

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

September 15, 2022

IN RE:)	
)	
PETITION OF TENNESSEE-AMERICAN WATER)	DOCKET NO.
COMPANY REGARDING THE 2022 PRODUCTION)	22-00005
COSTS AND OTHER PASS-THROUGHS RIDER)	

**ORDER APPROVING REVISED 2022 PRODUCTION COSTS
AND OTHER PASS-THROUGHS RIDER**

This matter came before Chairman Herbert H. Hilliard, Vice Chairman John Hie, Commissioner David F. Jones, Commissioner Clay R. Good, and Commissioner Kenneth C. Hill of the Tennessee Public Utility Commission (the “Commission” or “TPUC”), the voting panel assigned to this docket, at a regularly scheduled Commission Conference held on July 11, 2022, to consider the *Petition* filed by Tennessee-American Water Company (“TAWC” or the “Company”) on January 17, 2022. 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. Pursuant to 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 recover incremental changes in certain essential, non-

discretionary expenses.¹ 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. 15-00001.² Subsequently, the Commission approved changes to the PCOP Rider tariff in TPUC Docket No. 15-00131.³

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. 21-00006 for the actual costs incurred during December 1, 2019, through November 30, 2020. In accordance with the PCOP tariff, on January 17, 2021, TAWC filed the *Petition* for the period of December 1, 2020, through November 30, 2021. The Consumer Advocate Unit in the Financial Division of the Office of the Tennessee Attorney General ("Consumer Advocate") formally sought intervention on February 11, 2021, which was granted by the Hearing Officer.⁴

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

¹ *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).

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

³ *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).

⁴ *Order Granting the Petition to Intervene Filed by Consumer Advocate* (March 3, 2022).

in its most recent rate case, TPUC Docket No. 12-00049. In the *Petition*, TAWC sought to recover changes between the actual expenses for the twelve-month period ending November 30, 2021 and those approved in TPUC Docket No. 12-00049.

In the pre-filed testimony of Ms. Tricia N. Sinopole in support of the *Petition*, the Company included exhibits demonstrating the PCOP calculations with supporting workpapers for the period of December 1, 2020, through November 30, 2021. According to Ms. Sinopole, the PCOP is mutually beneficial to the ratepayers, the public, and the Company by reducing the occurrence of consumer “rate shock,” allowing more efficient and streamlined regulation, and addressing changes in costs which she asserts are largely outside of the TAWC’s control. Ms. Sinopole testified that except for 2021 and the initial period in Docket No. 12-00049 of December 1, 2012, through November 30, 2013, customers have enjoyed a PCOP rate decrease with refunds totaling approximately \$2,755,927 since its inception.⁵

Based on Ms. Sinopole’s calculations for the *Petition*, the incremental change in PCOP expenses is a necessary recovery of \$266,964 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 \$275,763, resulting in a PCOP percentage of 0.57%.⁶ Ms. Sinopole testified that although the Company has been working on reducing its unaccounted-for water loss levels, they remain above the current Commission authorized level of 15%. TAWC applied the approved unaccounted-for water loss percentage of 15% to purchased power and chemical expense.⁷

Ms. Sinopole explained that there are four minor changes to the calculation of the PCOP from its previous PCOP filing:

⁵ Tricia N. Sinopole, Pre-Filed Direct Testimony, pp. 3-6 (January 17, 2022).

⁶ *Id.* at 19; Exhibit PCOP-CALC-EXC.

⁷ *Id.* at 10.

- 1.) Jasper Highlands is included in the Average Impact Exhibit because they will receive the PCOP increment on their 2022 bills;
- 2.) Jasper Highlands has been added to Exhibit TAW_EXH_TNS_1_011422 to show the proposed adjustment calculation for Jasper Highlands' base rate cost for PCOP eligible expenses, base rate water sales, and revenues;
- 3.) Two rows have been added to the Support Workpaper within Exhibit TAW_EXH_TNS_1_011422. The first row added is for the Whitwell adjustment of PCOP base rate expenses and water sales, pursuant to and consistent with Docket No. 21-00006. The second row added is for the Jasper Highlands proposed adjustment of PCOP base rate expenses and water sales; and
- 4.) Jasper Highlands was added to the billing determinants in the Workpaper Billing Determinants – Dec 2020 – Nov 2021 workpaper.⁸

In sum, the Company initially requested a PCOP rider that results in an annualized revenue recovery of \$275,763, or a surcharge of 0.57%. This would increase the monthly bill of a typical residential customers living in the city of Chattanooga by \$0.12.⁹

POSITION OF THE CONSUMER ADVOCATE

In his Pre-Filed Direct Testimony on behalf of the Consumer Advocate, Mr. Alex Bradley noted this is the second time since its inception that the PCOP has been a positive surcharge. He attributes this to the fact that water sales during the review period are less than the base rate case amount of water sales.¹⁰ Mr. Bradley found that overall, the Company's PCOP filing reflects the same methodologies established in TPUC Docket No. 13-00130 and the related settlement, and

⁸ *Id.* at 13-14.

⁹ *Id.* at 17.

