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TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 22- 22227

DIRECT TESTIMONY

OF

TRICIA N. SINOPOLE

ON

CHANGES TO THE PRODUCTION COSTS AND OTHER PASS-THROUGHS RIDER

SPONSORING PETITIONER'S EXHIBITS:

PETITIONER'S EXHIBIT – PCOP CALC – TNS

PETITIONER'S EXHIBIT – PCOP AVG IMPACT – TNS

PETITIONER'S EXHIBIT – CURRENT TARIFF SHEET NO. 12 – RIDERS – TNS

PETITIONER'S EXHIBIT – PROPOSED TARIFF SHEET NO. 12 – RIDERS - TNS

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

2 A. My name is Tricia N. Sinopole and my business address is 2223 Duke Street Alexandria,
3 VA 22314.

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 of
6 Rates and Regulatory for Tennessee and Kentucky.

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

9 A. No.

10 **Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL**
11 **BACKGROUND.**

12 I have a Bachelor of Science in Business Administration degree with an emphasis in
13 Finance from Southeast Missouri State University. I also have a Master of Business
14 Administration from Southeast Missouri State University. I have also completed the
15 NARUC Utility Rate School.

16 I have over nine years of experience at AWW, three of which have been in the rates area. I
17 accepted the role as Director of Rates and Regulatory for Tennessee and Kentucky in June
18 2021 and prior to that was the Senior Manager of Finance for Virginia and Maryland. I was
19 also the Senior Manager of Finance for Indiana and Michigan before accepting the role for
20 Virginia and Maryland. Prior to my Senior Manager of Finance roles, I was a Rates and
21 Regulatory Analyst serving multiple American Water states and a Financial Analyst
22 specializing in revenue analytics, also serving multiple American Water states. Before
23 joining AWW in 2012, I worked as a Project Manager for a software company for over

1 four years, where I led accounting and business software implementations for multi-
2 million-dollar electric cooperatives throughout the United States.

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

4 A. My primary responsibilities encompass the coordination of regulatory issues in Tennessee
5 and Kentucky. This includes coordinating all reports and filings, working with regulatory
6 staff to make sure that all information produced addresses the requirements or requests,
7 and overseeing the preparation and filing of rate cases and tariff changes. I work with the
8 senior management in both states on planning. I am also responsible for keeping abreast
9 of changes in regulation, or trends in regulatory oversight across the United States that may
10 impact our local operations. I report to the Presidents of Kentucky American Water
11 Company (“KAWC”) and Tennessee American Water (“Tennessee American,” “TAWC,”
12 or “Company”). While I am not located in Tennessee, I work closely with the TAWC staff.

13 **Q. WHAT IS THE PURPOSE OF THE PETITION TAWC HAS FILED?**

14 A. On April 14, 2014, the Tennessee Public Utility Commission (“Commission” or “TPUC”)
15 approved four new alternative rate mechanisms for TAWC in TPUC Docket No. 13-00130,
16 effective April 15, 2014. Three of these alternative rate mechanisms were capital program
17 riders (“Capital Recovery Riders”) and one was a rider for production costs and other pass-
18 throughs. The three Capital Recovery Riders are a Qualified Infrastructure Investment
19 Program (“QIIP”) Rider, an Economic Development Investment (“EDI”) Rider, and a
20 Safety and Environmental Compliance (“SEC”) Rider. The QIIP Rider, the EDI Rider and
21 the SEC Rider are commonly referred to as the Capital Recovery Riders. The Capital
22 Recovery Riders are based on certain categories of forward-looking capital expenditures
23 that are projected or forecasted annually for the upcoming investment period. The

1 Production Costs and Other Pass-throughs Rider (“PCOP”), on the other hand, is based on
2 a historical annual review period.

3 The purpose of TAWC’s Petition, which this testimony accompanies (the “Petition”), is to
4 provide the required information and supporting documentation for the 2021 historical
5 review period of December 1, 2020 through November 30, 2021 to comply with the
6 previously approved PCOP rider tariff, which as noted above was approved in TPUC
7 Docket No. 13-00130 and adjusted in Docket Nos. 15-00001, 15-00131, 16-00148, 18-
8 00009, 19-00010, 20-00008 and 21-00006. The information provided in my testimony is
9 consistent with Tenn. Code Ann. § 65-5-103 *et seq.*, the decisions made in TPUC Docket
10 No. 13-00130 and with any adjustments ordered by the Commission in TPUC Docket Nos.
11 15-00001, 15-00131, 16-00148, 18-00009, 19-00010, 20-00008 and 21-00006.

