

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

November 3, 2021

IN RE:)	
)	
PETITION OF TENNESSEE-AMERICAN WATER)	DOCKET NO.
COMPANY IN SUPPORT OF THE CALCULATION)	21-00030
OF THE 2021 CAPITAL RECOVERY RIDERS)	
RECONCILIATION)	

ORDER GRANTING *PETITION* AS AMENDED BY AGREEMENT OF THE PARTIES

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 in Support of the Calculation of the 2021 Capital Recovery Riders Reconciliation* (“*Petition*”) filed on March 1, 2021 by Tennessee-American Water Company (“TAWC,” “Tennessee-American,” or the “Company”).

BACKGROUND AND *PETITION*

TAWC filed and gained approval to implement a Qualified Infrastructure Investment Program (“QIIP”) Rider; Economic Development Investment (“EDI”) Rider; Safety and Environmental Compliance (“SEC”) Rider (collectively “Investment Riders” or “Capital Riders”); and a Pass-Through Mechanism for Purchased Power, Chemicals, Purchased Water, and Wheeling Water in TPUC Docket No. 13-00130.¹ In accordance with its tariff, TAWC is required to submit

¹ 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-*

a reconciliation of the Capital Riders no later than March 1st of every year.

On March 1, 2021, the Company filed the *Petition*. On March 30, 2021, the Consumer Advocate Unit in the Financial Division of the Office of the Tennessee Attorney General (“CAU” or “Consumer Advocate”) filed a *Petition to Intervene*, which was granted by the Hearing Officer in an Order dated April 16, 2021. On April 7, 2021, the parties submitted an *Agreed Procedural Schedule* and engaged in discovery pursuant to that schedule. In its *Petition*, TAWC seeks approval of the 2021 Reconciliation of the Capital Riders to reflect the net under-recovery of surcharges for capital expenditures for the 2020 period.

POSITIONS OF THE PARTIES

TAWC’s *Petition*

Ms. Elaine K. Chambers filed Pre-Filed Direct Testimony in support of the *Petition* for the period January 1, 2020 through December 31, 2020.² In summary, Ms. Chambers states this reconciliation results in (1) a QIIP recovery of \$936,467 for nine months of 2021, or a surcharge of 2.65%, (2) an EDI revenue refund of \$174,802 for nine months of 2021, or a surcharge of -0.50%, and (3) and a SEC revenue recovery of \$277,509 for nine months of 2021, or a surcharge of 0.79%. Therefore, the typical residential customer living in the city of Chattanooga using an average of 4,154 gallons of water per month will see an increase in their monthly bill of \$0.63.³

On behalf of the Company, Ms. Chambers testified that the adjustments and modifications ordered in Commission Docket No. 14-00121, along with corrections from previous Capital Rider dockets, have been applied in this filing. Additionally, Ms. Chambers affirmed the filing is

Thoughts 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).

² Elaine K. Chambers, Pre-Filed Direct Testimony, p. 2 (March 1, 2021).

³ *Id.* at 27-28.

complete, accurate, changes in previously approved methodologies are identified, and the accounting data used in this filing is consistent with the Company's general ledger.

As approved in previous Commission dockets, Ms. Chambers provided Capital Rider tariff sheets which outline the rider mechanism and the methodology used to calculate each rider.⁴ Ms. Chambers testified that new services, new meters, and alternative fuel vehicles were excluded in the preparation of the *Petition* per the Commission's order in Docket No. 14-00121. Workpapers are provided in a format that do not use array formulas in calculations, and worksheets demonstrate the total additions, removals and retirement, and Contributions in Aid of Construction ("CIAC") for 2020.⁵

Additionally, the following other changes, in addition to all changes carried forward from previous dockets, have been included in the calculations:

1. All prior years' cumulative data is being supported through last year's final approved schedules for the calendar year 2019;
2. The 2020 actual numbers have been updated along with all formulas referencing these amounts;
3. The repairs percentages for the tax year 2019 have been updated from last year's filing to 49.67% for Transmission and Distribution ("T&D") plant and 25.03% for non-T&D;
4. The repairs percentages for the tax year 2020 have been input as 44.42% for T&D plant and 23.83% for non-T&D;
5. The net operating loss carryforward ("NOLC") has been updated for 2019 & 2020 to \$3,797,074 and \$2,023,968 respectively;
6. The accumulated deferred income tax balance is based on prorated days for the year 2020;
7. The 2020 capitalized incentive amount was included as a reduction to the revenue requirement; and
8. Some one-time non-recurring items have been included.⁶

According to the Company, the carrying costs for the capitalized Annual Performance Compensation for 2020, in Commission Docket No. 19-00105, were excluded for the 2020

⁴ *Id.* at 5-7.

⁵ *Id.* at 8.

