be capitalized as a part of the cost of the project. By proposing to defer the costs to a regulatory asset, the unamortized balance of the regulatory asset can be essentially considered as a cost of the assets for ratemaking purposes in the next rate case. Tennessee American believes this proposed method allows for a shared funding of the expenses as legitimate and appropriate costs related to the acquisition.

**Q. ARE THERE ANY OTHER ACCOUNTING ADJUSTMENTS BEING PROPOSED POST-CLOSING?**

A. Yes. TAWC proposes to adopt the current TAWC's depreciation rates and CIAC amortization rates as approved by the Commission for Thunder Air Inc. upon closing.

**Q. IS THE ACQUISITION CONTINGENT UPON THE ACCOUNTING AND REGULATORY TREATMENT SOUGHT IN THE JOINT PETITION?**

A. Yes.

**Q. WHAT IS THE RATE STRUCTURE THAT IS BEING PROPOSED BY TAWC ONCE IT ACQUIRES THE SYSTEM?**

A. The Purchase Agreement provides that prior to closing, Thunder Air will reduce their current rates by the applicable current TAWC capital rider surcharges. This ensures that at the date of transfer of the System to TAWC, after the application of the Capital Riders

to the Thunder Air Inc.'s customers, the Thunder Air customers would pay the meter and volumetric rates they were paying prior to the Effective Date of the Purchase Agreement. Thereafter, such rates will continue to include any subsequently approved Capital Recovery Riders and the Production Costs and Other Pass-Throughs Rider surcharges. TAWC would apply all other ordinary fees that are applicable to all TAWC customers including any late fees, service activation fees, disconnect fees, private fire service rates and returned check fees. These would be consistent with TAWC's existing tariff for the sake of billing consistency. All other TAWC rates would also be applied to Thunder Air Inc. customers, including the Capital Recovery Riders and the Production Costs and Other Pass-Throughs Rider. TAWC fully expects to address several tariff issues related to Thunder Air Inc. customers in future filings with the Commission, such as the implementation of a meter charge based on the size of the meter, and separate rate schedules for customers of different customer classifications.

**Q. PLEASE PROVIDE A SCHEDULE IDENTIFYING THE FEES AND CHARGES THAT CUSTOMERS OF THUNDER AIR INC. ARE CURRENTLY ASSESSED, AS WELL AS ANY FEES AND CHARGES THAT TAWC PROPOSES TO ASSESS.**

**A.** Please see chart below:

<b>Charges and Fees</b>	<b>TAWC proposed (per current tariff)</b>	<b>Jasper Highlands current</b>
Activity fee	\$15.00	\$0.0
Late Fee	5%	0.0%
Insufficient Funds fee	\$20.00	\$0.0
New Service fee	\$25.00	\$0.0
Disconnection-reconnection charge fee	\$15.00	\$0.0
Tap Fee	\$0.00	\$2,150.00
Disconnection-reconnection charge fee (disconnected in 5 days at request of sewer provider)	\$48.00	\$0.0
Disconnection-reconnection charge fee (illegally re-established service by customer)	\$92.00	\$0.0

**Q. WILL THUNDER AIR INC. CUSTOMERS BE NOTIFIED OF THE ABOVE PROPOSED CHARGES?**

**A.** Yes. Thunder Air Inc. customers will be notified of these specific proposed charges via a posting of the Joint Petition. Further, the Joint Petitioners will provide further notice to Thunder Air Inc. customers, including these specific proposed changes, when an additional notice is provided with the hearing date.

**Q. IS THE APPLICATION OF THE CAPITAL RECOVERY RIDERS AND THE PCOP RIDER SUBSEQUENT TO AN ACQUISITION CONSISTENT WITH ESTABLISHED PAST PRACTICE?**

**A.** Yes. The practice of applying these surcharges across the entire customer base has been in place since 2014. The surcharges were also applied to the customers of the Whitwell

acquisition when that transaction was completed.<sup>2</sup> Indeed, the rider tariffs provide that the charges will apply to all customers in all service territories.

**Q. WILL THE ACQUISITION OF THE SYSTEM IMPACT THE RATES OF CURRENT TAWC RATEPAYERS?**

A. The Thunder Air Inc. water system will be operated by TAWC as a separate business unit in the TAWC accounting system. TAWC may propose to combine the rates for both Thunder Air Inc. and the other portions or the balance of the TAWC system as appropriate at a future time but is not proposing to do so at this time.

**Q. IS THE ACQUISITION OF THUNDER AIR INC.'S SYSTEM BY TAWC IN THE PUBLIC INTEREST?**

A: Yes. Water utilities are extremely capital intensive. The owner and operator of a water or wastewater system is constantly needing to address increasing costs, enhanced water quality regulations and the ever-recurring need for capital investments. The need to address aging infrastructure and technological advances consistently requires ongoing study and expertise. TAWC has a proud 131-year history of providing safe, reliable drinking water to its customers. This transaction will benefit the customers of the System through the professional management, long-term planning, and sustained investment by TAWC. The approval of the petition is necessary and proper for the public convenience and to properly conserve and protect the public interest.

---

<sup>2</sup> *Transcript of Proceedings*, In Re: Petition of Tennessee-American Water Company Regarding the 2015 Investment and Related Expenses Under Qualified Infrastructure Investment Program Rider, the Economic Development Investment Rider, and the Safety and Environmental Compliance Rider, TPUC Docket No. 14-00121, p. 162, ll 14-16 (April 20, 2015) (TAWC Witness Bridwell confirming that the CRRs and the PCOP Rider were applied to Whitwell customers pursuant to the tariffs.).

227    **Q.    WHAT DO YOU RECOMMEND WITH REGARD TO THIS PETITION?**

228    A.    I recommend that the Joint Petition be approved.

229    **Q.    DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

230    A.    Yes.

STATE OF TENNESSEE     )  
COUNTY OF Fayette     )

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Elaine K. Chambers, being by me first duly sworn deposed and said that:

She is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Public Utility Commission, and if present before the Commission and duly sworn, his testimony would be as set forth in his pre-filed testimony in this matter.

Elaine K. Chambers  
Elaine K. Chambers

Sworn to and subscribed before me  
this 31<sup>st</sup> day of January, 2020.

Charo Miller  
Notary Public

My Commission Expires: 7/25/2020