

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

June 27, 2023

IN RE:)	
)	
PETITION OF TENNESSEE-AMERICAN WATER)	DOCKET NO.
COMPANY REGARDING THE 2023 PRODUCTION)	23-00007
COSTS AND OTHER PASS-THROUGHS RIDER)	

ORDER APPROVING THE REVISED 2023 PRODUCTION COSTS
AND OTHER PASS-THROUGHS RIDER

This matter came before Chairman Herbert H. Hilliard, Commissioner Robin L. Morrison, Commissioner Clay R. Good, Commissioner Kenneth C. Hill,¹ and Commissioner John Hie 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 May 8, 2023, to consider the *Petition* filed by Tennessee-American Water Company (“TAWC” or the “Company”) on January 17, 2023. In summary, the Company’s revised *Petition* was approved.

BACKGROUND

TAWC, a wholly owned subsidiary of American Water Works Company, Inc., provides residential, commercial, industrial, and municipal water service to customers in Tennessee and North Georgia. 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

¹ Commissioner Kenneth C. Hill was absent from the May 8, 2023 Commission Conference and did not participate in the deliberations or vote in this docket.

expenses.² 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. 15-00001.³ Subsequently, the Commission approved changes to the PCOP Rider tariff in TPUC Docket No. 15-00131.⁴

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. 22-00005 for the actual costs incurred during December 1, 2020 through November 30, 2021. In accordance with the PCOP tariff, on January 17, 2021, TAWC filed the *Petition* for the period of December 1, 2021 through November 30, 2022. The Consumer Advocate Division within the Financial Division of the Office of the Tennessee Attorney General ("Consumer Advocate") formally sought intervention on February 3, 2023, which was granted by the Hearing Officer.⁵

PETITION

Through the PCOP rider, TAWC seeks to recover the incremental changes in purchased power expense, purchased chemical expense, purchased water expense, wheeling charge

² *Petition*, pp. 3-5 (January 17, 2023). 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).

³ 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).

⁴ 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).

⁵ *Order Granting the Petition to Intervene Filed by Consumer Advocate* (March 6, 2023).

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 requested to recover changes between the actual expenses for the twelve-month period ending November 30, 2022, and those approved in TPUC Docket No. 12-00049.

In the pre-filed testimony of Mr. Robert C. Lane filed in support of the *Petition*, the Company included exhibits demonstrating the PCOP calculations with supporting workpapers for the period of December 1, 2021, through November 30, 2022. Mr. Lane asserted that 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 he asserted are largely outside of the TAWC’s control. Mr. Lane testified that with the exception of 2021 and 2022, the Company’s production costs “have been less during each subsequent year than authorized for the attrition year” established in the Company’s last rate case in 2012.⁶ According to Mr. Lane, the PCOP has provided customers refunds of approximately \$2.49 million since its inception.⁷

Based on Mr. Lane’s calculations for the *Petition*, the incremental change in PCOP expenses results in a necessary recovery for a grossed-up amount of \$1,034,368, which equates to a PCOP percentage of 2.14%.⁸ The primary driver of the adjustment is an increase in chemical costs and waste disposal costs. Mr. Lane 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.⁹

⁶ Robert C. Lane, Pre-Filed Direct Testimony, p. 7, line 18 (January 17, 2023).

⁷ *Id.*

⁸ *Id.* at 16;

⁹ *Id.* at 11.

The Company submitted revised PCOP calculations on April 17, 2023, along with a revised tariff. The Company identified a minor error from its initial calculations, which was due to referencing an incorrect cell in its projected annual base rate revenue calculation spreadsheet. The Company incorrectly included the total estimated PCOP costs of \$102,767 instead of the 2017 Water Sales Revenue of \$178,650 for Jasper Highlands. As a result of this correction, the PCOP is revised to 2.13% instead of 2.14% as submitted in the original filing. Prior to this filing, the Company discussed the error and the anticipated correction with the Consumer Advocate.¹⁰

POSITION OF THE CONSUMER ADVOCATE

In his Pre-Filed Direct Testimony filed on behalf of the Consumer Advocate, Mr. Alex Bradley emphasized that the Company has proposed the largest surcharge since its inception. Mr. Bradley identified four major driving factors: (1) water sales are less than the base rate case amount of water sales; (2) increased chemical costs; (3) increased purchased power costs, and (4) increased sludge removal costs.¹¹

Mr. Bradley testified that the PCOP rider does not allow a full recovery of the expenses, because the Company must adjust the Fuel & Purchased Power Expense and the Chemicals Expense by using a Non-Revenue Water (“NRW”) Limiter. The NRW Limiter represents the ratio of actual water system sales to water system delivery in comparison to the same ratio from the Company’s last rate case. If any water loss, expressed as a percentage, exceeds the amount established in the Company’s last base rate case, it limits the amount of the Fuel & Purchased Power Expense and the Chemicals Expense that the Company can recover from ratepayers.¹² The Company’s NRW of 26% is 11 percentage points greater than the baseline amount of 15%,

¹⁰ Corrective Submission of Tennessee-American Water Company, pp. 1-2 (April 17, 2023).

