

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 24- 00002

DIRECT TESTIMONY

OF

ROBERT C. LANE

ON

CHANGES TO THE PRODUCTION COSTS AND OTHER PASS-THROUGHS RIDER

SPONSORING PETITIONER'S EXHIBITS:

PETITIONER'S EXHIBIT – PCOP CALC – RCL

PETITIONER'S EXHIBIT – PCOP AVG IMPACT – RCL

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

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

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

2 A. My name is Robert (Bob) C. Lane, and my business address is 109 Wiehl Street,
3 Chattanooga, Tennessee 37403.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by American Water Works Service Company (“Service Company”).
6 Service Company is a wholly owned subsidiary of American Water Works Company, Inc.
7 (“American Water”) that provides services to Tennessee-American Water Company
8 (“Tennessee-American,” “TAWC” or “Company”) and its affiliates. My current role is Sr.
9 Manager, Rates and Regulatory for Tennessee and Kentucky.

10 **Q. WHAT ARE YOUR DUTIES AS SR. MANAGER, RATES AND REGULATORY?**

11 A. My primary responsibilities consist of preparing, reviewing, and managing regulatory
12 filings and related activities for Tennessee-American. My responsibilities include the
13 preparation of, and collaboration on, support documentation, exhibits and work papers in
14 support of rate applications and other regulatory filings, as well as responses in discovery
15 and on-going filing requirements for Tennessee-American. Additional duties include
16 providing support and collaboration on regulatory policy, support and analysis for different
17 cost recovery mechanisms, participation in process improvements to support regulatory
18 accounting requirements, and data compilation for compliance reporting.

19 **Q. PLEASE STATE YOUR PROFESSIONAL AND EDUCATIONAL**
20 **BACKGROUND.**

21 A. I received both a Bachelor of Arts in Economics and Master of Arts in Economics from
22 New Mexico State University.

1 Prior to my current position, I was the Director of Rates and Regulatory Affairs for
2 New Mexico Gas Company from 2020 to 2022 where I led the Rates Analysis and
3 Regulatory Affairs Group and was responsible for all filings made before the Public
4 Regulation Commission. Prior to joining New Mexico Gas Company, I served in various
5 capacities for Sempra Energy, San Diego Gas and Electric (“SDG&E”) and SoCal Gas.
6 From 2015 to 2018 I served as the Manager – Compliance in the Enterprise Risk
7 Management and Compliance Department of San Diego Gas and Electric leading San
8 Diego Gas’ and Electric’s and SoCal Gas’ enterprise compliance program and as liaison
9 with Sempra Energy Corporate Compliance. From 2010 to 2014 I served as the Director,
10 FERC, CAISO and Regulatory Compliance for SDG&E and SoCal Gas where I managed
11 regulatory affairs with the Federal Energy Regulatory Commission (FERC), coordinated
12 policy interactions with the California Independent System Operator (CAISO) and a
13 federal reliability standards compliance assurance program. In 2010 I was the Director of
14 Regulatory Strategy for SDG&E and SoCal Gas where I developed and implemented
15 regulatory strategies to advance SDG&E’s and SoCal Gas’s regulatory agenda before the
16 state and federal regulators. From 2007 to 2010 I was the Manager of Corporate Regulatory
17 Strategy for Sempra Energy where I provided regulatory and policy analysis and advice
18 for the Sempra Energy family of Companies, including regulated electric and gas utilities,
19 renewable businesses and natural gas infrastructure business units. Prior to this, I worked
20 at the California Public Utilities Commission (“CPUC”), where I served as the Chief Staff
21 to CPUC Commissioner John Bohn from 2005 to 2007, as the Advisor for Policy and
22 Planning for Governor Schwarzenegger from 2004 to 2005 and as a Senior Policy Advisor
23 to CPUC Commissioner Jessie J. Knight from 1993 to 2000. In addition, from 1988 to

1 1993, I held several positions as a Regulatory Analyst in the CPUC's Division of Ratepayer
2 Advocates, Commission Advisory and Compliance Division and the Division of Strategic
3 Planning.

