

**BEFORE
THE TENNESSEE PUBLIC UTILITY COMMISSION**

)	Electronically Filed in TPUC Docket
)	Room on August 31, 2022 at 2:01 p.m.
Joint Petition of Tennessee-American)	
Water Company and Walker County)	
Water and Sewerage Authority for)	Docket No. 22-00049
Expedited Approval of a Special Contract)	
)	
)	
)	

**DIRECT TESTIMONY
of
WILLIAM H. NOVAK**

ON BEHALF OF

**THE CONSUMER ADVOCATE DIVISION
OF THE
OFFICE OF THE TENNESSEE ATTORNEY GENERAL**

August 31, 2022

1 ***Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND***
2 ***OCCUPATION FOR THE RECORD.***

3 A1. My name is William H. Novak. My business address is 19 Morning Arbor Place,
4 The Woodlands, TX, 77381. I am the President of WHN Consulting, a utility
5 consulting and expert witness services company.¹
6

7 ***Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND***
8 ***PROFESSIONAL EXPERIENCE.***

9 A2. I have both a Bachelor's degree in Business Administration with a major in
10 Accounting, and a Master's degree in Business Administration from Middle
11 Tennessee State University. I am a Certified Management Accountant, and am also
12 licensed to practice as a Certified Public Accountant.
13

14 My work experience has centered on regulated utilities for over 40 years. Before
15 establishing WHN Consulting, I was Chief of the Energy & Water Division of the
16 Tennessee Public Utility Commission (the Commission) where I had either
17 presented testimony or advised the Commission on a host of regulatory issues for
18 over 19 years. In addition, I was previously the Director of Rates & Regulatory
19 Analysis for two years with Atlanta Gas Light Company, a natural gas distribution
20 utility with operations in Georgia and Tennessee. I also served for two years as the
21 Vice President of Regulatory Compliance for Sequent Energy Management, a

¹ State of Tennessee, Registered Accounting Firm ID 3682.

1 natural gas trading and optimization entity in Texas, where I was responsible for
2 ensuring the firm's compliance with state and federal regulatory requirements.
3

4 In 2004, I established WHN Consulting as a utility consulting and expert witness
5 services company. Since 2004 WHN Consulting has provided testimony or
6 consulting services to state public utility commissions and state consumer
7 advocates in at least ten state jurisdictions.
8

9 ***Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?***

10 A3. I am testifying on behalf of the Consumer Advocate Division (the "Consumer
11 Advocate" or "CA") of the Office of the Tennessee Attorney General.
12

13 ***Q4. HAVE YOU PRESENTED TESTIMONY IN ANY PREVIOUS CASES***
14 ***CONCERNING TENNESSEE-AMERICAN WATER COMPANY?***

15 A4. Yes. I presented rate case testimony in TPUC Docket Nos. U-86-7402, U-87-7534,
16 89-15388, 91-05224, 93-06946, 10-00189, and 12-00049 concerning Tennessee-
17 American Water Company ("Company" or "TAWC") as well as testimony
18 concerning TAWC in other generic tariff and rulemaking matters. I have also
19 previously presented testimony concerning the Company's alternative regulatory
20 mechanisms in TPUC Docket Nos. 13-00130, 14-00121, 15-00001, 15-00029, 15-
21 00111, 16-00022, 16-00126, 16-00148, 17-00020 and 17-00124.
22

1 ***Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS***
2 ***PROCEEDING?***

3 A5. My testimony will support and address the Consumer Advocate's positions and
4 concerns with respect to the Company's Petition. Specifically, I will address the
5 terms of the Company's proposed Special Contract with Walker County Water and
6 Sewerage Authority ("Walker County").

7
8 ***Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF***
9 ***YOUR TESTIMONY?***

10 A6. I have reviewed the Company's Petition filed on June 13, 2022, along with the
11 accompanying testimony and exhibits. I have also reviewed TAWC's responses to
12 the data requests submitted by the Consumer Advocate in this Docket.

13

14 ***Q7. PLEASE DESCRIBE THE RELIEF THAT THE COMPANY IS ASKING***
15 ***FROM THE COMMISSION IN ITS PETITION.***

16 A7. The Company is asking the Commission to approve its proposed Water Purchase
17 Agreement with Walker County at a rate of \$1.75 per 1000 gallons inclusive of
18 TAWC's Tax and Capital Riders.² The Water Purchase Agreement anticipates
19 sales to Walker County of 90 million gallons in the first year and 20 million gallons
20 per year in subsequent years.³ Further, because the Water Purchase Agreement

² *Joint Petition of Tennessee-American Water Company and Walker County Water and Sewerage Authority for Expedited Approval of a Special Contract*, Exhibit A, ¶ 2b. The Company has used the term "inclusive" here to mean that the proposed \$1.75 rate is the total billing rate to Walker County.

³ *Id.* at Exhibit A, ¶ 2c.