12 **Q. CAN YOU ELABORATE ON THE PRODUCTION COSTS AND OTHER PASS-**
13 **THROUGHS RIDER TARIFF THAT WAS APPROVED BY THE TPUC ON**
14 **APRIL 14, 2014?**

15 A. Yes. The previously approved PCOP Rider included the concept of an annual review of
16 certain categories of operational expenses during the historical review period. The PCOP
17 differs from the Capital Recovery Riders in that the PCOP is based upon actual historical
18 expenses, rather than forward-looking projections. The PCOP is a tariff rate adjustment
19 mechanism for recovery from, or crediting to, customers incremental changes in essential,
20 non-discretionary expenses, including purchased power expense, purchased chemical
21 expense, purchased water expense, wheeling charge expense, waste disposal expense and
22 TPUC inspection fees that are above or below the level authorized for recovery in the most
23 recent rate case. At the end of a 12-month period, the PCOP looks at that historical period

1 and compares the actual production expenses to the amount of production expenses
2 authorized in the most recent rate case, which for TAWC is TPUC Docket No. 12-00049.
3 The “initial” PCOP Rider year or review period pursuant to the April 14, 2014, approval
4 of the agency was the attrition year period from that previous rate case of December 1,
5 2012 through November 30, 2013, as compared to the actual amount of production
6 expenses that occurred between December 1, 2012 through November 30, 2013. The
7 approved tariff in Docket No. 13-00130 then identified each following review period as
8 subsequent 12-month periods. The table below summarizes the approved PCOP dockets
9 and review periods:

Docket	Review Period
	December 1, 2012 – November 30, 2013
15-00001	December 1, 2013 – November 30, 2014
15-00131	December 1, 2014 – November 30, 2015
16-00148	December 1, 2015 – November 30, 2016
18-00009	December 1, 2016 – November 30, 2017
19-00010	December 1, 2017 – November 30, 2018
20-00008	December 1, 2018 – November 30, 2019
21-00006	December 1, 2019 – November 30, 2020

10
11
12 The “current” review period that is the subject of this Petition is from December 1, 2020
13 through November 30, 2021. This Petition includes the current review period expenses,
14 compared to the amounts approved in TAWC’s last general rate case.

15 **Q. IS THERE A SECOND STEP TO THE PCOP RECONCILIATION PROCESS?**

16 A. Yes. The first step is a reconciliation adjustment of the authorized expenses to the actual
17 amount of expenses. The second step is then a reconciliation adjustment of the amount of
18 revenues for the previous year under the PCOP that was projected to be collected or
19 refunded. TAWC looks at the amount of revenues that was authorized to be collected or

1 refunded during the previous year, or the review period, and compares that to the actual
2 amount collected or refunded. TAWC has included this reconciliation in the Petition as
3 well.

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

5 A. The purpose of my testimony is to support the calculation of the 2022 PCOP Rider
6 described in the Petition. Of the four riders approved by the Commission on April 14,
7 2014, in TPUC Docket No. 13-00130, the PCOP Rider is the only item included in the
8 Petition.

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

10 A. Yes, I am. I am sponsoring the following exhibits:

11 **Petitioner's Exhibit – PCOP Calc Exhibit – TNS**
12 **Petitioner's Exhibit – PCOP Avg Impact--TNS**
13 **Petitioner's Exhibit – Current Tariff Sheet No. 12 – Riders – TNS**
14 **Petitioner's Exhibit – Proposed Tariff Sheet No. 12 – Riders - TNS**

15
16 I will discuss these exhibits in further detail in my testimony below.

17 **Q. WERE THE PETITIONER'S EXHIBITS LISTED ABOVE PREPARED BY YOU**
18 **OR UNDER YOUR DIRECTION AND SUPERVISION?**

19 A. Yes.

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

22 A. The data used to prepare the exhibits was acquired from the books of account and business
23 records of Tennessee American and other internal sources which I examined in the course
24 of my investigation of the matters addressed in this testimony.

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

4 A. Yes.

5 **Q. DO THE PETITIONER'S EXHIBITS LISTED ABOVE ACCURATELY**
6 **SUMMARIZE SUCH DATA AND THE RESULTS OF ANALYSIS USING SUCH**
7 **DATA?**

8 A. Yes, they do.

9 **Q. DOES THE PCOP RIDER BENEFIT THE CUSTOMERS?**

10 Yes. The PCOP is mutually beneficial to the ratepayers, the public, and TAWC. Along
11 with the Capital Recovery Riders, the Production Costs and Other Pass-Throughs Rider
12 reduce the need for general rate cases, lessen the occurrence of consumer “rate shock,” and
13 allow for more efficient, streamlined regulation. The ratepayers and the public benefit
14 from efficiently addressing changes in costs that are largely outside TAWC’s control,
15 without the expense of a general rate case. In the case of the PCOP, the customers have
16 seen a rate decrease in each year since the last general rate case of Docket No. 12-00049,
17 except for 2021, as TAWC’s production costs have been less during each subsequent year
18 than authorized for the attrition year, with the exception of 2021, or the initial period in 12-
19 00049 of December 1, 2012 through November 30, 2013. In fact, from 2014 to 2020 of
20 the PCOP, TAWC refunded back approximately \$2,755,927 to its customers. The
21 Company benefits from a more efficient, streamlined regulatory process that presents
22 TAWC with the opportunity to timely recover its expenses.

1 **Q. CAN YOU EXPLAIN THE CALCULATION OF THE PCOP RIDER?**

2 A. Certainly. As set forth in the approved tariffs, the PCOP Rider is established on an annual
3 basis. Essentially, the calculation starts with levels of purchased power, purchased
4 chemical, purchased water, wheeling charges, waste disposal, and TPUC Inspection Fee
5 assessments and water sales that are authorized in the Company's most recent rate case.
6 The authorized levels of purchased power, purchased chemical, purchased water, wheeling
7 charges, waste disposal, and TPUC Inspection Fee assessments are divided by the
8 authorized level of water sales in hundred gallons. Then actual purchased power expense,
9 purchased chemical expense, purchased water expense, wheeling charges, waste disposal
10 expense, and TPUC Inspection Fee assessments are divided by the actual level of water
11 sales in hundred gallons. The difference is the incremental change in production costs per
12 hundred gallons of water. This incremental difference is then multiplied by the authorized
13 level of water sales in hundred gallons. After that, the amount of the PCOP revenues from
14 the previous period that is either over or under the anticipated amount is calculated with
15 interest and added to the expense difference. The total amount is grossed up for the
16 authorized gross receipts tax rate, uncollectible rate, TPUC fee and forfeited discounts from
17 the previous rate case, and then divided by the authorized revenues from the previous case.
18 It is expressed as a percentage for all water charges. If it is negative, the amount is to be
19 refunded to customers. If it is positive, it is added as a surcharge to the customers' bills as
20 additional revenues.

