

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION**

**NASHVILLE, TENNESSEE**

**November 1, 2021**

<b>IN RE:</b>	)	
	)	
<b>PETITION OF TENNESSEE-AMERICAN WATER</b>	)	<b>DOCKET NO.</b>
<b>COMPANY REGARDING THE 2021 PRODUCTION</b>	)	<b>21-00006</b>
<b>COSTS AND OTHER PASS-THROUGHS RIDER</b>	)	

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**ORDER APPROVING PCOP RIDER EXPENSES FOR  
DECEMBER 1, 2019 THROUGH NOVEMBER 30, 2020, AS REVISED**

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This matter came before Chairman Kenneth C. Hill, Vice Chairman Herbert H. Hilliard, Commissioner Robin L. Morrison, Commissioner John Hie, and Commissioner David F. Jones of the Tennessee Public Utility Commission (the “Commission” or “TPUC”), the voting panel assigned to this docket, during a regularly scheduled Commission Conference held on August 9, 2021, to consider the *Petition* filed by Tennessee-American Water Company (“TAWC” or the “Company”) on January 15, 2021. In summary, the Company’s revised *Petition* was approved.

**BACKGROUND**

TAWC provides residential, commercial, industrial, and municipal water service to customers in Tennessee and North Georgia. TAWC is a wholly-owned subsidiary of American Water Works Company, Inc. Under Tenn. Code Ann. § 65-5-103(d), TAWC’s initial Production Costs and Other Pass-Throughs Rider mechanism (“PCOP” or “PCOP Rider”) was approved in TPUC Docket No. 13-00130 to allow the Company to recover incremental changes in certain

essential, non-discretionary expenses.<sup>1</sup> The Commission approved changes to the PCOP Rider tariff providing for a single reconciliation, which includes a true-up of actual expenses over twelve months and a revenue true-up over eight and one-half months in TPUC Docket No. 15-00001.<sup>2</sup> Subsequently, the Commission approved additional changes to the PCOP Rider tariff in TPUC Docket No. 15-00131.<sup>3</sup>

The PCOP tariff approved by the Commission requires TAWC to annually file within thirty-days of the end of the most recent authorized attrition year, a filing calculating the PCOP percentage rate applicable to customers' bills for the twelve months following the approval of the PCOP percentage rate. The Commission approved the most recent PCOP percentage rate in TPUC Docket No. 20-00008 for the actual costs incurred during December 1, 2018 through November 30, 2019. In accordance with the PCOP tariff, on January 15, 2021, TAWC filed the *Petition* for the period of December 1, 2019 through November 30, 2020. The Consumer Advocate Unit in the Financial Division of the Office of the Tennessee Attorney General ("Consumer Advocate") formally sought intervention on February 24, 2021, which was granted by the Hearing Officer.<sup>4</sup>

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<sup>1</sup> *Petition*, pp. 3-5 (January 15, 2021). See *In re: Petition of Tennessee-American Water Company for Approval of a Qualified Infrastructure Investment Program, an Economic Development Investment Rider, a Safety and Environmental Compliance Rider and Pass-Throughs for Purchased Power, Chemicals, Purchased Water, Wheeling Water Costs, Waste Disposal, and TRA Inspection Fee*, Docket No. 13-00130, *Order Approving Amended Petition* (January 27, 2016).

<sup>2</sup> See *In re: Petition of Tennessee-American Water Company Regarding the Production Costs and Other Pass-Throughs Rider*, Docket No. 15-00001, *Order on December 1, 2013 Through November 30, 2014 PCOP Rider Expenses*, p. 11 (February 5, 2016).

<sup>3</sup> See *In re: Petition of Tennessee-American Water Company Regarding the Production Costs and Other Pass-Throughs Rider*, Docket No. 15-00131, *Order on December 1, 2014 Through November 30, 2015 PCOP Rider Expenses*, pp. 7-10 (July 26, 2016).

<sup>4</sup> *Order Granting the Petition to Intervene Filed by Consumer Advocate* (March 5, 2021).

## **PETITION**

Through the PCOP rider, TAWC seeks to recover the incremental changes in purchased power expense, purchased chemical expense, purchased water expense, wheeling charge expense, waste disposal expense, and TPUC inspection fee amounts from those levels approved in its most recent rate case, TPUC Docket No. 12-00049. In the *Petition*, TAWC is requesting to recover changes between the actual expenses for the twelve-month period ending November 30, 2020, and those approved in TPUC Docket No. 12-00049.

