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June 4, 2021

VIA ELECTRONIC FILING

Hon. Kenneth C. Hill, Chairman
c/o Ectory Lawless, Docket Room Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243
TPUC.DocketRoom@tn.gov

RE: ***Petition of Tennessee-American Water Company for Approval of the Establishment of a Regulatory Asset*; Docket No. 20-00126**

Dear Chairman Hill:

Attached for filing please find the *Rebuttal Testimony of J. Cas Swiz* in the above-captioned matter.

As required, one (1) hard copy will be mailed to your office. Should you have any questions concerning this filing, or require additional information, please do not hesitate to contact me.

Very truly yours,

BUTLER SNOW LLP

Melvin J. Malone

clw
Attachments
cc: Todd Wright, TAWC
J. Cas Swiz, TAWC
Karen H. Stachowski, Consumer Advocate Unit

The Pinnacle at Symphony Place
150 3rd Avenue South, Suite 1600
Nashville, TN 37201

MELVIN J. MALONE
615.651.6705
melvin.malone@butlersnow.com

T 615.651.6700
F 615.651.6701
www.butlersnow.com

BUTLER SNOW LLP

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 20-00126

REBUTTAL TESTIMONY

OF

J. CAS SWIZ

ON

PETITION FOR APPROVAL OF THE ESTABLISHMENT OF A REGULATORY ASSET

SPONSORING PETITIONER'S EXHIBIT:

<u>PETITIONER'S EXHIBIT - 2</u>

I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A1. My name is J. Cas Swiz. My business address is 727 Craig Road, St. Louis, Missouri, 63141.

Q2. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A2. I am Director of Regulatory Services for American Water Works Service Company, Inc. ("Service Company"). Service Company is a wholly owned subsidiary of American Water Works Company, Inc. ("American Water") that provides services to Tennessee-American Water Company ("TAWC", "Tennessee-American", or the "Company") and its affiliates.

Q3. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS OR ANY OTHER COMMISSION?

A3. Yes. I have submitted testimony on behalf of Vectren Corporation, a CenterPoint Energy Company, in Indiana before the Indiana Utility Regulatory Commission in various docketed proceedings supporting accounting and rate design requests, most recently in Cause Nos. 45378, 44429, and 44430. In addition, I have submitted testimony on behalf of Vectren Corporation in Ohio before the Public Utility Commission of Ohio in various docketed proceedings, more recently in Case No. 20-0099-GA-RDR, 20-0101-GA-RDR, and 18-0298-GA-AIR.

Q4. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A4. I am a 2001 graduate of the University of Evansville with a Bachelor of Science degree in Accounting, and a 2005 graduate of the University of South Indiana with a Master of

Business Administration. From 2001 to 2003, I was employed by ExxonMobil Chemical as a Product and Inventory accountant. From 2003 through 2020, I was employed by Vectren Corporation and CenterPoint Energy in various accounting and regulatory roles. Most recently, I was Director, Regulatory and Rates with responsibility for leading and executing the regulatory strategy of CenterPoint's Indiana and Ohio electric and gas jurisdictions. In November 2020, I was hired by Service Company as Director of Regulatory Services.

Q5. WHAT ARE YOUR DUTIES AS DIRECTOR, REGULATORY SERVICES?

A5. My primary responsibilities consist of the review and preparation of regulatory filings, proceedings, and related activities for the regulated subsidiaries of American Water. This includes the preparation of written testimony, exhibits, and workpapers in support of regulatory proceedings as well as responding to various discovery requests. In addition, I also review regulatory developments and evaluate alternative strategies that may affect the operations of the American Water utility entities.

Q6. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A6. The purpose of my rebuttal testimony is to respond to the pre-filed testimony of Craig C. Cox and David N. Dittemore of the Consumer Advocate Unit in the Financial Division of the Tennessee Attorney General's Office ("Consumer Advocate"), opposing the Company's request for establishment of a regulatory asset as a result of the COVID-19 emergency.

Q7. ARE YOU SPONSORING ANY EXHIBITS?

A7. Yes, I am. I am sponsoring the following exhibit:

Petitioner's Exhibit No. 2 – TAWC Regulatory Asset Deferral as of April 30, 2021 (four schedules).

Q8. PLEASE PROVIDE A BRIEF SUMMARY OF THE POSITION OF THE CONSUMER ADVOCATE WITNESSES IN THIS PROCEEDING.

A8. Consumer Advocate witness Dittemore recommends that the Tennessee Public Utility Commission (the "Commission" or "TPUC") deny the Company's request to defer incremental COVID-19-related financial impacts. If the Commission does not accept this recommendation, Mr. Dittemore recommends that the Company and customers share equally in the impacts supported by Mr. Cox in his revised calculations.[1] Consumer Advocate witness Cox presents alternative approaches to the calculation of the components of the deferral, specifically for the foregone late fee revenues, incremental uncollectible expense, cost savings, and the term loan interest expenses. Mr. Cox's recommended approach would reduce the Company's accounting deferral request as of December 31, 2020 by $311,608, from $501,294 to $189,686.[2]

Q9. DOES THE COMPANY AGREE WITH THE CONSUMER ADVOCATE'S RECOMMENDATIONS?

A9. No. I will address specific areas of disagreement within my rebuttal testimony; however, if an issue is not specifically addressed, it does not reflect the Company's agreement with the positions taken by the Consumer Advocate witnesses.

[1] Dittemore Direct Testimony, p. 8.
[2] Cox Direct Testimony, Schedule CCC-1.

II. ACCOUNTING STANDARD – REGULATORY ACCOUNTS

Q10. IN LIGHT OF MR. DITTEMORE'S TESTIMONY REGARDING THE POLICY CONSIDERATIONS FOR EVALUATING A REQUEST TO ESTABLISH A REGULATORY ASSET, WHAT IS THE BASIS FOR TENNESSEE-AMERICAN'S REQUEST FOR APPROVAL OF ESTABLISHING A REGULATORY ASSET?