21 As approved, the PCOP changes on an annual basis until it resets back to zero at the
22 conclusion of the Company's next rate case filing, at which point the operational expenses

1 for these categories that are reflected and approved in that rate case filing will be included
2 within Base Rates.

3 **Q. HAVE YOU INCLUDED THE CALCULATION OF THE PRODUCTION COSTS**
4 **AND OTHER PASS-THROUGHS RIDER IN THE PETITION?**

5 A. Yes. I have attached an exhibit that reflects the calculation of the PCOP Rider. The
6 detailed calculations are attached in an exhibit to my testimony as **Petitioner's Exhibit -**
7 **PCOP Calc – TNS.** The calculations in this Petition are consistent with the calculations
8 made pursuant to and in compliance with the approved tariff in TPUC Docket No. 13-
9 00130 and again in Docket Nos. 15-00001, 15-00131, 16-00148, 18-00009, 19-00010, 20-
10 00008 and 21-00006. Further, to assist in the streamlined regulatory process, TAWC is
11 including with the Petition its detailed work-papers supporting the calculation of the PCOP,
12 including all of the invoices for the review period. Again, these workpapers are consistent
13 with the calculations made pursuant to and in compliance with the approved tariff in TPUC
14 Docket No. 13-00130 and again in Docket Nos. 15-00001, 15-00131, 16-00148, 18-00009,
15 19-00010, 20-00008 and 21-00006.

16 **Q. HAS TAWC INCLUDED DETAILED INFORMATION REGARDING THE**
17 **EXPENSES THAT MAKE UP EACH OF THE EXPENSE CATEGORIES FOR**
18 **THE PCOP RIDER?**

19 A. Yes. As with TPUC Docket No. 13-00130, TAWC began with the General Ledger for
20 each of the accounts for the appropriate expenses. TAWC then reconciled the monthly
21 General Ledger charges with the actual invoices appropriate for each monthly period.
22 TAWC removed any charges that were not consistent with the previous docket. This
23 included power charges that are not specific to production, late charges, or charges for

1 service periods outside the review period even if the invoice was applied to the General
2 Ledger during the review period.

3 **Q. HOW ARE THE PCOP EXPENSES RECOVERED?**

4 A. The PCOP is expressed as a percentage. The current tariff Twenty-Fourth Revised Sheet
5 No. 12 – Riders – 1 is attached to my testimony as **Petitioner’s Exhibit - Current Tariff**
6 **Sheet No. 12 – Riders – TNS**. The proposed tariff sheet Twenty-Fifth Revised Sheet No.
7 12 – Riders - 1 is attached to my testimony as **Petitioner’s Exhibit - Proposed Sheet No.**
8 **12 – Riders – TNS**. The PCOP is applied to the total amount billed to each customer under
9 the otherwise applicable rates and charges for basic service, metered usage charges, and
10 private fire charges, and is applied prior to the inclusion of any other taxes, charges, or
11 surcharges. The Capital Recovery Riders are combined into one line item on the bill of
12 each customer, while the PCOP Rider is a second line item on the bill of each customer.

13 **Q. WHAT WILL HAPPEN TO THE PCOP RIDER UPON APPROVAL OF NEW**
14 **RATES IN A RATE CASE PROCEEDING?**

15 A. The PCOP will be reset to zero as of the effective date of the new base rates which Base
16 Rates then provide for the recovery of the operational expenses in Base Rates.

17 **Q. WHAT GROSS RECEIPT RATE IS UTILIZED IN THE FORMULA OF THE**
18 **PCOP?**

19 A. The gross receipt rate is the established rate in the Company’s immediately preceding Base
20 Rate Case Order, currently TPUC Docket No. 12-00049.

21 **Q. WHAT UNCOLLECTIBLES RATE IS USED TO DETERMINE THE PCOP?**

22 A. The uncollectible rate is the established rate in the Company’s immediately preceding Base
23 Rate Case Order, currently TPUC Docket No. 12-00049.

1 **Q. WHAT FORFEITED DISCOUNT RATE IS USED TO DETERMINE THE PCOP?**

2 A. The forfeited discount rate is the established rate in the Company's immediately preceding
3 Base Rate Case Order, currently TPUC Docket No. 12-00049.

4 **Q. HAS TAWC MADE ADJUSTMENTS TO THE PCOP FOR UNACCOUNTED-FOR**
5 **WATER PERCENTAGES?**

6 A. Yes. The fuel and power expenses, and chemical expenses have been reduced to assume
7 an authorized level of 15%. TAWC has been working on reducing its unaccounted-for
8 water levels, but they currently remain above the TPUC authorized rate of 15%.