1 represents a requirements contract, Walker County will not be able to reduce its
2 purchases from TAWC during the term of this Agreement.⁴

3
4 ***Q8. DOES TAWC HAVE THE AVAILABLE RESOURCES TO PROVIDE***
5 ***SERVICE TO WALKER COUNTY?***

6 A8. Yes. The Company states that it has the available capacity to provide service to
7 Walker County without causing any supply hardship for TAWC's existing
8 customers.⁵

9
10 ***Q9. HOW DOES THE PROPOSED WATER RATE OF \$1.75 PER 1000***
11 ***GALLONS COMPARE WITH OTHER SPECIAL CONTRACTS THAT***
12 ***THE COMMISSION HAS PREVIOUSLY APPROVED FOR TAWC?***

13 A9. The proposed water rate of \$1.75 per 1000 gallons for Walker County represents
14 the total billing rate and any riders must be deducted from this amount in order to
15 compute the pro forma base rate. However, the base rates for TAWC's other
16 special contracts have been specifically set by the Commission and then any riders
17 are added to this base rate. An "apples-to-apples" comparison of the special
18 contract billing rates between TAWC's special contract customers is presented
19 below in Table 1.

20
21

⁴ Direct Testimony of Grady Stout at 7:138-139, TPUC Docket No. 22-00049 (June 13, 2022O).

⁵ Company Response to Consumer Advocate Discovery Request No. 1-7, TPUC Docket No. 22-00049 (August 8, 2022).

Table 1 – Comparison of Commission Approved Special Contracts for TAWC⁶				
Tariff Charge	Walker County	Signal Mountain	Fort Oglethorpe	Catoosa County
Base Rate	\$1.426940	\$1.382887	\$1.409492	\$1.624598
Capital Rider	0.474600	0.459948	0.468797	0.540341
PCOP Expense Rider	0.007710	0.007468	0.007611	0.008773
Tax Rider	-0.159250	-0.154330	-0.157299	-0.181305
Total Billing Rate	\$1.750000	\$1.695973	\$1.728601	\$1.992407

1 As can be seen from Table 1, the proposed billing rate for Walker County is slightly
2 higher than the present billing rates for Town of Signal Mountain and the City of
3 Fort Oglethorpe, but lower than the present billing rate for Catoosa County.

4 ***Q10. HOW MUCH INCOME WOULD THE PROPOSED WALKER COUNTY***
5 ***SPECIAL CONTRACT PROVIDE FOR TAWC?***

6 A10. As mentioned earlier, the contract anticipates sales of 90 million gallons the first
7 year and 20 million gallons per year thereafter. Based upon this level of usage, the
8 expected cumulative contribution margin before income taxes for TAWC would be
9 approximately \$139,000 during the first three years of the contract.⁷

10

11 ***Q11. DO YOU AGREE WITH THE COMPANY'S PROPOSAL TO APPLY THE***
12 ***CAPITAL, PCOP EXPENSE AND TAX RIDERS TO THE WALKER***
13 ***COUNTY SPECIAL CONTRACT?***

⁶ Company Response to Consumer Advocate Discovery Request Nos. 2-1 and 2-2, TPUC Docket No. 22-00049 (August 29, 2022). In addition, the rider surcharge rates used in this table are 33.26% for the Capital Rider Surcharge, 0.54% for the PCOP Expense Rider surcharge, and -11.16% for the Tax Rider Surcharge.

⁷ Consumer Advocate Analysis Workpaper G-2.00. Mr. Novak's Workpapers are attached to this testimony

1 A11. Not entirely. It doesn't appear to be appropriate to include the Tax Rider in a new
2 Special Contract as we have here. The Tax Rider represents a credit that is flowed
3 back to the existing TAWC customers to recognize the impact from previous
4 deferred taxes at higher rates. Since Walker County was not a TAWC customer
5 when these higher tax rates were in effect, it would be inappropriate to apply this
6 Tax Rider to the Special Contract. I would therefore recommend that the Tax Rider
7 be excluded from Walker County sales.⁸

8

9 ***Q12. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE***
10 ***COMMISSION.***

11 A12. I recommend approval of the proposed Special Contract between TAWC and
12 Walker County subject to the following adjustments.

- 13 • I recommend that the Tax Rider be excluded as a surcharge component in the
14 Special contract billing rate.
15

16 ***Q13. DOES THIS COMPLETE YOUR TESTIMONY?***

17 A13. Yes, it does. However, I reserve the right to incorporate any new information that
18 may subsequently become available.

⁸ Removing the Tax Rider from the billing rate would only be an internal TAWC adjustment since the total billing rate to Walker County would continue to be \$1.75 per 1000 gallons.

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

IN RE:

**PETITION OF TENNESSEE-AMERICAN
WATER COMPANY AND WALKER
COUNTY WATER AND SEWERAGE
AUTHORITY FOR APPROVAL OF
SPECIAL CONTRACT**

Docket No. 22-00049

AFFIDVAIT OF WILLIAM H. NOVAK

I, William H. Novak, on behalf of the Consumer Advocate Division of the Attorney General's Office hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.



WILLIAM H. NOVAK

Sworn to and subscribed before me

This 31st day of August, 2022.