A10. The Commission has adopted the uniform systems of accounts for public utilities. Pursuant to Chapter 1220-04-01 of the General Public Utility Rules, the Commission has adopted the 1984 Uniform Systems of Accounts published by the National Association of Regulatory Utility Commissioners ("NARUC") for Class A water utilities. Section 186 of the NARUC Uniform System of Accounts, which provides for the use of regulatory assets and liabilities, states:

186. Miscellaneous Deferred Debits

A. This account shall include all debits not elsewhere provided for, such as miscellaneous work in progress, losses on disposition of property, net of income taxes, deferred by authorization of the Commission, and unusual or extraordinary expenses, not included in other accounts, which are in process of amortization, and items the proper final disposition of which is uncertain.

B. The records supporting the entries to this account shall be so kept that the utility can furnish full information as to each deferred debit.

C. The following subaccounts shall be maintained as. a minimum unless otherwise authorized by the Commission. The utility may add additional subaccounts, if desired (such as deferred tank painting expense).

186.1 Deferred Rate case Expense
186.2 Other Deferred Debits

Similar provisions are found in the Federal Power Act at 18 CFR §101. It is important to note that the Company's petition in this proceeding is seeking authorization from the Commission to defer some of the financial impacts of the COVID-19 Emergency, *not* recovery of these financial impacts in rates. Recovery of these deferred amounts should be addressed in a future proceeding. This clarification is an important point when evaluating the proposed criteria for regulatory accounting that Mr. Dittemore presents in his testimony.

Q11. WHAT IS THE STANDARD FOR UTILITIES SEEKING DEFERRAL OF EXPENSES FOR ACCOUNTING PURPOSES?

A11. The Commission has approved the use of deferred accounting in a variety of circumstances in accordance with the Uniform System of Accounts. For example, on January 16, 2018, the Commission ordered Tennessee-American to immediately apply deferred accounting treatment to account for the lower federal corporate income tax rate resulting from the 2017 Tax Cuts and Jobs Act, Pub. L. No. 115-97.[3] In a more recent order, the Commission

[3] *In re: Tennessee Public Utility Commission Investigation of Impacts of Federal Tax Reform on the Public Utility Revenue Requirement*, Docket No. 18-00001, Order Opening an Investigation and Requiring Deferred Accounting Treatment, pp. 2-3 (February 6, 2018). The Commission also ordered Tennessee-American to provide no later than March 31, 2018, the amounts deferred, as well as a proposal to reduce rates or otherwise make adjustments to account for the computed tax benefits. The Commission specifically required the Company to:

approved Tennessee-American's request to defer up to $10,000 of due diligence costs as a regulatory asset.[4] As the above examples illustrate, the Commission has approved deferred accounting consistent with criteria identified in section 186 of the Uniform System of Accounts.

Q12. WERE THE ACTIONS TAKEN BY THE COMPANY AND ORDERED BY THE COMMISSION UNUSUAL OR EXTRAORDINARY?

A12. Yes. The declaration of a state of public health emergency by Governor Bill Lee resulted in significant and necessary actions by the Company and the Commission to ensure customers continued to receive uninterrupted, safe, and reliable service. Tennessee-American, along with other Tennessee utilities, took swift action to ensure continued service, including the temporary suspension of disconnection for non-payment and the reconnection of customers who had previously been disconnected for non-payment. In addition, the Company took action to mitigate the financial impact to customers, by temporarily suspending late fees and offering payment plans and financial assistance that went beyond standard practices.

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1. Track and accumulate monthly in a deferred account the portion of its revenue representing the difference between the cost of service approved by the Commission in its most recent rate case and the cost of service that would have resulted had the provision for federal income taxes been based on 21 % rather than 35%;
2. Calculate the excess deferred tax reserve caused by the reduction in the corporate federal income tax rate and recognize as a deferred liability the estimated reduction of the utilities' revenue requirement resulting from the 2017 Tax Act; and
3. Calculate and defer any other tax effects resulting from the 2017 Tax Act on revenue requirement that are not included in the preceding calculations.

[4] *In re, 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*, Order Approving Asset Purchase Agreement and Granting a Certificate of Convenience and Necessity, pp. 11-12, 18-19, 20. TPUC Docket No. 20-00011. (February 6, 2021)

The Commission stated that "[t]his is a truly exceptional time that we are living through; one that is unprecedented in impact and response in recent modern America."[5] The Commission affirmed that utility services were "essential-to-life services, and crucial to the public's health, safety, and welfare" and commended the utilities for continuing to focus on these essential services while also enacting safety measures to ensure the health and safety of the employees and customers they serve.[6] The actions taken by the Company and the Commission in response to this public health emergency were extraordinary and outside of the standard service provided to customers under its approved tariffs. The Commission stated that the COVID-19 Emergency was a "difficult and serious situation, which has created much stress and uncertainty in the daily life of every Tennessean and one that has significant potential to strain the financial resources of private citizens and businesses alike."[7] Further, the Commission stated that "this action [mandatory suspension of disconnects for non-payment] is intended to help and protect customers that need financial assistance under the circumstances…[n]evertheless, this Order does not authorize a public utility to attempt to distinguish or decide between those in financial distress due to the COVID-19 virus and those who are not."[8] These statements show that the Commission deemed the extraordinary steps necessary to ensure continued service to customers during an unprecedented event significant enough to customers to justify mandates on the utilities. Consistent with this guidance and direction, Tennessee-American filed the petition in this proceeding for authority to defer expenses and losses caused by

[5] *In Re: Emergency Petition of the Consumer Advocate Unit of the Financial Division of the Office of the Tennessee Attorney General*, Order Requiring All Jurisdictional Utilities to Suspend Actions to Disconnect Service for Lack of Payment During the State of Public Health Emergency, p. 2, TPUC Docket No. 20-00047 (Mar. 31, 2020). (the "March 31, 2020 Order")
[6] *Id.*
[7] *Id.*
[8] *Id.*

the COVID-19 emergency so that it may seek recovery of such costs in a future proceeding and avoid facing a challenge that its request at that time represents an improper, out-of-period accounting entry.