9 **Q. HOW ARE ANNUAL REVENUES DETERMINED FOR THE PCOP?**

10 A. The projected annual revenues will be the authorized water services revenues from the last
11 rate case, TPUC Docket No. 12-00049, including all service charges and volumetric
12 charges for all classes that are subject to the Capital Recovery Riders.

13 **Q. IS THERE A RECONCILIATION OF THE CURRENT AUTHORIZED PCOP?**

14 A. Yes. There is a difference between the amount of the PCOP that was authorized to be
15 collected in TPUC Docket No. 21-00006 and what was actually collected. Water sales
16 were below the authorized amount from the base year in Docket No. 12-00049 by just over
17 ten percent. This means there were less water sales to which the PCOP can be applied.
18 The decrease in water sales combined with the PCOP rate of 0.20% from docket 21-00006
19 becoming effective on August 9th, 2021, results in an under collection. The prior PCOP
20 rate of -0.65%, from Docket No. 20-00008, was in effect until that time, which resulted in
21 an over credit to customers. The reconciliation of the under collected amount from Docket
22 No. 21-00006, with interest, has been included in the PCOP calculation as \$287,714.

1 **Q. YOU INDICATED THAT TENNESSEE AMERICAN IS ONLY INCLUDING**
2 **CHANGES TO THE PCOP RIDER FOR 2021 IN THIS FILING. WHEN WILL**
3 **TENNESSEE AMERICAN ADDRESS THE CAPITAL RECOVERY RIDERS?**

4 A. Consistent with the approved tariffs, Tennessee American last filed a petition for the
5 adjustment of the Capital Recovery Riders for 2021 on November 24, 2020 in TPUC
6 Docket No. 20-00128. That petition only addressed the 2021 projected Capital Rider
7 projects. The Company did not file Capital Recovery Riders for 2022 due to pending
8 TPUC Docket No. 19-00103. Additionally, TAWC will file a reconciliation for the 2021
9 Capital Recovery Riders no later than March 1, 2022. There are actually two steps to the
10 reconciliation. The first is an adjustment for budget to actual investment. This is a
11 regulatory oversight and public interest component of the mechanism that results in a true-
12 up if the investment did not occur (up or down) as forecasted. The second is an adjustment
13 for the over or under recovery of revenues as projected, including interest. In this way, the
14 consumers are protected if sales exceed the amount authorized in the previous rate case
15 proceeding. This may occur if there is a significant amount of customer growth or if dry
16 and hot conditions occur in any given year. This second adjustment also allows TAWC to
17 adjust if sales are less than the amount authorized in the last case, as may occur with
18 declining usage that TAWC has experienced in recent years. The reconciliation percentage
19 for the Capital Recovery Riders, pending approval by April 1, 2022, as contemplated in
20 the tariffs, will be applied to customer bills for 9 months in 2022.

21 **Q. IN TPUC DOCKET NO. 15-00001, TAWC INDICATED THAT THERE WERE**
22 **SOME ISSUES REGARDING THE RECONCILIATION OF THE INITIAL**

1 **FILING APPROVED BY THE COMMISSION ON APRIL 14, 2014? CAN YOU**
2 **ELABORATE ON THOSE ISSUES AT THIS TIME?**

3 A. Yes, I can. Based upon Tenn. Code Ann. § 65-5-103 *et seq.*, in TPUC Docket 13-00130,
4 Tennessee American proposed tariffs that it anticipated would be approved and be in place
5 in January 2014. As the tariffs became effective on April 15, 2014 rather than earlier in
6 January, TAWC did not begin applying the Capital Rider or PCOP Rider surcharges until
7 mid-April. Because of this, if these dates are strictly applied, an annual reconciliation of
8 the first filing approved on April 14, 2014, would have to be completed in two steps – a)
9 one to capture the amount of expenses for the review period which could be filed by
10 December 30, 2014; and b) one to capture the difference in dollars refunded through the
11 rider from April 15, 2014 through April 14, 2015, which would not be able to be filed until
12 mid to late June, 2015. Filing in this manner would create a mismatch of reconciliation
13 periods that would remain until a new rate case is filed and approved by the TPUC and the
14 filing periods would be re-set. The mismatch of reconciliation periods would have created
15 an additional expense for TAWC, and a heightened, though avoidable, resource burden to
16 the Commission and the Consumer Advocate, relative to the preparation and review of an
17 additional reconciliation. Further, this mismatch would result in two adjustments to
18 customer bills over a 12-month period on the PCOP alone, which may lead to some
19 customer confusion.

20 **Q. WHAT HAS BEEN DONE TO ADDRESS THIS RECONCILIATION ISSUE?**

21 A. TAWC proposed to only file one reconciliation for the review period of December 1, 2013
22 through November 30, 2014, to incorporate both steps, and thus eliminate the mismatch of
23 the reconciliation periods. In Docket No. 15-00001, the TPUC approved the one annual

reconciliation for the review periods going forward. This was applied again in Docket No. 15-00131, 16-00148, 18-00009, 19-00010, 20-00008 and 21-00006.

Q. AGAIN, WHY IS TENNESSEE AMERICAN NOT INCLUDING THE RECONCILIATION COMPONENT OF THE 2021 CAPITAL RECOVERY RIDERS IN THIS FILING?