NOTARY PUBLIC



My Commission Expires: March 23, 2023

DIRECT TESTIMONY

WORKPAPERS OF WILLIAM H. NOVAK

August 31, 2022

SOURCE CA1-5 and CA1-6

Date	Usage (Gallons)	Revenue			Expense						Income	
		Rate Per 1000 Gal	Revenue	Cumulative Revenue	Production \$0.0003400	Pumping \$0.0002273	Depreciation \$288.45	Property Taxes	Total	Cumulative Expense	Income	Cumulative Income
Oct-22	7,500,000	\$1.75	\$13,125	\$13,125	\$2,550	\$1,705	\$288	\$148	\$4,671	\$4,671	\$8,454	\$8,454
Nov-22	7,500,000	1.75	13,125	26,250	2,550	1,705	288	148	4,671	9,341	8,454	16,898
Dec-22	7,500,000	1.75	13,125	39,375	2,550	1,705	288	148	4,671	14,012	8,454	25,353
Jan-23	7,500,000	1.75	13,125	52,500	2,550	1,705	288	148	4,671	18,683	8,454	33,817
Feb-23	7,500,000	1.75	13,125	65,625	2,550	1,705	288	148	4,671	23,354	8,454	42,272
Mar-23	7,500,000	1.75	13,125	78,750	2,550	1,705	288	148	4,671	28,024	8,454	50,726
Apr-23	7,500,000	1.75	13,125	91,875	2,550	1,705	288	148	4,671	32,695	8,454	59,180
May-23	7,500,000	1.75	13,125	105,000	2,550	1,705	288	148	4,671	37,366	8,454	67,634
Jun-23	7,500,000	1.75	13,125	118,125	2,550	1,705	288	148	4,671	42,036	8,454	76,088
Jul-23	7,500,000	1.75	13,125	131,250	2,550	1,705	288	148	4,671	46,707	8,454	84,543
Aug-23	7,500,000	1.75	13,125	144,375	2,550	1,705	288	148	4,671	51,378	8,454	92,997
Sep-23	7,500,000	1.75	13,125	157,500	2,550	1,705	288	148	4,671	56,048	8,454	101,452
Oct-23	1,666,667	1.75	2,917	160,417	567	379	288	144	1,358	57,406	1,559	103,011
Nov-23	1,666,667	1.75	2,917	163,333	567	379	288	144	1,358	58,764	1,559	104,569
Dec-23	1,666,667	1.75	2,917	166,250	567	379	288	144	1,358	60,122	1,559	106,128
Jan-24	1,666,667	1.75	2,917	169,167	567	379	288	144	1,358	61,479	1,559	107,687
Feb-24	1,666,667	1.75	2,917	172,083	567	379	288	144	1,358	62,837	1,559	109,246
Mar-24	1,666,667	1.75	2,917	175,000	567	379	288	144	1,358	64,195	1,559	110,805
Apr-24	1,666,667	1.75	2,917	177,917	567	379	288	144	1,358	65,553	1,559	112,364
May-24	1,666,667	1.75	2,917	180,833	567	379	288	144	1,358	66,910	1,559	113,923
Jun-24	1,666,667	1.75	2,917	183,750	567	379	288	144	1,358	68,268	1,559	115,482
Jul-24	1,666,667	1.75	2,917	186,667	567	379	288	144	1,358	69,626	1,559	117,041
Aug-24	1,666,667	1.75	2,917	189,583	567	379	288	144	1,358	70,984	1,559	118,600
Sep-24	1,666,667	1.75	2,917	192,500	567	379	288	144	1,358	72,341	1,559	120,159
Oct-24	1,666,667	1.75	2,917	195,417	567	379	288	140	1,354	73,695	1,563	121,721
Nov-24	1,666,667	1.75	2,917	198,333	567	379	288	140	1,354	75,050	1,563	123,284
Dec-24	1,666,667	1.75	2,917	201,250	567	379	288	140	1,354	76,404	1,563	124,846
Jan-25	1,666,667	1.75	2,917	204,167	567	379	288	140	1,354	77,758	1,563	126,409
Feb-25	1,666,667	1.75	2,917	207,083	567	379	288	140	1,354	79,112	1,563	127,972
Mar-25	1,666,667	1.75	2,917	210,000	567	379	288	140	1,354	80,466	1,563	129,534
Apr-25	1,666,667	1.75	2,917	212,917	567	379	288	140	1,354	81,820	1,563	131,097
May-25	1,666,667	1.75	2,917	215,833	567	379	288	140	1,354	83,174	1,563	132,660
Jun-25	1,666,667	1.75	2,917	218,750	567	379	288	140	1,354	84,528	1,563	134,222
Jul-25	1,666,667	1.75	2,917	221,667	567	379	288	140	1,354	85,882	1,563	135,785
Aug-25	1,666,667	1.75	2,917	224,583	567	379	288	140	1,354	87,236	1,563	137,347
Sep-25	1,666,667	1.75	2,917	227,500	567	379	288	140	1,354	88,590	1,563	138,910