4 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**
5 **TENNESSEE PUBLIC UTILITY COMMISSION?**

6 A. Yes. I have submitted testimony in several TPUC matters, including in TPUC Docket Nos.
7 22-00021, 22-0072, 23-00007, 23-00018, 19-00103 and 2400001.

8 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE OTHER**
9 **REGULATED JURISDICTIONS?**

10 A. Yes. I have presented testimony to the California Public Utilities Commission and Federal
11 Energy Regulatory Commission ("FERC").

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

13 A. On April 14, 2014, the Tennessee Public Utility Commission ("Commission" or "TPUC")
14 approved four new alternative rate mechanisms for TAWC in TPUC Docket No. 13-00130,
15 effective April 15, 2014. Three of these alternative rate mechanisms were capital program
16 riders ("Capital Recovery Riders") and an expense rider for Production Cost and Other
17 Pass Throughs ("PCOP"). The three Capital Recovery Riders are a Qualified Infrastructure
18 Investment Program ("QIIP") Rider, an Economic Development Investment ("EDI")
19 Rider, and a Safety and Environmental Compliance ("SEC") Rider, which are commonly
20 referred to collectively as the Capital Recovery Riders.

21 The purpose of TAWC's Petition, which this testimony accompanies (the "Petition"), is to
22 provide the required information and supporting documentation for the 2023 historical
23 review period of December 1, 2022, through November 30, 2023, to comply with the

1 previously approved PCOP rider tariff, which as noted above was approved in TPUC
2 Docket No. 13-00130 and reviewed and adjusted in Docket Nos. 15-00001, 15-00131, 16-
3 00148, 18-00009, 19-00010, 20-00008, 21-00006, 22-00005 and 23-00007. The
4 information provided in my testimony is consistent with Tenn. Code Ann. § 65-5-103 *et*
5 *seq.*, the decisions made in TPUC Docket No. 13-00130 and with any adjustments ordered
6 by the Commission in TPUC Docket Nos. 15-00001, 15-00131, 16-00148, 18-00009, 19-
7 00010, 20-00008, 21-00006, 22-00005 and 23-00007.

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

11 A. Yes. The PCOP Rider includes an annual review of certain categories of operational
12 expenses during the historical review period. The PCOP is a tariff rate adjustment
13 mechanism for recovery from, or crediting to, customers incremental changes in essential,
14 non-discretionary expenses, including purchased power expense, purchased chemical
15 expense, purchased water expense, wheeling charge expense, waste disposal expense and
16 TPUC inspection fees that are above or below the level authorized for recovery in the most
17 recent rate case. At the end of a 12-month period, the PCOP looks at that historical period
18 and compares the actual production expenses to the amount of production expenses
19 authorized in the most recent rate case, which for TAWC is TPUC Docket No. 12-00049.
20 The “initial” PCOP Rider year or review period pursuant to the April 14, 2014, approval
21 of the agency was the attrition year period from that previous rate case of December 1,
22 2012 through November 30, 2013, as compared to the actual amount of production
23 expenses that occurred between December 1, 2012 through November 30, 2013. The

1 approved tariff in Docket No. 13-00130 then identified each following review period as
2 subsequent 12-month periods. The table below summarizes the approved PCOP dockets
3 and review periods:

4 The “current” review period that is the subject of this Petition is from
5 December 1, 2022 through November 30, 2023. This Petition includes the
6 current review period expenses, compared to the amounts approved in
7 TAWC’s last general rate case.

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

9 A. Yes. The first step is a reconciliation adjustment of the authorized expenses to the actual
10 amount of expenses. The second step is then a reconciliation adjustment of the amount of
11 revenues for the previous year under the PCOP that was projected to be collected or
12 refunded. TAWC looks at the amount of revenues that was authorized to be collected or
13 refunded during the previous year, or the review period, and compares that to the actual
14 amount collected or refunded. TAWC has included this reconciliation in the Petition as
15 well.

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

17 A. The purpose of my testimony is to support the calculation of the 2024 PCOP Rider
18 described in the Petition.

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

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

21 **Petitioner’s Exhibit – PCOP Calc Exhibit – RCL**

22 **Petitioner’s Exhibit – PCOP Avg Impact--RCL**

23 **Petitioner’s Exhibit – Current Tariff Sheet No. 12 – Riders – RCL**

24 **Petitioner’s Exhibit – Proposed Tariff Sheet No. 12 – Riders - RCL**

25
26 I will discuss these exhibits in further detail in my testimony below.