¹¹ Alex Bradley, Pre-Filed Direct Testimony, p. 9 (March 29, 2023).

¹² *Id.* at 5-6.

resulting in a recoverability factor of 89% of Fuel & Purchased Power Expense and Chemicals Expense incurred over the review period.¹³

According to Mr. Bradley, the review period had 95,018,328 (100 gallons per unit) in actual water sales, an increase of 4,588,685 (100 gallons per unit) compared to the prior year's PCOP filing. However, the review period water sales are 7,183,082 (100 gallons per unit) less than the adjusted base period water sales used for the PCOP calculation comparison.¹⁴ Mr. Bradley concluded that the results of the review period indicate that the review period had the fourth lowest amount of water sales since the inception of the PCOP.

Mr. Bradley stated that the Company included PCOP expenses, water sales, and revenues associated with the base rate of customers in the Company's Whitwell service territory totaling \$176,147 in PCOP expenses, 1,527,738 (100 gallons per unit) in water sales, and \$1,242,200 in revenues, consistent with the Commission decision in Docket No. 21-00006. In addition, the added PCOP expenses and water sales associated with the base rate of customers in the Company's Jasper Highlands service territory amount to \$102,767 in PCOP expenses and 95,018 (100 gallons) in water sales, consistent with the Commission's final order in Docket No. 22-00005.¹⁵

Mr. Bradley concluded that the Company's PCOP filing reflects the same methodologies established in Commission Docket Nos. 13-00130, 21-00006, and 22-00005. Mr. Bradley also concluded that the Company's PCOP filing incorporated the actual production expenditures (excluding any fees or penalties), water system delivery/sales, as well as the relevant supporting documentation.¹⁶

¹³ *Id.* at 6.

¹⁴ *Id.* at 10.

¹⁵ *Id.* at 7.

¹⁶ *Id.* at 11.

JOINT LETTER OF THE PARTIES

In a letter from the Consumer Advocate dated March 30, 2023, the parties, jointly, expressed that there were no outstanding procedural issues requiring resolution by the Hearing Officer. Therefore, TAWC would not seek to file rebuttal testimony. Further, unless requested by the Commission, the parties waived opening statements, the live presentation of testimony, and cross-examination of witnesses by the parties.¹⁷

HEARING

A hearing in this matter was held before the voting panel on May 8, 2023, as noticed by the Commission on April 28, 2023 and on May 1, 2023. As noted previously herein, the parties filed a letter indicating there were no outstanding disputes or contested issues, and 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 3rd Avenue South, Suite 1600, Nashville, Tennessee 37201.

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

Mr. Robert Lane was present 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, but no member of the public sought to comment on the *Petition*.

FINDINGS AND CONCLUSIONS

Upon review of the evidentiary record in this proceeding, the panel voted unanimously to adopt the revised total PCOP percentage of 2.13% as calculated in the Company's revised PCOP calculations submitted on April 17, 2023. This represents an increase from the previous year's

¹⁷ Letter to Chairman Herbert H. Hilliard from Consumer Advocate, pp. 1-2 (March 30, 2023).

PCOP rider percentage of 0.54%. The total PCOP percentage is based upon 2022 Fuel & Power Expense of \$2,379,939, Chemical Expense of \$1,628,353, Purchased Water Expense of \$116,289, Waste Disposal Expense of \$498,620 and Commission Inspection Fee Expense of \$234,103.

The total PCOP expense to be collected from customers is also increased by \$109,652 because the amount of revenues collected from customers during the review period was less than the amount authorized in the 2022 PCOP Rider proceeding. This results in a net PCOP expense of \$4,966,956 which includes a baseline PCOP expense amount for Whitwell and Jasper Highlands operations.

In addition to adopting the total PCOP percentage of 2.13% and the aforementioned expenses, the panel also found the PCOP Rider benefits the Company by allowing timely recovery of expenses without having to file base rate cases. In turn, consumers 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 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, 2022, includes \$1,628,353 for Chemical Expense; \$2,379,939 for Fuel & Power Expense; \$498,620 for Waste Disposal Expense; \$116,289 for Purchased Water Expense; and \$234,103 for the Tennessee Public Utility Commission Inspection Fee Expense. This amount is increased by \$109,652 to account for under-collections, resulting in a net Production Costs and Other Pass-Throughs Rider expense of \$4,966,956 for a total Production Costs and Other Pass-Throughs Rider percentage rate of 2.13%.

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.

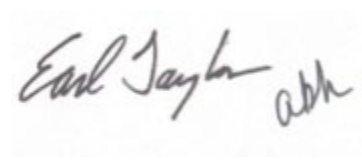
4. Any person who is aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order.

FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:

**Chairman Herbert H. Hilliard,
Commissioner Robin L. Morrison,
Commissioner Clay R. Good, and
Commissioner John Hie concurring.**

None dissenting.

ATTEST:

A handwritten signature in dark ink, appearing to read "Earl Taylor" with a stylized flourish and the initials "abh" written below it.

Earl R. Taylor, Executive Director