Q13. MR. DITTEMORE PRESENTS ADDITIONAL CRITERIA THAT HE BELIEVES THE COMMISSION SHOULD EVALUATE FOR REGULATORY ASSET APPROVAL. DO YOU AGREE WITH THE ADDITIONAL CRITERIA FOR REGULATORY ACCOUNTING PROPOSED BY WITNESS DITTEMORE?

A13. No, I do not agree with the additional criteria proposed by witness Dittemore for deferred accounting authority. Mr. Dittemore proposed the following five additional criteria for evaluating the Company's request for deferred accounting authority:

a. Was the event underlying the costs unforeseen?
b. Materiality of costs supported by the Consumer Advocate.
c. Would deferral of such costs allow the avoidance of base rate filing?
d. Is the accounting authorization necessary to ensure the Company does not experience financial distress?
e. Which stakeholder group(s) should bear the risk from this event?[9]

As I will explain below, Mr. Dittemore's proposed criteria are neither consistent with the Uniform System of Accounts nor Commission precedent.

Q14. DO YOU AGREE WITH MR. DITTEMORE THAT IT IS IMPORTANT TO EVALUATE WHETHER THE EVENTS DRIVING THE REQUEST WERE

[9] Dittemore Direct Testimony, p. 2.

UNFORESEEN WHEN CONSIDERING WHETHER OR NOT DEFERRED ACCOUNTING SHOULD BE AUTHORIZED?[10]

A14. No, I do not. While the Company and Mr. Dittemore agree that the events underlying the COVID-19 Emergency costs were unforeseen, the Company does not agree that only unforeseen costs should be eligible for deferred accounting authorization. For example, it is foreseeable that a utility will incur due diligence costs as part of a utility asset acquisition, and it is also appropriate for the Commission to authorize Tennessee-American to defer due diligence costs as a regulatory asset.[11]

Q15. WHY SHOULDN'T TPUC CONSIDER WHETHER THE DEFERRAL AUTHORIZATION WILL ALLOW THE COMPANY TO DEFER A RATE CASE FILING?

A15. Consideration of whether or not a rate case filing would occur absent deferral authorization is irrelevant to the Company's request for regulatory accounting and the Commission's determination. The financial impacts incurred by the Company as a result of the COVID-19 emergency are extraordinary and non-recurring events that would typically be excluded from a test period in a general rate case. As noted above, the Company filed this petition so that it may seek recovery of such costs in a future proceeding and avoid facing a challenge that its request at that time represents an improper, out-of-period accounting entry.

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[10] *See Id.* p. 3.

[11] *See In re, 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*, Order Approving Asset Purchase Agreement and Granting a Certificate of Convenience and Necessity, p. 20, TPUC Docket No. 20-00011. (February 6, 2021)

Q16. DO YOU AGREE WITH MR. DITTEMORE THAT THE COMPANY MUST DEMONSTRATE THAT THE COSTS ARE "MATERIAL" OR THAT DEFERRED ACCOUNTING AUTHORIZATION IS NECESSARY TO ENSURE THE COMPANY DOES NOT EXPERIENCE "FINANCIAL DISTRESS"?[12]

A16. No, I do not. These proposed criteria also are irrelevant to the Company's request and the Commission's regulatory accounting determination. The Commission's standard of review in this proceeding should be limited to whether the financial impacts incurred by the Company as a result of the COVID-19 emergency are extraordinary and non-recurring events that are within the exception to the prohibition against retroactive ratemaking.

Q17. DO YOU AGREE WITH MR. DITTEMORE'S RECOMMENDATION THAT THE DEFERRAL AUTHORIZATION SHOULD CONSIDER WHICH STAKEHOLDER GROUP(S) SHOULD BEAR THE RISK FROM THIS EVENT?

A17. I do not. Again, that evaluation should occur in the proceeding where the Company seeks recovery of the deferred costs. Notwithstanding the foregoing, the Commission's March 31, 2020 Order demonstrates that the risk from the COVID-19 Emergency was borne by the Company, as the actions required were specifically in place to address the financial risk and hardship to customers as a result of the COVID-19 emergency. Moreover, the Commission's determination was clear, "this Order does not relieve customers for their obligations to pay for the utility services they receive."[13]

[12] Dittemore Direct testimony, p. 3.
[13] March 31, 2020 Order, p. 10.

Q18. PLEASE RESPOND TO MR. DITTEMORE'S CLAIM THAT THE COMPANY'S REQUEST FOR AUTHORIZATION OF DEFERRED ACCOUNTING SHIFTS COSTS TO CUSTOMERS.[14]

A18. As noted above, in its March 31, 2020 Order, the Commission made clear that "this Order does not relieve customers of their obligations to pay for the utility services they receive."[15] The Company's proposal looks to isolate extraordinary and non-recurring financial impacts attributed to the COVID-19 emergency and defer those for future evaluation and recovery in a subsequent proceeding. This does not insulate the Company from any financial impacts; rather, it aligns the costs incurred with the unprecedented cause of those costs.