A. The QIIP, EDI, and SEC Capital Recovery Riders were approved to cover the calendar year 2021. Although the year has been completed, the reconciliation cannot accurately be calculated consistent with the tariffs until after the books are closed. As established in the tariffs, the reconciliation will occur in early 2022 and be filed no later than March 1, to be effective in rates April 1, 2022.

Q. WILL THE CAPITAL RECOVERY RIDERS HAVE A TWO-STEP RECONCILIATION PROCESS?

A. Yes. Similar to the PCOP Rider, the Capital Recovery Riders reconciliation has 1) the reconciliation of the budget of investments compared to actual made as part of the Capital Recovery Riders for calendar year 2021; and 2) the difference in dollars collected through the riders in calendar year 2021.

Q. HAS TENNESSEE AMERICAN MADE ANY CHANGES TO ITS CALCULATIONS OR WORKPAPERS FROM THE PREVIOUS DOCKET?

A. Yes. There are a few changes to the work papers formats from the previous docket as follows:

- 1) Jasper Highlands has been added to the Average Impact exhibit, as they will be receiving the PCOP increment on their bills in 2022.

- 1 2) A Jasper Highlands workpaper has been added to Exhibit
2 TAW_EXH_TNS_1_011422 to show the proposed adjustment calculation for
3 Jasper Highlands' base rate cost for PCOP eligible expenses, as well as base rate
4 water sales and revenues, which are included in the PCOP calculation.
- 5 3) Two rows have been added to the Support Workpaper within Exhibit
6 TAW_EXH_TNS_1_011422. The first row added is for the Whitwell adjustment
7 of PCOP base rate expenses and water sales, pursuant to and consistent with Docket
8 No. 21-00006. The second row added is for the Jasper Highlands proposed
9 adjustment of PCOP base rate expenses and water sales.
- 10 4) In addition, Jasper Highlands was added to the billing determinants in the
11 Workpaper_Billing Determinants – Dec 2020 – Nov 2021 workpaper.

12 **Q. CAN YOU PLEASE EXPLAIN HOW THE JASPER HIGHLANDS PROPOSED**
13 **ADJUSTMENT OF PCOP BASE RATE EXPENSES AND WATER SALES WAS**
14 **CALCULATED?**

15 A. Yes. In sum, the concern in Docket No. 21-00006 with respect to Whitwell and Jasper
16 Highlands was that there was no acknowledgement or recognition for any embedded water
17 treatment expenses. We utilized the same approach here with respect to Jasper Highlands
18 that the Commission approved in Docket No. 21-00006 regarding Whitwell.

19 First, Jasper Highland's actual water revenues for 2017 to 2019 were taken from Exhibit
20 DB-3, as filed in Dane Bradshaw's Confidential Testimony in Docket No. 20-00011. Next,
21 billed water sales for 2018 and 2019 were derived by using billed water usage provided by
22 Jasper Highlands in Docket No. 20-00011 for the periods of December 2017 to November
23 2018 for billed usage of 8,625,530 in 2018 and for the periods of December 2018 to

1 November 2019 for billed usage of 9,896,890 in 2019. Next, 2021 actual revenues, water
2 sales, and PCOP eligible expenses (purchased water and fuel and power expenses) were
3 normalized to reflect an annualized amount for each line item. Based on the normalized
4 actual 2021 amounts, the purchased water and fuel and power expense as a percent of
5 revenues was calculated at 31.8%. Then, using 2018, 2019 and 2021 actuals, a four-year
6 compound annual growth rate (“CAGR”) was calculated for water revenues and sales. The
7 water revenue CAGR of 9.0% was then applied to 2017 actual Jasper Highland revenues
8 of \$178,650 to derive 2016 estimated revenues of \$162,656. The 2021 actual PCOP
9 expense percent of revenues of 31.8% was then multiplied by the \$162,656 estimated
10 revenues to derive \$51,710 for 2016 PCOP expenses. Lastly, the four-year water sales
11 CAGR of 17.7% was used to calculate 2017 and 2016 estimated water sales, with 2016
12 estimated water sales being 58,423 hundred gallons.

13 **Q. WHY WAS 2016 CHOSEN AS THE BASIS FOR JASPER HIGHLANDS’ BASE**
14 **RATE YEAR FOR ADJUSTMENTS?**

15 A. TAWC chose 2016 as the basis for the Jasper Highlands base rate year because, according
16 to information provided by Jasper Highlands in Docket No. 20-00011, Jasper Highlands’
17 rates were last updated on September 1, 2016. When TAWC acquired Jasper Highlands in
18 December 2020, Jasper Highlands’ rates remained in effect, with the 2016 effective rates
19 being adjusted down by TAWC’s 2020 Capital Recovery Riders and PCOP effective rates.
20 Jasper Highlands’ rates were adjusted by the Capital Recovery Rider and PCOP rates to
21 account for those percentages being applied to Jasper Highlands’ customers going forward.

1 **Q. WAS THE PCOP CALCULATION ADJUSTED TO INCLUDE THE PROPOSED**
2 **JASPER HIGHLANDS' BASE RATE YEAR REVENUE, WATER SALES AND**
3 **PCOP EXPENSES?**

4 A. Yes. The Jasper Highlands 2016 proposed PCOP expenses of \$51,710 is included in the
5 Pro Forma Production Costs and Pass-Throughs on Line 1 of the PCOP calc in Exhibit
6 TAW_EXH_TNS_1_011422. The 2016 proposed base year water sales of 58,423 hundred
7 gallons is included in the Line 2 calculation of Pro Forma Water Sales in 100 gallons. And
8 lastly, the 2016 proposed base year revenues of \$162,656 is included in the Line 15
9 calculation of Projected Annual Base Rate Revenue subject to PCOP.