⁶ *Id.* at 9.

reconciliation thereby reducing the actual revenue requirement the Company should have collected.⁷

All three riders are established on an annual prospective basis utilizing average end-of-month balances. Pursuant to its tariffs, the qualified plant is reduced by the projected retirements associated with the Capital Riders. The EDI and SEC may include operating expenses; however, in this filing none have been included. The annual review period for this filing is January 1, 2020 through December 31, 2020, and the Capital Riders are cumulative and will remain in place until set back to zero during the Company's next rate case.⁸ Ms. Chambers testified that the cost of capital, depreciation rates, and property tax rates are those which were approved in the Company's last rate case, Commission Docket No. 12-00049. Projected revenues are also those water service revenues approved in Commission Docket No. 12-00049.⁹

According to the Company, there were two factors that resulted in a variation from the actual amount of revenue collected from the riders and the amount needed to recover a return on the Company's capital investment and taxes. First, there was a difference between the actual water revenues and those projected based upon the Company's last rate case used to determine the Capital Rider percentage. This was primarily due to water sales being less than the amount authorized in the Company's last rate case. Second, the thirteen-month average plant investment and depreciation were more than projected. This was due to a series of projects that were modified throughout the year.¹⁰

The table below summarizes her calculations:

(Over)/Under Capital Riders Revenue Billings	\$1,716,308
Budget to Actual Adjustment	747,339

⁷ *Id.* at 10.

⁸ *Id.* at 14-15.

⁹ *Id.* at 19-20.

¹⁰ *Id.* at 21-22.

2019 Reconciliation Amount	(1,441,090)
Earnings Test Adjustment	0
Interest (Prime – 3.25%)	<u>16,616</u>
Reconciliation Amount	\$1,039,173
Authorized Capital Riders Revenues (9/12 th)	35,305,293
Reconciliation Factor	2.94% ¹¹

In her testimony, Ms. Chambers asserted the Capital Rider mechanisms defer fully litigated rate cases and lessen rate shock to consumers thereby making the regulatory process less burdensome and more streamlined without reducing regulatory oversight.¹² In her opinion, the Capital Riders continue to benefit customers by avoiding expensive rate case costs and minimizing rate changes to consumers. Additionally, the riders allow the Company to make needed infrastructure improvements with the timely recovery of the costs. Ms. Chambers affirmed that she was not aware of any changes in market conditions or other factors that would affect whether the QIIP, EDI and SEC are still in the public interest.¹³

On June 7, 2021, Mr. Todd P. Wright filed direct testimony adopting the testimony of Elaine Chambers that had been filed with the *Petition* on March 1, 2021. In his supplemental testimony filed on the same day, Mr. Wright presented exhibits revising the calculations submitted on March 1, 2021. This correction was due to a billing issue with private fire customers that pay in advance. Specifically, private fire customers who pay in advance and terminate service to receive a credit for the portion of unused service. In issuing these credits, the Company discovered it had credited the full amount of the surcharge going back to the effective date of the Capital Rider

¹¹ Elaine K. Chambers, Pre-Filed Direct Testimony, pp. 24-27, Exhibit Capital Riders Reconciliation - EKC (March 1, 2020).

¹² *Id.* at 7.

¹³ *Id.* at 32.

surcharge mechanism. The net amount of this error was \$156,185.¹⁴ According to Mr. Wright, correction of the error results in (1) a QIIP Rider of 2.39%, resulting in a revenue recovery of \$842,114, (2) an EDI Rider of -0.51% resulting in a revenue refund of \$180,376, and (3) an SEC Rider of 0.62% resulting in a revenue recovery of \$277,509.¹⁵

Mr. Kurt A. Stafford also provided supporting pre-filed testimony in support of the *Petition* discussing the Company's capital expenditures included for recovery and the variances from the projected amounts in Commission Docket No. 19-00105. Mr. Stafford testified the data used to prepare his exhibits were taken from the books and records of the Company, the officers and associates of the Company, and other internal sources examined by him.¹⁶

According to Mr. Stafford, TAWC uses industry best practices, including a regional Capital Investment Management Committee ("CIMC"), which ensures the capital investment plans correlate with the strategic objectives of the Company. Further, there is a Functional Sign-Off ("FSO") Committee that reviews all projects and allows project managers and operational area supervisors to communicate and coordinate projects from the initial development stage through the in-service completion. Mr. Stafford testified that all construction work performed by contractors is completed through a bid solicitation process.¹⁷ Mr. Stafford asserted there are proper controls in place to ensure proposed projects are in the public interest. The budgeting and planning process provides a broad and comprehensive review of facility needs and those needs are then prioritized by TAWC, allowing the Company to provide safe, adequate and reliable service.¹⁸

¹⁴ Todd P. Wright, Supplemental Pre-Filed Direct Testimony, pp. 1-2 (June 7, 2021).

¹⁵ *Id.* at 4-5.

¹⁶ Kurt A. Stafford, Pre-Filed Direct Testimony, p. 3 (March 1, 2020).

¹⁷ *Id.* at 5-6.

¹⁸ *Id.* at 7.