In the Pre-Filed Direct Testimony of Ms. Elaine K. Chambers in support of the *Petition*, the Company included exhibits demonstrating the PCOP calculations with supporting workpapers for the period of December 1, 2019 through November 30, 2020. Ms. Chambers testified that the gross receipt rate, uncollectible rate, Commission fee, and forfeited discount rate used in the PCOP calculation is the rate established in the Company's last rate case, and TAWC used 15% for unaccounted water as established in the Company's last rate case. She testified the data used to prepare the exhibits and calculate the PCOP are from the books and records of the Company.<sup>5</sup>

According to Ms. Chambers, the PCOP continues to benefit both the Company and customers by reducing "rate shock," allowing more efficient and streamlined regulation, and addressing changes in costs which she asserts are outside of the TAWC's control. She further asserted that from the PCOP's inception until this year, customers have enjoyed a PCOP rate decrease with refunds totaling approximately \$2,755,927.<sup>6</sup>

Ms. Chambers testified that the incremental change in PCOP expenses results in a recovery of \$250,106 when multiplied by the base rate water sales. After grossing up for gross receipts (3.0%), uncollectibles (1.0571%) and forfeited discount rate (0.8661%), the needed revenue is

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<sup>5</sup> Elaine K. Chambers, Pre-Filed Direct Testimony, pp. 5-6 (January 15, 2020).

<sup>6</sup> *Id.* at 6.

\$258,350. Using the projected revenue of \$47,073,724 results in a PCOP percentage of 0.55%.<sup>7</sup> Ms. Chambers testified to one minor change to the calculations in this docket from previous PCOP dockets.

In the *Petition*, the Company references the acquisition of the Thunder Air, Inc. water system and includes the new customers in the PCOP calculations.<sup>8</sup> In sum, the Company initially requested a PCOP Rider that results in an annualized revenue recovery of \$258,350, or a surcharge of 0.55%, resulting in an increase in the monthly bill of a typical residential customer living in the City of Chattanooga by \$0.12.<sup>9</sup>

In Supplemental Testimony filed by Ms. Chambers, the Company indicated the original filing contained an error in the system delivery amounts used to calculate unaccounted for water for the period of March 2020 through November 2020. In the supplemental filing the Company corrected the error, resulting in the revenue request being reduced to \$207,357.<sup>10</sup>

Ms. Chambers also submitted supplemental exhibits reflecting the corrected PCOP calculations. After grossing up for gross receipts (3.0%), uncollectibles (1.0571%) and forfeited discount rate (0.8661%), the revenue required by the *Petition* was \$207,357. Using the projected revenue of \$47,073,724 resulted in a PCOP percentage of 0.44%.<sup>11</sup> The Company asserted the typical residential customer living in the City of Chattanooga will see a PCOP surcharge of \$0.09 on their monthly bill, or \$1.08 per year.

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<sup>7</sup> *Id.*; Exhibit PCOP-CALC-EXC, p. 1.

<sup>8</sup> *Id.* at 13.

<sup>9</sup> *Id.* at 14.

<sup>10</sup> Elaine K. Chambers, Pre-Filed Supplemental Testimony, p. 1 (April 7, 2021).

<sup>11</sup> *Id.* at Exhibit EKC 1, p. 3.

## **POSITION OF THE CONSUMER ADVOCATE**

In his Pre-Filed Direct Testimony on behalf of the Consumer Advocate, Mr. Alex Bradley highlights that this is the first time since its inception the PCOP has been a positive surcharge. He attributed this to the fact that water sales have declined during the review period.<sup>12</sup> Mr. Bradley noted that the structure of the Company has changed since the inception of the PCOP. The Company sold Walden's Ridge in 2015 and acquired Whitwell and Jasper Highlands in 2013 and 2021 respectively. The acquisitions increased the Company's customer base and revenues. In summary, Mr. Bradley asserted the changes result in more of the PCOP expenses being collected from residential ratepayers because they now represent 46% of revenues whereas they were 43% in the Company's last base rate case.<sup>13</sup>

Referencing the position of the Consumer Advocate in Commission Docket No. 20-00011, in which Mr. William H. Novak took issue with applying the PCOP percentage to customers located in the Jasper Highlands area, Mr. Bradley testified that such customers are paying a \$0.25 PCOP Rider per month, compared to a typical Chattanooga customer paying \$0.09 per month. Moreover, he argued the Jasper Highlands customers are not receiving the treated water that the PCOP recovers. Further, Mr. Bradley noted that Jasper Highlands was acquired subsequent to the Company's previous rate case. According to Mr. Bradley, there is not a baseline level of purchased water nor knowledge of the incremental cost of purchased water for that area. Further, the Commission allowed the Company to continue charging the base rates charged by the previous owner.<sup>14</sup> Mr. Bradley expressed a concern of an instance of double recovery from the Whitwell customers as a result of adopting base rates in the acquisition and allowing the Company to

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<sup>12</sup> Alex Bradley, Pre-Filed Direct Testimony, pp. 6-7 (May 3, 2021).