10 **Q. WAS THERE AN ADJUSTMENT MADE TO PROJECTED ANNUAL BASE**
11 **RATE REVENUE SUBJECT TO PCOP TO ACCOUNT FOR WHITWELL BASE**
12 **YEAR REVENUES?**

13 A. Yes, there is an adjustment included.

14 **Q. WHAT IS THE AMOUNT OF THE WHITWELL BASE YEAR REVENUE**
15 **ADJUSTMENT INCLUDED AND HOW WAS IT DERIVED?**

16 A. The amount of base year revenues included in the Projected Annual Base Rate Revenue
17 subject to PCOP for Whitwell is \$1,242,200. It was derived from Whitwell's June 30, 2012
18 audited financials as provided to TAWC from Whitwell in the acquisition process. This
19 timeframe was chosen because Whitwell's base rates were last updated in 2012.

20 **Q. WHAT IS THE PROPOSED NEW PCOP RIDER?**

21 A. TAWC is proposing a PCOP Rider that results in an annualized revenue increase of
22 \$275,763, or a surcharge of 0.57%. This is an increase of \$183,473 from the previously

1 approved collection of \$92,290 from Docket No. 21-00006. The previously approved
2 PCOP Rider is 0.20%, and this new proposed PCOP Rider is a change of 0.37%.

3 **Q. HAS TENNESSEE AMERICAN FILED A TARIFF ADDRESSING THE**
4 **PROPOSED PCOP RIDER?**

5 A. Yes. A new tariff Twenty-Fifth Revised Sheet No. 12 – Riders – 1 reflects the PCOP Rider
6 and is attached to my testimony as Petitioner’s Exhibit - Proposed Sheet No. 12- Riders
7 - TNS.

8 **Q. WHAT IS THE IMPACT TO THE AVERAGE CUSTOMER BILL?**

9 A. The typical residential customer living in the City of Chattanooga, and using an average of
10 4,154 gallons per month will see an increase on their bill of \$0.12 per month, or \$1.44 per
11 year from the PCOP Rider. This is a change from the previous PCOP Rider which was an
12 increase in their monthly bill of \$0.04. A summary of this information is attached to my
13 testimony as Petitioner’s Exhibit 2021 PCOP Avg. Impact – TNS.

14 **Q. IS THE PCOP RIDER STILL IN THE PUBLIC INTEREST?**

15 Yes. Tennessee American understands that the purpose of the legislation was, in part, to
16 encourage timely recovery of expenses to enhance financial stability, while reducing the
17 costs to consumers and utilities for regulatory review and implementation and promoting
18 rate gradualism for consumers. TAWC believes the approved Production Costs and Other
19 Pass-throughs Rider is achieving that goal. As noted above, TAWC has refunded
20 approximately \$2,755,927 through this rider. Without the approved alternative rate
21 mechanisms of the PCOP and Capital Recovery Riders, TAWC would likely be preparing
22 a general rate case. With the PCOP, TAWC has been able to immediately pass along
23 expense savings to its customers seven out of the last eight years (from 2014 to 2020). In

1 this way, customers benefit from immediate expense savings without the cost of a rate case,
2 which we believe to be in the public interest.

3 **Q. ARE YOU AWARE OF ANY CHANGES IN MARKET CONDITION OR OTHER**
4 **FACTORS THAT MAY AFFECT WHETHER THE PCOP RIDER REMAINS IN**
5 **THE PUBLIC INTEREST?**

6 A. No, I am not.

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

8 A. I recommend that the petition be approved for the adjustment in the PCOP Rider.

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

10 A. Yes.

Tennessee American Water Company
Docket No. 22-000XX

Calculation of Production Costs and Other Pass-Throughs ("PCOP") Including Non-Revenue Water
To Determine PCOP Tariff Rider
Actuals for the Year Ending November 30, 2021

Line Number	Description	Amount
<u>I. Calculation of the Base Rate Cost of Production Costs and Other Pass-Throughs as authorized in the Base Rate case (*):</u>		
1	Pro Forma Production Costs and Other Pass-Throughs	\$4,290,024
2	Pro Forma Water Sales (WS) in 100 Gallons	102,164,815
3	Base Rate Cost per 100 Gallons WS (Line 1 / Line 2)	<u>\$0.04199</u>
<u>II. Deferral calculation - Actual Non-Revenue Water Cost Production Costs and Other Pass-Throughs (adjusted for 15% NRW) vs. the Base Rate Cost (**):</u>		
4	Actual Production Costs and Other Pass-Throughs	\$3,745,835
5	Over-Under Collection Adjustment	287,714
6	Review Period PCOP Costs Adjusted for Over-Under Collections	4,033,549
7	Actual Water Sales (100 Gallons)	<u>90,429,643</u>
8	Actual Rate Cost Production Costs and Other Pass-Throughs per 100 Gallons WS (Line 6 / Line 7)	\$0.04460
9	Base Rate Cost per 100 Gallons WS (Line 3)	<u>0.04199</u>
10	Incremental Change in Production Costs and Other Pass-Throughs per 100 Gallons WS (Line 9 - Line 8)	\$0.00261
11	Base Rate Case Water Sales 100 Gallons (Line 2)	<u>102,164,815</u>
12	Deferral Amount (Line 10 * Line 11)	<u>\$266,964</u>
<u>III. Calculation of Production Costs and Other Pass-Throughs ("PCOP") Tariff Rider</u>		
13	Total Deferred Amount (Line 12)	\$266,964
14	Total Deferred Amount Grossed Up for revenue taxes (Line 13 / (1.0-.03191) (**))	275,763
15	Projected Annual Base Rate Revenue subject to PCOP (*)	<u>48,478,580</u>
16	PCOP % (Line 14 / Line 15)	<u>0.57%</u>