Q19. HOW DO YOU RESPOND TO MR. DITTEMORE'S ASSERTIONS THAT AMERICAN WATER DID NOT EXPERIENCE ANY FINANCIAL HARDSHIP DURING THE PANDEMIC AND THAT THE COMPANY'S DEFERRAL REQUEST INSULATES IT FROM ALL POTENTIAL FINANCIAL IMPACTS OF THE COVID-19 EMERGENCY?[16]

A19. The Company has defined the categories it seeks to include in the deferral, including offsets for cost savings experienced as a result of the work-from-home mandates and travel restrictions for employees. The Company has also experienced other financial impacts for which it is not seeking deferred accounting approval, such as increased financing costs for higher arrearage balances and increased employee costs for temporary support for ill

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[14] Dittemore Direct Testimony, p. 4.
[15] March 31, 2020 Order, p. 10.
[16] Dittemore Direct Testimony, pp. 4-5.

employees, overtime, and additional benefits during the COVID-19 emergency. These and other costs are being borne by the Company.

Q20. MR. DITTEMORE CLAIMS THAT THE COMPANY HAS NOT PRESENTED EVIDENCE THAT AMERICAN WATER COMPANY, THE COMPANY'S PARENT, INTENDS TO RECORD A REGULATORY ASSET ON ITS BOOKS FOR THE COLLECTIVE COVID-19 COSTS OF ITS AFFILIATES.[17] DO YOU AGREE WITH THIS STATEMENT?

A20. No, I do not. American Water has publicly disclosed the regulatory assets and liabilities recorded associated with the financial impacts of the COVID-19 emergency. Specifically, in its most recent Form 10-Q filed on May 4, 2021 with the Securities and Exchange Commission ("SEC")[18], American Water has disclosed that it "has recorded $43 million in regulatory assets and $5 million of regulatory liabilities for the financial impacts related to the COVID-19 pandemic on the Consolidated Balance Sheets as of March 31, 2021."[19] This is based on authorization for deferred accounting or cost recovery in 11 of the 14 American Water utility jurisdictions.

III. FOREGONE LATE FEES

Q21. WHAT DOES MR. COX RECOMMEND SPECIFIC TO THE DEFERRAL OF FOREGONE LATE FEES?

A21. Beyond the denial of the inclusion of foregone late fees in the deferral, Mr. Cox recommends that the Company be limited to an amount of late fees recorded during the

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[17] Dittemore Direct Testimony, p. 4.
[18] https://www.sec.gov/ix?doc=/Archives/edgar/data/1410636/000141063621000147/awk-20210331.htm
[19] *See Id.,* p. 28.

moratorium period based upon the historical three-year average for 2017 through 2019. Mr. Cox's recommendation is to reduce the Company's deferral through December 31, 2020 by $(61,368).[20]

Q22. DO YOU AGREE WITH MR. COX'S RECOMMENDATION?

A22. No. As I discussed earlier in my testimony, I disagree with the outright denial of the deferral of financial impacts, including foregone late fees. I also disagree with both the theory of placing any implied cap on the amount of late fees foregone during the moratorium period and the results of Mr. Cox's calculation.

Q23. WHY DID TENNESSEE-AMERICAN WAIVE THE APPLICATION OF LATE FEES DURING THE DISCONNECT MORATORIUM PERIOD?

A23. On March 16, 2020, Tennessee-American began waiving late fees during the COVID-19 Emergency to assist customers with the financial burdens of the public health emergency. This was a temporary measure taken across the American Water footprint, and in many states the utility Commissions instituted a requirement that the utility waive these fees during the active moratorium period. Tennessee-American Water elected to comply with this approach and maintained this temporary waiver through the disconnect moratorium period (October 1, 2020). In its March 27, 2020 response to the Commission in Docket No. 20-00047, the Company notified the Commission of the execution of its business continuity plan, and its waiver of late fees. The Commission acknowledged these actions in its March 31, 2020 Order.

[20] Cox Direct Testimony, p. 3.

Q24. WHEN DID TENNESSEE-AMERICAN RESUME APPLICATION OF THE TARIFF-AUTHORIZED LATE FEES?

A24. Tennessee-American resumed application of late fees in accordance with its Tariff on October 1, 2020.

Q25. HOW ARE LATE FEES ASSESSED IN A TYPICAL PERIOD?

A25. Late fees are administered in accordance with the Tariff on all bills that remain unpaid 15 days after they are first rendered. The unpaid balance on the current bill is assessed a 5 percent charge.

Q26. DID THE RESUMPTION OF LATE FEES EFFECTIVE OCTOBER 1, 2020 "CATCH-UP" FOR LATE FEES FOREGONE DURING THE MORATORIUM PERIOD?

A26. No. As the late fees are only assessed on the current bill, these were applied only to unpaid amounts effective with billing after October 1, 2020.

Q27. IS THERE A CONNECTION BETWEEN LATE PAYMENT FEES AND THE COST OF CUSTOMER ARREARS?

A27. Yes. Late payment fees are intended to recover the costs to the utility for unpaid balances and assign the costs to the customers who created the costs. The suspension of late fees during the COVID-19 emergency period, coupled with the suspension of disconnections for non-payment, meant that the arrearage balances carried by the Company were rising with no opportunity to collect those costs from the appropriate customers.

Q28. ARE LATE FEE REVENUES A COMPONENT OF THE COMPANY'S REVENUE REQUIREMENT USED TO DETERMINE ITS BASE RATES?

A28. Yes. The authorized revenue requirement for Tennessee-American in its last base rate case (Docket No. 12-00049) included $362,649 attributed to late fees, which resulted in a reduction in the amount of revenues required to be provided through base rates to cover the Company's operating costs. The revenue requirement also included $228,420 and $2,024 for Disconnect and Reconnect Fees, respectively. The Company is not seeking to defer any foregone disconnect or reconnect fees during the moratorium period, with any shortfall to the base revenue requirement amount resulting in a bottom-line impact to the Company.