¹⁰ Alex Bradley, Pre-Filed Direct Testimony pp. 9-10 (May 2, 2022).

included the actual production expenditures (minus any fees or penalties), water system delivery/sales, along with the applicable support.¹¹

Mr. Bradley had concerns with the method of calculation for Jasper Highlands. The Jasper Highlands service territory has grown dramatically since 2016 and thus requires a different calculation than what the Company initially provided to scale the amount of production expenditures embedded in base rates.¹² Mr. Bradley's proposed calculation to address his concerns used the actual production-related expenses incurred for Jasper Highlands that were included in the files of the acquisition docket for Jasper Highlands, TPUC Docket No. 20-00011. Using 2017 revenue and water usage data, Mr. Bradley calculated a yearly production cost of \$309 per customer.¹³

Applying the \$309 production cost per customer to the February 2021 customer count of the Jasper Highlands system generated approximately \$65,490 in production costs being recovered.¹⁴ After making the proposed adjustment, Mr. Bradley calculated an annualized revenue increase of \$262,324, or a surcharge of 0.54%, an amount that was \$13,439 less than the Company's initial proposal, which translates to a surcharge difference of -0.03%.¹⁵

SUPPLEMENTAL TESTIMONY OF TENNESSEE-AMERICAN WATER COMPANY

In supplemental pre-filed testimony filed on May 23, 2022, Ms. Sinopole testified that TAWC and the Consumer Advocate agreed to include the prospective adjustment related to Jasper Highlands, as recommended by Mr. Bradley. In the supplemental filing, TAWC revised the PCOP rider calculation by incorporating the prospective Jasper Highlands adjustment resulting in the

¹¹ *Id.* at 11.

¹² *Id.*

¹³ *Id.* at 12.

¹⁴ *Id.*

¹⁵ *Id.*

Company's revenue request being reduced to \$262,324.¹⁶ Using the projected revenue of \$48,315,924 results in a PCOP percentage of 0.54%.¹⁷ Ms. Sinopole asserted the typical residential customer living in the City of Chattanooga will see a PCOP surcharge of \$0.12 on their monthly bill, or \$1.44 per year.¹⁸ In a filing on June 17, 2022, the Company revised the "Projected Annual Base Rate Revenue subject to PCOP" on Line 15 of the PCOP Calc Exhibit Worksheet from \$48,315,924 to \$48,494,574 to match the number in Mr. Bradley's Pre-Filed Testimony and Exhibit.¹⁹ The proposed PCOP percentage by the parties remained at 0.54% with the correction.

PRE-HEARING FILINGS

On May 27, 2022, the Consumer Advocate and the Company indicated to the Commission there were no outstanding matters in dispute and that the matter was ripe for consideration. The parties asked that the *Petition*, as revised by the pre-filed supplemental testimony, be approved.²⁰ As such, the parties stated that they waived opening statements and cross-examination. On July 6, 2022, the Company sought to have Ms. Sinopole testify electronically, a request that the Hearing Officer granted.²¹

HEARING

A Hearing in this matter was held before the Hearing Panel on July 11, 2022, as noticed by the Commission on July 1, 2022. Participating in the Hearing were the following parties and their respective counsel:

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

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

¹⁶ Tricia N. Sinopole, Pre-Filed Supplemental Testimony, p. 2 (May 23, 2022).

¹⁷ *Id.* at Petitioner's Revised Exhibit - PCOP Calc – TNS Pg 1 of 1.

¹⁸ *Id.* at 2.

¹⁹ Correction to Exhibit to Supplemental Testimony of Tricia N. Sinopole, p. 1 (June 17, 2022).

²⁰ *Letter to Chairman Hill* (May 27, 2022).

²¹ *Order Granting Electronic Participation in Hearing*, pp. 1-3 (July 11, 2022).

Ms. Tricia N. Sinopole presented testimony via telephone and provided testimony in support of the revised calculations presented by the Company. During the Hearing, the public was given an opportunity to offer comment; however, no member of the public sought to comment on the *Petition*.

FINDINGS AND CONCLUSIONS

Upon review of the evidentiary record in this proceeding, the Hearing Panel voted unanimously to adopt the revised PCOP percentage of 0.54% as calculated in Tricia N. Sinopole's Corrected Exhibit to the Supplemental Testimony, PCOP Calc-TNS, page 1 of 1. The revised PCOP percentage is based upon Fuel & Power Expense of \$2,052,834, Chemical Expense of \$1,001,169, Purchased Water Expense of \$111,912, Waste Disposal Expense of \$374,906 and Commission Inspection Fee Expense of \$205,014. The total PCOP expense to be collected from customers is increased by \$287,714 because the amount the Company collected from customers during the review period was less than the amount authorized in the preceding 2021 PCOP Rider. This results in a net PCOP expense of \$4,033,549 which includes a baseline PCOP expense amount for Whitwell and Jasper Highlands operations.

In addition to adopting the PCOP percentage of 0.54% and the aforementioned expenses, the Hearing Panel found that the PCOP Rider benefits the Company by allowing timely recovery of expenses without filing a base rate case. In turn, consumers benefit by not paying for expensive rate case proceedings which the Company might otherwise pursue absent the PCOP Rider. Additionally, customers receive immediate refunds when expenses within the PCOP Rider decrease. For these reasons, the Hearing Panel found the PCOP Rider mechanism remains in the public interest.

IT IS THEREFORE ORDERED THAT:

1. The total actual net Production Costs and Other Pass-Through Rider expense for

the year ending November 30, 2021, includes \$1,001,169 for Chemical Expense; \$2,052,834 for Fuel & Power Expense; \$374,906 for Waste Disposal Expense; \$111,912 for Purchased Water Expense; and \$205,014 for the Tennessee Public Utility Commission Inspection Fee Expense. This amount is increased by \$287,714 to account for under-collections, resulting in a net Production Cost and Other Pass-Through Rider expense of \$4,033,549.

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 Herbert H. Hilliard,
Vice Chairman John Hie,
Commissioner David F. Jones,
Commissioner Clay R. Good, and
Commissioner Kenneth C. Hill concurring.**

None dissenting.

ATTEST:



Earl R. Taylor, Executive Director