(*) The numbers are taken from the settlement agreement in Docket No. 12-00049 and include the Whitwell adjustment from Docket No. 21-00006, as well as a proposed adjustment for Jasper Highlands. The Projected Annual Base Rate Revenue subject to PCOP on Line 15 includes revenues from Docket No. 12-00049, as well as proposed adjustments to include Whitwell and Jasper Highlands base revenues.

(**) The numbers are actuals for the year ended November 30, 2021 including Non-Revenue Water for Purchased Power and Chemicals

(***) Assumes Gross Receipts Tax @ 3.0%, Uncollectibles @ 1.0571%, and Forfeited Discount Rate @ -0.8661%

Tennessee American Water Company
Docket No. 22-000XX
For the Twelve Months Ending November 30, 2021
PCOP Actual Expenses

Line #	Description	A	B	C	D	E	F	G	H
							B - (C + D + E)		F - G
		For the 12 Months Ending 11/30/2021	**NRW Limited 12 Mos Ending 11/2021 (Column A, Lines 2 and 3 x Line 18 Recoverable %)	Authorized Amount Per Docket 12-00049	Whitwell Adjustment as Settled per Docket 21-00006	Jasper Highlands Proposed Adjustment	Difference NRW Limited from Authorized Docket 12-00049	Adjust Difference for TRA Fee Recovered Via SEC, EDI, or QIIP 12 Months Ending 11/30/2021	Adjusted Difference
1	Purchased Water Including Wheeling Charges	\$111,912	\$111,912	\$51,331	\$572	\$42,383	\$17,626	\$0	\$17,626
2	Purchased Power**	2,302,167	2,052,834	2,678,772	67,916	9,327	(\$703,181)		(703,181)
3	Chemicals**	1,122,769	1,001,169	986,930	8,531		\$5,709		5,709
4	Waste Disposal	374,906	374,906	213,308	99,128		\$62,469		62,469
5	TRA Inspection Fee	205,014	205,014	131,826	0		\$73,188		73,188
6									
7	Total	\$4,116,767	\$3,745,835	\$4,062,167	\$176,147	\$51,710	(\$544,189)	\$0	(\$544,189)
8									
9									
10	Water Sales in 100 Gallons	90,429,643	90,429,643	100,578,654	1,527,738	58,423		90,429,643	
11									
12	Cost per 100 Gallons (Line 7 / Line 10)	\$0.04552	\$0.04142	\$0.04039	\$0.11530	\$0.88509	\$0.00103	\$0.00000	\$0.00103
Recoverable % for Production Costs		For the 12 Months Ending 11/30/2021							
13	Water Sales	90,429,643							
14	System Delivery	121,922,705							
15	Non-Revenue-Unaccounted for Water % [1 - (Line 13 / Line 14)]	25.8%							
16	Non-Revenue-Unaccounted for Water % Authorized	15.0%							
17	Variance (If Line 15 > Line 16 then Line 15 - Line 16)	10.8%							
18	Recoverable % (1 - Line 17)	89.2%							

**Non-Revenue Unaccounted for Water is only applied to purchased power and chemicals.

Tennessee American Water Usage
Docket No. 22-000XX
12 Months Ending November 2021

	Water Usage	System Delivery	NRW %
2020 Dec	673,583	960,070	29.84%
2021 Jan	686,564	954,016	28.03%
2021 Feb	638,219	914,620	30.22%
2021 Mar	668,351	1,013,138	34.03%
2021 Apr	757,750	1,001,527	24.34%
2021 May	749,754	1,101,630	31.94%
2021 Jun	813,054	1,052,198	22.73%
2021 Jul	884,623	1,086,991	18.62%
2021 Aug	851,175	1,100,861	22.68%
2021 Sep	842,364	1,022,777	17.64%
2021 Oct	786,772	1,031,723	23.74%
2021 Nov	690,756	952,720	27.50%
	9,042,964	12,192,271	25.83%
		Average	25.94%

Tennessee American Water Company
Docket No. 22-000XX
For the Twelve Months Ending November 30, 2021
Jasper Highlands Acquisition Adjustment Calc

	Estimated JH Financials 2016	Estimated JH Financials 2017	Actuals JH Financials 2018	Actuals JH Financials 2019	Normalized TAWC Actual 2021	Actuals 4 Year CAGR 2018-2021
Water Sales	58,423	70,988	86,255	98,969	140,642	17.7%
Revenues	\$ 162,656	\$ 178,650	\$ 258,971	\$ 316,873	\$ 334,939	9.0%
Purchased Water and Fuel & Power Expense ¹	\$ 51,710	\$ 56,795	\$ 82,329	\$ 100,737	\$ 106,481	9.0%
Purchased Water and Fuel & Power % of Revenue	31.8%	31.8%	31.8%	31.8%	31.8%	
Base Rate Cost per 100 Gallons WS	\$ 0.8851	\$ 0.8001	\$ 0.9545	\$ 1.0179	\$ 0.7571	

¹ 2018 and 2019 purchased water and fuel and power expense is calculated by multiplying each year's revenues by 31.8%, which was derived by taking 2021 normalized actual 2021 purchased water and fuel and power expenses as a percent of revenues.