<sup>13</sup> *Id.* at 7-9.

<sup>14</sup> *Id.* at 8-10.

continue charging the rates of the previous owner.<sup>15</sup> For these reasons, Mr. Bradley asserted it is necessary to remove an estimate of the Whitwell and Jasper Highlands production costs in the test period in order to arrive at a proper PCOP rate.

In Supplemental Pre-Filed Testimony filed on June 7, 2021, Mr. Bradley updated his calculations using the Company's response to a Commission Staff data request stating the incurred chemical costs and utilities expense of the City of Whitwell while delivering 1,527,738 hundred gallons for the year ending June 30, 2011. The Company's last rate case did not include any Whitwell or Jasper Highlands production costs. As such, Mr. Bradley recommended the base rate cost of production costs and other pass-throughs be adjusted to include Whitwell and Jasper Highland at their acquisition. Additionally, the known volumes for Whitwell should be included.<sup>16</sup> As a result, Mr. Bradley calculated a PCOP percentage of 0.15%.

#### **REBUTTAL TESTIMONY OF TENNESSEE-AMERICAN WATER COMPANY**

On behalf of the Company, Mr. Todd P. Wright adopted the pre-filed and supplemental testimony of Ms. Elaine K. Chambers on June 30, 2021.<sup>17</sup> In Pre-Filed Rebuttal Testimony filed on June 21, 2021, Mr. Wright asserted that TAWC was authorized to apply the PCOP Rider to Jasper Highlands in Commission Docket No. 20-00011. Mr. Wright also pointed out that Jasper Highlands was acquired on December 30, 2020, a time falling outside the review period in the *Petition*. Accordingly, no expense costs related to Jasper Highlands are included in the *Petition*.<sup>18</sup>

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<sup>15</sup> *Id.* at 10.

<sup>16</sup> Alex Bradley, Updated Pre-Filed Testimony, pp. 3-4 (June 7, 2021).

<sup>17</sup> Todd P. Wright, Pre-Filed Direct Testimony of Todd P. Wright Adopting Pre-Filed Direct and Supplemental Testimony of Elaine K. Chambers (June 30, 2021).

<sup>18</sup> Todd P. Wright, Pre-Filed Rebuttal Testimony, pp. 4-5 (June 21, 2021).

Mr. Wright confirmed the expenses and revenues associated with the City of Whitwell have been included in the PCOP filings since Commission Docket No. 15-00001. Additionally, the City of Whitwell customers have received a portion of the PCOP surcharge credits for the years 2013 through 2020, along with credits for the return of the excess deferred income taxes in relation to the Tax Cut and Jobs Act of 2017.<sup>19</sup>

Mr. Wright disagreed with the Consumer Advocate's methodology of comparing authorized revenues from the Company's last base rate case in TPUC Docket No. 12-00049 to 2020 revenues. He argued the calculation does not portray a directional shift to residential revenues with the loss of resale revenues and fails to consider other variables which may need to remain constant between the two periods. Additionally, Mr. Wright asserts that Mr. Bradley's calculations use 2020 operating revenues by customer class which may be distorted due to stay-at-home advisories resulting from the COVID-19 pandemic.<sup>20</sup>

While Mr. Wright agreed that an adjustment for the City of Whitwell is warranted, he rejected Mr. Bradley's methodology for calculating the adjustment for embedded PCOP costs related to the City of Whitwell. Mr. Wright asserted costs today are different from those in 2011; further, Mr. Bradley removed expenses without considering water sales and non-revenue water.<sup>21</sup>

#### **SUPPLEMENTAL TESTIMONY OF TENNESSEE-AMERICAN WATER COMPANY**

Mr. Wright filed Supplemental Testimony on June 30, 2021, in support of the revised calculations based on an agreed resolution with the Consumer Advocate. Based upon this resolution, TAWC made a prospective adjustment related to the City of Whitwell and removed any adjustments related to Jasper Highlands. In the resolution, the parties also agreed to address

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<sup>19</sup> *Id.* at 3-6.