Q29. MR. COX USES A THREE-YEAR AVERAGE AS THE BASELINE CAP TO TOTAL LATE FEE REVENUES DEFERRED. DO YOU AGREE WITH THE APPLICATION OF A CAP TO THE LATE FEE REVENUES?

A29. No. Absent the waiver of late fees during the moratorium period, the Company would not be capped on its ability to charge late fees during a calendar period. To impute a cap on the late fee revenue deferred limits the Company's ability to apply the tariff-authorized late fee, and ultimately limits the Company's ability to recover its authorized revenue.

Q30. DO YOU AGREE WITH MR. COX'S CALCULATION OF THE LATE FEE REVENUES DEFERRED DURING THE MORATORIUM PERIOD?

A30. No. Beyond the opposition to a cap on the deferral, Mr. Cox erroneously includes late fee revenues assessed after the moratorium period for October through December 2020.

Q31. WHAT IS THE ACTUAL LEVEL OF FOREGONE LATE FEES THROUGH APRIL 30, 2021?

A31. As reflected on Petitioner's Exhibit No. 2, as of April 30, 2021 the Company has foregone late fees of $304,140. This represents late fees that would have been charged March 2020 through September 2020 absent the moratorium.

IV. <u>UNCOLLECTIBLE EXPENSE</u>

Q32. PLEASE DESCRIBE MR. COX'S RECOMMENDATION RELATED TO THE DEFERRAL OF INCREMENTAL UNCOLLECTIBLE EXPENSE.

A32. Mr. Cox proposes to adjust the deferred balance attributed to incremental Uncollectible Expense, using a baseline determined as the three-year average actual uncollectible expense incurred for 2017 through 2019. This calculation results in actual uncollectible expense less than the average baseline, and Mr. Cox has recommended that no costs were incurred that support a deferral.

Q33. DO YOU AGREE WITH MR. COX'S RECOMMENDATION TO USE A THREE-YEAR AVERAGE FOR 2017-2019 AS THE BASELINE FOR UNCOLLECTIBLE EXPENSE DEFERRED?

A33. No. The Company has determined the level of incremental uncollectible expense based on the amount authorized and recovered in rates. This authorized level includes currently effective base rates plus the level of uncollectible expense recovered in the Company's Capital Riders and Production Costs and Other Pass-Throughs' ("PCOP") rider. This represents the total recoveries for uncollectible expense. To determine incremental expenses then, the Company has evaluated its actual uncollectible expense against the level collected in rates to determine the amount that should be deferred. The Company is not limiting the deferral to amounts *above* authorized but is instead including all deviations between recoveries and expense in the deferral.

Q34. WHY IS USING THE AMOUNT RECOVERED IN RATES APPROPRIATE FOR DETERMINING THE DEFERRAL?

A34. The determination of incremental expenses should be the difference between the amount reflected in rates and the amount of expense actually incurred. The level included in rates already represents a historical averaging, and the inclusion of additional recoveries in the Company's Capital and PCOP Riders represents the impact of revenues above and beyond those assumed in the last base rate case.

Q35. WHAT IS THE LEVEL OF INCREMENTAL UNCOLLECTIBLE EXPENSE THROUGH APRIL 30, 2021, WHEN COMPARED TO MR. COX'S RECOMMENDATION?

A35. As reflected on <u>Petitioner's Exhibit No. 2</u>, Schedule JCS-3, the actual uncollectible expense for the period March 2020 through April 2021 was $676,584. The level of expense included in base rates plus those recovered in the Capital Riders for this same period was $686,699. The difference - $(10,115) – reflects an incremental reduction that would be included in the Company's deferral request as of April 30, 2021. Under Mr. Cox's recommendation, the Company would instead have no deferral, and the credit realized for this period would remain as a benefit to Tennessee-American.

V. TRAVEL AND CONFERENCE SAVINGS

Q36. PLEASE DESCRIBE MR. COX'S RECOMMENDATION RELATED TO COST SAVINGS ASSOCIATED WITH TRAVEL AND CONFERENCES THAT THE COMPANY PROPOSED TO INCLUDE AS AN OFFSET TO THE DEFERRAL.

A36. Mr. Cox recommends the Company use a baseline of the three-year average of travel and conference costs incurred for 2017 through 2019 to determine the offset that should be deferred.

Q37. DO YOU AGREE WITH MR. COX'S RECOMMENDATION?

A37. No. The Company continues to support its approach of using 2019 as the baseline to determine savings attributed to the COVID-19 Emergency.

Q38. IN SUPPORTING HIS RECOMMENDATION, MR. COX STATES THAT THE COMPANY'S CALCULATION "IS INCONSISTENT WITH THE APPROACH USED BY THE COMPANY TO ESTIMATE OTHER PANDEMIC-RELATED EXPENSES."[21] WHY DID THE COMPANY APPROACH THESE COST SAVINGS DIFFERENTLY?

A38. Each component of the deferral is calculated in a manner consistent with the determination of incremental impacts. For foregone late fees, the deferral represents those amounts that would have otherwise been charged absent the waiver of late fees during the moratorium period, no more or no less. To determine this based on the amount last authorized in the utility's base rate case would assume that the late fee revenues would be unchanged as a result of the COVID-19 Emergency, which is incorrect when all parties agree that this

[21] Cox Direct Testimony, p. 8.

period was unprecedented. For operating expenses attributed to safety and personal protection equipment, these costs are completely incremental and not incurred prior to the COVID-19 Emergency. At some point these might become business-as-usual costs; however, at the time rates were established in the last base rate proceeding, these costs were not contemplated. For uncollectible expenses, the measurement of incremental costs should reflect those included and recovered in rates, if that level of expense was specified and defined in setting rates. Uncollectible expenses were specifically defined, both in the setting of base rates and also in the revenue conversion factors used in the Capital Riders.