Tennessee American Water Company
Production Costs and Other Pass-Throughs
Average Residential Bill Impact
5/8" Meter and Usage of 5.55 CCF (or 41.54 100 Gallons)

Line Number	Area	Meter Fee	Volumetric Charges	Bill Before Surcharges	2021 Authorized Capital Surcharges at 32.59%	2022 PCOP at 0.57%	2022 QIIP Surcharge 0.00%	2022 EDI Surcharge at 0.00%	2022 SEC Surcharge at 0.00%	2022 Proposed Capital Adjustments	Total Proposed Surcharges	2021 TCJA Credit at -6.62%	2021 TCJA EADIT Credit at -4.54%	Total Proposed Surcharges & TCJA Credit
1														
2	Chattanooga	\$13.96	\$7.60	<u>\$21.56</u>	\$7.03	\$0.12	\$0.00	\$0.00	\$0.00	\$0.00	\$7.15	(\$1.43)	(\$0.98)	\$4.74
3														
4	Lookout Mountain	\$15.66	\$12.39	<u>\$28.05</u>	\$9.14	\$0.16	\$0.00	\$0.00	\$0.00	\$0.00	\$9.30	(\$1.86)	(\$1.27)	\$6.17
5														
6	Lakeview	\$15.66	\$9.16	<u>\$24.82</u>	\$8.09	\$0.14	\$0.00	\$0.00	\$0.00	\$0.00	\$8.23	(\$1.64)	(\$1.13)	\$5.46
7														
8	Suck Creek	\$30.60	\$16.12	<u>\$46.72</u>	\$15.23	\$0.27	\$0.00	\$0.00	\$0.00	\$0.00	\$15.50	(\$3.09)	(\$2.12)	\$10.29
9														
10	Whitwell - Inside	\$20.45	\$10.30	<u>\$30.75</u>	\$10.02	\$0.17	\$0.00	\$0.00	\$0.00	\$0.00	\$10.19		(\$1.40)	\$8.79
11														
12	Whitwell - Outside	\$23.37	\$12.56	<u>\$35.93</u>	\$11.71	\$0.20	\$0.00	\$0.00	\$0.00	\$0.00	\$11.91		(\$1.63)	\$10.28
13														
14	Jasper Highlands	\$52.15	\$21.67	<u>\$73.82</u>	\$24.06	\$0.42	\$0.00	\$0.00	\$0.00	\$0.00	\$24.48			\$24.48

Note:
Authorized Capital Surcharges, QIIP, EDI, SEC Riders are effective January 1, 2021. The 2022 Capital Recovery Riders were not filed due to pending TPUC Docket No. 19-00103.
PCOP rider reflects current filing.

CLASSIFICATION OF SERVICE**SUMMARY OF RIDERS****1. Applicability**

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider (SEC), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

For the Riders defined in the tariffs:

QIIP	19.14%
EDI	1.25%
<u>SEC</u>	<u>9.70%</u>
Subtotal of all Capital Recovery Riders	30.09%
QIIP Annual Reconciliation Percentage	2.39% (D)
EDI Annual Reconciliation Percentage	-0.51% (D)
<u>SEC Annual Reconciliation Percentage</u>	<u>0.62% (D)</u>
Subtotal of all Capital Recovery Riders	2.50% (D)
Total of Capital Recovery Riders and Reconciliation Percentages	32.59%
Offset to Capital Recovery Riders for TCJA savings	-6.62%
Offset to Capital Recovery Riders for TCJA Excess ADIT	-4.54%
PCOP	0.20% (I)

(D) Indicates Decrease

(I) Indicates Increase

ISSUED: August 20, 2021

EFFECTIVE: August 9, 2021

BY:



Grant A. Evitts
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

CLASSIFICATION OF SERVICE**SUMMARY OF RIDERS****1. Applicability**

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider (SEC), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

For the Riders defined in the tariffs:

QIIP	19.14%
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Subtotal of all Capital Recovery Riders	2.50%
Total of Capital Recovery Riders and Reconciliation Percentages	32.59%
Offset to Capital Recovery Riders for TCJA savings	-6.62%
Offset to Capital Recovery Riders for TCJA Excess ADIT	-4.54%
PCOP	0.57% (I)

(I) Indicates Increase

ISSUED: January 14, 2022

EFFECTIVE: February 14, 2022

BY:



Grant A. Evitts
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

STATE OF Tennessee)
)
COUNTY OF Hamilton)

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Tricia Sinopole, 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, her testimony would be as set forth in her pre-filed testimony in this matter.

Tricia Sinopole
Tricia Sinopole

Sworn to and subscribed before me
this 12 day of January, 2022.

Kathryn Robinson
Notary Public

My Commission Expires: 10/20/2024