<sup>20</sup> *Id.* at 6-7.

<sup>21</sup> *Id.* at 11-12.

the Jasper Highlands issue in the Company's next PCOP filing and to continue discussions related to the applicability of PCOP expenses to all service areas.<sup>22</sup>

Based upon the agreement between the Company and the Consumer Advocate, Mr. Wright proposed an annual revenue surcharge of \$92,290 for a surcharge of 0.20%. If approved, the typical customer using 4,154 gallons of per month in the City of Chattanooga would see a surcharge of \$0.04 per month or \$0.48 per year.<sup>23</sup> On July 1, 2021, the Consumer Advocate submitted a letter indicating there were no longer any outstanding disputes among the parties concerning the Company's revised calculations and indicating cross-examination had been waived.

### **HEARING**

A Hearing in this matter was held before the voting panel on August 9, 2021, as noticed by the Commission on July 30, 2021. As noted previously herein, the Parties filed a letter indicating there were no outstanding disputes or contested issues and the parties waived opening statements, closing statements, and cross-examination of the respective expert witnesses. Participating in the Hearing were the following parties and their respective counsel:

TAWC – Melvin J. Malone, Esq., Butler Snow, LLP, 150 3<sup>rd</sup> Avenue South, Suite 1600, Nashville, Tennessee 37201.

Consumer Advocate Unit, Financial Division – Karen Stachowski, Esq., Office of the Tennessee Attorney General, P.O. Box 20207, Nashville, TN 37202.

Mr. Todd P. Wright provided testimony telephonically in support of the revised calculations presented by the Company. During the Hearing, the public was given an opportunity to offer comment, but no member of the public sought to comment on the *Petition*.

### **FINDINGS AND CONCLUSIONS**

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<sup>22</sup> Todd P. Wright, Pre-Filed Supplemental Testimony, p. 2 (June 30, 2021).

<sup>23</sup> *Id.* at 3.



Upon review of the evidentiary record in this proceeding, the panel voted unanimously to adopt the revised PCOP percentage of 0.20% as calculated in the Supplemental Testimony of Todd P. Wright Revised Exhibit PCOP Calc-TPW. The revised PCOP percentage is based upon Fuel & Power Expense of \$1,939,572; Chemical Expense of \$1,045,347; Purchased Water Expense of \$27,005; Waste Disposal Expense of \$407,085; and Commission Inspection Fee Expense of \$217,597. The total PCOP expense to be collected from customers shall be increased by \$114,026 because the amount the Company collected from customers during the review period was less than the amount authorized in the preceding PCOP Rider. This results in a net PCOP expense of \$3,750,632, which includes a baseline PCOP expense amount for Whitwell operations.

In addition to adopting the cumulative PCOP percentage of 0.20% and the aforementioned expenses, the panel also concluded that the PCOP Rider benefits the Company by allowing timely recovery of expenses without having to file base rate cases. Consumers in turn benefit by not having to pay for expensive rate case proceedings which the Company might otherwise have to pursue absent the PCOP Rider. Additionally, customers receive immediate refunds when expenses within the PCOP Rider decrease. For these reasons, the panel found that the PCOP Rider mechanism remains in the public interest.

**IT IS THEREFORE ORDERED THAT:**

1. The total actual net Production Costs and Other Pass-Throughs Rider expense for the year ending November 30, 2020, includes \$1,045,347 for Chemical Expense; \$1,939,572 for Fuel & Power Expense; \$407,085 for Waste Disposal Expense; \$27,005 for Purchased Water Expense; and \$217,597 for the Tennessee Public Utility Commission Inspection Fee Expense. This amount is increased by \$114,026 to account for under-collections, resulting in a net Production Costs and Other Pass-Throughs Rider expense of \$3,750,632.

2. Tennessee-American Water Company shall file the Production Costs and Other Pass-Throughs Rider expense percentage and tariffs consistent with the approved Production Costs and Other Pass-Throughs Rider expense.

3. Any person who is aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within fifteen (15) days from the date of this Order.

4. Any person who is aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order.

**FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:**

**Chairman Kenneth C. Hill,  
Vice Chairman Herbert H. Hilliard,  
Commissioner Robin L. Morrison,  
Commissioner John Hie, and  
Commissioner David F. Jones concurring.**

None dissenting.

**ATTEST:**



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**Earl R. Taylor, Executive Director**