Travel and conference costs were not separately defined in the Company's last base rate case. These costs do fluctuate each year, based on the employee levels across American Water, the requirements of those employees to travel for their specific job, and the location for travel. As 2019 represented the most recent calendar year, it presented a more reasonable alignment to the actual savings experienced in 2020 and 2021 due to the COVID-19 Emergency. Use of a three-year average would be arbitrary and outside of the proposals put forth by the Company in its request.

Q39. WHAT IS THE LEVEL OF COST SAVINGS THE COMPANY HAS REALIZED THROUGH APRIL 30, 2021 THAT WOULD BE INCLUDED AS AN OFFSET IN THE DEFERRAL?

A39. As reflected in Petitioner's Exhibit No. 2, the Company has realized cost savings of $(198,901) through April 30, 2021, which would represent a reduction to the overall requested deferral. The Company expects these savings to continue as restrictions remain in place across American Water though at least August 2021.

VI. TERM LOAN INTEREST EXPENSE

Q40. DO YOU AGREE WITH MR. COX'S RECOMMENDATION THAT DEFERRAL OF THE INTEREST EXPENSE FOR THE COMPANY'S TERM LOAN BE LIMITED TO JUST APRIL 2020?[22]

A40. No. Among other items, Mr. Cox tries to align the issuance of an American Water dividend to the implication that the liquidity concerns that supported the term loan did not manifest themselves in 2020.

Q41. WHAT WAS THE BASIS FOR AMERICAN WATER SECURING THE TERM LOAN IN MARCH 2020?

A41. American Water determined that based on its operating cash flow needs, enhanced liquidity in the amount of $500 million was necessary in the event other sources of financing, particularly commercial paper and AWCC's credit facility of $2.25 billion, were not available at reasonable rates or in sufficient quantity to meet the operating needs of the business. To put this figure into perspective, American Water invested approximately $1.8 billion in 2020 in capital investments for its regulated utilities. The execution of a term loan during this emergency period was a reasonable approach utilized by other utilities and was viewed favorably by rating agencies in 2020 to address the uncertainty and market risk.[23]

The term loan was necessary to ensure adequate liquidity for American Water's regulated operating utilities by retaining this amount in cash, in the event other sources of financing

[22] Cox Direct Testimony, pp. 6 – 7.
[23] COVID-19: While Most of the U.S. Is Shut Down, Utilities are Open for Business (S&P Global, May 4, 2020).

were not available at reasonable rates or in sufficient quantity to meet the operating needs of the business. The volatility and uncertainty that existed during the pandemic, specifically during the early months, demonstrated significant risks to American Water and its subsidiaries. The enhanced liquidity provided by the term loan was akin to an insurance policy to protect the Company and its customers in the event the pandemic created an inability to access needed funds to operate the business.

Q42. WAS IT APPROPRIATE FOR THE COMPANY TO CONTINUE TO PAY DIVIDENDS DURING THE COVID-19 EMERGENCY?

A42. Yes. Continuation of the Company's dividend practice is important to continue to demonstrate the financial health of the Company. Tennessee-American is committed to providing safe and reliable service, which requires substantial capital investment to maintain and upgrade its facilities. To fund these investments, the Company must be able to attract capital at reasonable rates, and a key component of this capital attraction is the financial health of the Company as demonstrated by its dividend. Absent a consistent dividend, the Company's cost of capital would increase and result in increased costs to customers.

Q43. MR. COX NOTES THAT THE COMPANY MAINTAINED THESE PROCEEDS AS CASH.[24] WHY DID TENNESSEE-AMERICAN KEEP THESE PROCEEDS AS CASH?

A43. The COVID-19 Emergency is unprecedented, and there has been and continues to be uncertainty surrounding its impacts to the broader economy and the capital markets,

[24] Cox Direct Testimony, p. 7.

including impacts from unemployment, consumer spending, timing and sufficiency of on-going economic stimulus, uncertain political landscape, timing and sufficiency of vaccines, and virus variants. It is clear that no one could accurately predict the COVID-19 emergency or its ongoing impacts to the broader economy and capital markets. This uncertainty is why the proceeds from the term loan were retained in cash to ensure that Tennessee-American was able to continue to provide safe and reliable service to its customers and has continued to make the necessary infrastructure investments without any significant disruptions.

Q44. WHAT WAS THE CONSUMER ADVOCATE'S VIEW AND PERSPECTIVE OF THE PUBLIC HEALTH EMERGENCY BACK IN MARCH 2020?

A44. According to its March 23, 2020 filing in TPUC Docket No. 20-00047, the Consumer Advocate shared the same sense of uncertainty as the Commission and the regulated utilities near the beginning of the pandemic's impact in Tennessee. For instance, in this filing the Consumer Advocate noted that "Consumers and corporate members of the utility industry are in uncharted territory[.]"[25] In fact, the Consumer Advocate deemed the public health emergency so dire that its position was that it was not sufficient for utilities to take voluntary measures; rather, the Consumer Advocate maintained before the Commission that the public interest required a Commission-mandated moratorium on disconnections.[26]

Q45. MR. DITTEMORE POINTS TO A DECLINE IN THE COMPANY'S INTEREST EXPENSE SINCE THE 2012 RATE CASE AS A REASON WHY THE TERM

[25] *See Consumer Advocate Cover Letter to Petition,* pp. 3-4, TPUC Docket No. 20-00047 (Mar. 23, 2020).
[26] *See Emergency Petition to Suspend Service Disconnections,* TPUC Docket No. 20-00047 (Mar. 23, 2020).

LOAN COSTS ARE NOT INCREMENTAL.[27] DO YOU AGREE WITH THIS RECOMMENDATION?