For 2020, the Company expended \$27,796,754 for capital projects compared to the approved budget of \$28,251,005, resulting in an underspend of approximately \$454,251.¹⁹ The underspend in the QIIP and SEC Riders was \$1,461,494 and \$1,046,432 respectively. In addition, there was an overspend on the EDI Rider of \$1,894,474 over the projection. Collectively, there was an underspend of \$613,452.²⁰

On June 16, 2021, Mr. Grady Stout filed pre-filed testimony adopting the testimony of Kurt A. Stafford that had been filed previously in support of the *Petition*.

Consumer Advocate's Direct Testimony

On behalf of the Consumer Advocate, Mr. David Dittmore provided his assessment of the *Petition* and the Company's subsequent calculation corrections, including issues raised by the Consumer Advocate concerning account 40145200.²¹ Mr. Dittmore agreed with the correction amount of \$156,185 as presented by Mr. Wright in his supplemental testimony.²² Mr. Dittmore pointed out the correction amount is a net between the billing error of \$181,185 and \$25,000 due to an overbilling of the Production Costs and Other Pass Throughs Rider ("PCOP") surcharge. Mr. Dittmore testified that while he does not advocate mixing recovery between two mechanisms, he does not object in this case due to the minuscule amount.²³

JOINT LETTER OF THE PARTIES

On June 16, 2021, counsel for the Company filed a letter stating the parties had reached an agreement on all outstanding issues, intended by both parties to have no precedential effect, and

¹⁹ *Id.* at 8.

²⁰ *Id.* at 10.

²¹ David N. Dittmore, Pre-Filed Direct Testimony, p. 3 (June 10, 2021).

²² *Id.*

²³ *Id.* at 3-4.

advocating the matter should be resolved in favor of the position outlined in TAWC's *Petition*, as amended and corrected by the testimony in the record.

THE HEARING

The hearing in this matter was noticed by the Commission on July 30, 2021 and held during the regularly scheduled Commission Conference on August 9, 2021. Making appearances were the following:

Tennessee-American Water Company – Melvin J. Malone, Esq., Butler Snow LLP, 150 3rd Avenue South, Suite 1600, Nashville, Tennessee 37201.

Consumer Advocate Unit, Financial Division, Office of the Tennessee Attorney General – Rachel C. Bowen Esq., Post Office Box 20207, Nashville, Tennessee 37202-4015.

Mr. Todd P. Wright provided testimony telephonically on behalf of the Company. Members of the public were given an opportunity to offer comments, but no one sought recognition to do so.

STANDARD FOR COMMISSION APPROVAL

Tenn. Code Ann. § 65-5-103(d)(5) states:

(A) A public utility may request and the commission may authorize a mechanism to recover the operational expenses, capital costs or both related to other programs that are in the public interest.

(B) A utility may request and the commission may authorize a mechanism to allow for and permit a more timely adjustment of rates resulting from changes in essential, nondiscretionary expenses, such as fuel and power and chemical expenses.

(C) Upon a finding that such programs are in the public interest, the commission shall grant recovery and shall authorize a separate recovery mechanism or adjust rates to recover operational expenses, capital costs or both associated with the investment in other programs, including the rate of return approved by the commission at the public utility's most recent general rate case pursuant to § 65-5-101 and subsection (a).

FINDINGS AND CONCLUSIONS

Based on the evidentiary record, the Hearing Panel found that the *Petition* and the amendments made to it by agreement of the parties complies with the tariff filing requirements, whereby Tennessee-American shall submit to the Commission a reconciliation of the results of the Capital Riders operations for the previous annual review period.

The Hearing Panel further found that Tennessee-American properly included the capital investment in (1) non-revenue producing plant for the QIIP rider; (2) the capital investment in the EDI rider made to encourage and aid economic development; and (3) the capital investment in the SEC rider necessary to meet safety and environmental regulations. The Hearing Panel further found that previously ordered changes by this Commission have been incorporated in this filing and all other changes have been properly identified.

Based on the evidentiary record, the panel voted unanimously to adopt the following corrected surcharges:

1. A QIIP Rider surcharge of 2.39%;
2. An EDI Rider surcharge of -0.51%; and
3. An SEC Rider surcharge of 0.62%.

These amounts represent a total surcharge of 2.50%. Finally, in conjunction with approval of these surcharges, the panel required Tennessee-American to submit tariff provisions consistent with its decision.

IT IS THEREFORE ORDERED THAT:

1. The *Petition in Support of the Calculation of the 2021 Capital Riders Reconciliation* filed on March 1, 2021 by Tennessee-American Water Company requesting

Commission approval of its Calculation of the 2021 Capital Riders Reconciliation is granted, subject to the amendments and corrections set forth above.

2. The amended Capital Rider surcharges are adopted as follows:
 - A Qualified Infrastructure Investment Rider surcharge of 2.39%;
 - An Economic Development Investment Rider surcharge of -0.51%; and
 - A Safety and Environmental Compliance Rider surcharge of 0.62%.

These amounts represent a total surcharge of 2.50%.

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:



Earl R. Taylor, Executive Director