A45. No. Mr. Dittemore has isolated one change that has occurred since 2012 to continue to support his claim that the COVID-19 Emergency did not have a material impact on the financials of Tennessee-American. The Company's request has captured incremental, identifiable impacts attributed to the COVID-19 Emergency, not a comprehensive view of how the total operations of the utility have changed since the 2012 base rate case.

The Term Loan is separate and distinct from other financing, and the costs associated with it are directly attributable to the risk mitigation measures undertaken by the Company to address market uncertainty during the COVID-19 Emergency. It is not related to anything currently in rates, and as previously explained, was utilized as an insurance policy to avoid significant increases in financing costs in the event of market disruptions.

Q46. WHAT IS THE LEVEL OF TERM LOAN INTEREST EXPENSE INCURRED BY THE COMPANY THROUGH APRIL 30, 2021 THAT WOULD BE DEFERRED?

A46. As reflected on Petitioner's Exhibit No. 2, the Company has incurred $155,092 of term loan interest expenses through April 30, 2021, which would be included in the deferral. The term loan was repaid in March 2021 upon the maturity date

[27] Dittemore Direct testimony, p. 6.

VII. <u>CONCLUSION</u>

Q47. WHAT IS THE TOTAL IDENTIFIED FINANCIAL IMPACTS ASSOCIATED WITH THE COVID-19 EMERGENCY THE COMPANY PROPOSES TO DEFER AS OF APRIL 30, 2021?

A47. As reflected on <u>Petitioner's Exhibit No. 2</u>, the Company has incurred $345,173 of incremental and extraordinary financial impacts associated with the COVID-19 emergency as of April 30, 2021, which it proposes to defer in a regulatory asset in this proceeding.

Q48. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A48. Yes, at this time.

Tennessee-American Water Company
Docket No. 20-00126
COVID-19 Regulatory Asset
As of April 30, 2021

Petitioner's Exhibit No. 2
Schedule JCS-1

	Description	[A] TAWC Amount	[B] CAD Calculated [1]	[C]=[B]-[A] Variance to CAD
1	Foregone Late Payment Fees	$ 304,140	$ 223,633	$ (80,507)
2	Costs			
3	Incremental Operating Expenses	$ 94,956	$ 94,956	$ -
4	Uncollectible Expense	$ (10,115)	$ -	$ 10,115
5	Term Loan Interest Expense	$ 155,092	$ 17,218	$ (137,874)
6	Direct Offsets			
7	Travel/Conference Savings	$ (198,901)	$ (220,207)	$ (21,306)
8	Total	$ 345,173	$ 115,601	$ (229,572)

(1) CAD Calculated amounts matches the methodology proposed by Craig Cox on Schedules CCC-1 through CCC-4, extended through April 30, 2021.

Tennessee-American Water
Docket No. 20-00126
COVID-19 Regulatory Asset
Foregone Late Fee Revenues

Petitioner's Exhibit No. 2
Schedule JCS-2

		[A]	[B]	[C]=[A]+[B]	[D]	[E]	[F]=[E]-[B]	[G]=[F]-[A]	
	Month	Foregone Late Fee Revenues	Actual Billed Late Fees	Total Revenue Recorded	Authorized - Base Rates [2]	3-Year Average 2017-2019	CAD Incremental Deferred	Variance to CAD	
1	Mar-20	$ 28,580	$ (11,486)	$ 17,094	$ 30,098	$ 33,807	$ 45,293	$ 16,713	1
2	Apr-20	$ 67,405	$ (67,942)	$ (537)	$ 33,498	$ 30,083	$ 98,025	$ 30,619	2
3	May-20	$ 41,421	$ (41,785)	$ (364)	$ 38,098	$ 31,658	$ 73,443	$ 32,022	3
4	Jun-20	$ 41,071	$ 137,394	$ 178,465	$ 48,697	$ 32,449	$ (104,945)	$ (146,016)	4
5	Jul-20	$ 46,488	$ 153	$ 46,641	$ 41,598	$ 41,000	$ 40,847	$ (5,641)	5
6	Aug-20	$ 39,180	$ 29	$ 39,209	$ 38,448	$ 40,626	$ 40,597	$ 1,417	6
7	Sep-20	$ 39,994 [1]	$ (507)	$ 39,487	$ 38,498	$ 29,867	$ 30,374	$ (9,620)	7
8	Oct-20								8
9	Nov-20								9
10	Dec-20								10
11	Jan-21								11
12	Feb-21								12
13	Mar-21								13
14	Apr-21								14
15	**Total**	**$ 304,140**	**$ 15,856**	**$ 319,996**	**$ 268,935**	**$ 239,489**	**$ 223,633**	**$ (80,507)**	15

[1] Adjustment made in November 2020 to calculation of the September 2020 Foregone late fee amount - $(2,486).

[2] Authorized amount in base rates totals $362,649 annually, with monthly amounts calculated based upon historical percentages by month.

Tennessee-American Water
Docket No. 20-00126
COVID-19 Regulatory Asset
Uncollectible Expense

Petitioner's Exhibit No. 2
Schedule JCS-3

	Month	[A] Actual Expense	[B] Authorized - Base Rates	[C] Authorized - Capital Riders	[D]=[B]+[C] Total Authorized[1]	[E]=[A]-[D] Total Incremental Deferred	[F] 3-Year Average 2017-2019	[G]=[A]-[F] CAD Incremental Deferred	[H]=[G]-[E] Variance to CAD	
1	Mar-20	$ 67,319	$ 30,098	$ 8,290	$ 38,388	$ 28,931	$ 50,813	$ 16,506	$ (12,424)	1
2	Apr-20	$ 33,183	$ 33,498	$ 8,421	$ 41,919	$ (8,736)	$ 50,806	$ (17,623)	$ (8,887)	2
3	May-20	$ 44,862	$ 38,098	$ 6,676	$ 44,774	$ 87	$ 46,183	$ (1,321)	$ (1,408)	3
4	Jun-20	$ 64,282	$ 48,697	$ 7,313	$ 56,010	$ 8,272	$ 58,355	$ 5,926	$ (2,345)	4
5	Jul-20	$ 51,107	$ 41,598	$ 9,618	$ 51,216	$ (109)	$ 67,350	$ (16,243)	$ (16,134)	5
6	Aug-20	$ 99,418	$ 38,448	$ 7,789	$ 46,237	$ 53,182	$ 36,764	$ 62,654	$ 9,472	6
7	Sep-20	$ 89,125	$ 38,498	$ 8,297	$ 46,795	$ 42,330	$ 73,142	$ 15,983	$ (26,347)	7
8	Oct-20	$ 23,744	$ 49,347	$ 8,597	$ 57,944	$ (34,200)	$ 83,208	$ (59,464)	$ (25,264)	8
9	Nov-20	$ 10,057	$ 38,348	$ 7,122	$ 45,470	$ (35,413)	$ 35,294	$ (25,237)	$ 10,176	9
10	Dec-20	$ 35,066	$ 45,499	$ 6,757	$ 52,256	$ (17,190)	$ 44,686	$ (9,620)	$ 7,570	10
11	Jan-21	$ 17,728	$ 58,597	$ 10,219	$ 68,816	$ (51,088)	$ 46,627	$ (28,899)	$ 22,189	11
12	Feb-21	$ 40,665	$ 39,248	$ 10,069	$ 49,317	$ (8,651)	$ 35,704	$ 4,961	$ 13,613	12
13	Mar-21	$ 74,869	$ 30,098	$ 10,406	$ 40,504	$ 34,365	$ 50,813	$ 24,056	$ (10,309)	13
14	Apr-21	$ 25,158	$ 33,498	$ 13,555	$ 47,053	$ (21,896)	$ 50,806	$ (25,648)	$ (3,753)	14
15	**Total**	**$ 676,584**	**$ 563,570**	**$ 123,129**	**$ 686,699**	**$ (10,115)**	**$ 730,551**	**$ (53,968)**	**$ (43,853)**	15

[1] Total Authorized represents the annual base rate amount of $499,974, spread by month based on historical percentages, plus the amount included in the revenue conversion gross-up factor for the Capital and PCOP Riders billed for March 2020-April 2021.

Tennessee-American Water
Docket No. 20-00126
COVID-19 Regulatory Asset
Travel and Conference Savings

Petitioner's Exhibit No. 2
Schedule JCS-4

		[A]	[B]	[C]=[A]-[B]	[D]	[E]=[A]-[D]	[F]=[E]-[C]	
	Month	Actual Expense	2019 Baseline	Total Savings	Actual Expense - 3-Year Average 2017-2019	CAD Savings	Variance to CAD	
1	Mar-20	$ 4,548	$ 21,636	$ (17,088)	$ 21,755	$ (17,207)	$ (119)	1
2	Apr-20	$ (4,066)	$ 23,279	$ (27,345)	$ 23,067	$ (27,133)	$ 212	2
3	May-20	$ 3,524	$ 8,055	$ (4,531)	$ 15,528	$ (12,003)	$ (7,472)	3
4	Jun-20	$ 3,955	$ 10,053	$ (6,098)	$ 14,329	$ (10,374)	$ (4,276)	4
5	Jul-20	$ 1,164	$ 8,561	$ (7,398)	$ 19,498	$ (18,334)	$ (10,936)	5
6	Aug-20	$ (1,338)	$ 12,328	$ (13,666)	$ 19,656	$ (20,994)	$ (7,327)	6
7	Sep-20	$ 4,365	$ 12,811	$ (8,445)	$ 14,000	$ (9,635)	$ (1,190)	7
8	Oct-20	$ 2,367	$ 33,472	$ (31,105)	$ 18,531	$ (16,164)	$ 14,941	8
9	Nov-20	$ 3,585	$ 8,721	$ (5,135)	$ 13,457	$ (9,872)	$ (4,737)	9
10	Dec-20	$ 3,861	$ 11,146	$ (7,284)	$ 15,349	$ (11,487)	$ (4,203)	10
11	Jan-21	$ 1,131	$ 17,988	$ (16,857)	$ 15,696	$ (14,565)	$ 2,293	11
12	Feb-21	$ 1,384	$ 19,341	$ (17,958)	$ 17,926	$ (16,542)	$ 1,415	12
13	Mar-21	$ 10,833	$ 21,636	$ (10,803)	$ 21,755	$ (10,922)	$ (119)	13
14	Apr-21	$ (1,906)	$ 23,279	$ (25,185)	$ 23,067	$ (24,973)	$ 212	14
15	**Total**	**$ 33,407**	**$ 232,308**	**$ (198,901)**	**$ 253,614**	**$ (220,207)**	**$ (21,306)**	15

STATE OF Missouri)
)
COUNTY OF Jefferson)

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

He 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.

J. Cas Swiz

J. Cas Swiz

Sworn to and subscribed before me
this 2nd day of JUNE, 2021.

Samantha J. Endres

Notary Public

My Commission Expires: 10-13-23

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SAMANTHA J. ENDRES
My Commission Expires
October 13, 2023
Jefferson County
Commission #15440405

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

Karen H. Stachowski
Assistant Attorney General
Office of the Tennessee Attorney General
Financial Division, Consumer Advocate Unit
P.O. Box 20207
Nashville, TN 37202-0207
karen.stachowski@ag.tn.gov

This the 4th day of June, 2021.

Melvin J. Malone