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

3 A. Yes.

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

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

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

12 A. Yes.

13 **Q. DO THE PETITIONER'S EXHIBITS LISTED ABOVE ACCURATELY**
14 **SUMMARIZE SUCH DATA AND THE RESULTS OF ANALYSIS USING SUCH**
15 **DATA?**

16 A. Yes, they do.

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

18 A. Yes. The PCOP is mutually beneficial to customers, the public, and TAWC. Along with
19 the Capital Recovery Riders, the Production Costs and Other Pass-Throughs Rider reduces
20 the need for general rate cases, lessen the occurrence of consumer "rate shock," and allow
21 for more efficient, streamlined regulation. The customers and the public benefit from
22 efficiently addressing changes in costs that are largely outside TAWC's control, without
23 the expense of a general rate case. The Company benefits from a more efficient,

streamlined regulatory process that presents TAWC with the opportunity to timely recover its expenses if they rise above 2012 levels for these costs.

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

A. Certainly. As set forth in the approved tariffs, the PCOP Rider is established on an annual basis. Essentially, the calculation starts with levels of purchased power, purchased chemical, purchased water, wheeling charges, waste disposal, and TPUC Inspection Fee assessments and water sales that are authorized in the Company's most recent rate case, TPUC Docket No 12-00049. The authorized levels of purchased power, purchased chemical, purchased water, wheeling charges, waste disposal, and TPUC Inspection Fee assessments are divided by the authorized level of water sales in hundred gallons. Then actual purchased power expense, purchased chemical expense, purchased water expense, wheeling charges, waste disposal expense, and TPUC Inspection Fee assessments are divided by the actual level of water sales in hundred gallons. The difference is the incremental change in production costs per hundred gallons of water. This incremental difference is then multiplied by the authorized level of water sales in hundred gallons. After that, the amount of the PCOP revenues from the previous period that is either over or under the anticipated amount is calculated with interest and added to the expense difference. The total amount is grossed up for the authorized gross receipts tax rate, uncollectible rate, and forfeited discounts from the previous rate case, and then divided by the authorized revenues from the previous case. It is expressed as a percentage for all water charges. If it is negative, the amount is to be credited to customers. If it is positive, it is added as a surcharge to the customers' bills as additional revenues.

1 The PCOP changes on an annual basis until it resets back to zero at the conclusion
2 of the Company's next rate case filing, at which point the operational expenses for these
3 categories that are reflected and approved in that rate case filing will be included within
4 Base Rates.

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

7 A. Yes. I have attached an exhibit that reflects the calculation of the PCOP Rider. The
8 detailed calculations are attached in an exhibit to my testimony as **Petitioner's Exhibit -**
9 **PCOP Calc – RCL.** The calculations in this Petition are consistent with the calculations
10 made pursuant to and in compliance with the approved tariff in TPUC Docket No. 13-
11 00130 and again in Docket Nos. 15-00001, 15-00131, 16-00148, 18-00009, 19-00010, 20-
12 00008, 21-00006, 22-00005 and 23-00007. TAWC is including with the Petition its
13 detailed work-papers supporting the calculation of the PCOP, including all of the invoices
14 for the review period. Again, these workpapers are consistent with the calculations made
15 pursuant to and in compliance with the approved tariff in TPUC Docket No. 13-00130 and
16 again in Docket Nos. 15-00001, 15-00131, 16-00148, 18-00009, 19-00010, 20-00008, 21-
17 00006, 22-00005 and 23-00007.

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

21 A. Yes. As it has in previous PCOP filings, TAWC began with the General Ledger for each
22 of the accounts for the appropriate expenses. TAWC then reconciled the monthly General
23 Ledger charges with the actual invoices appropriate for each monthly period. TAWC

1 removed any charges that were not consistent with the previous docket. This included
2 power charges that are not specific to production, late charges, or charges for service
3 periods outside the review period even if the invoice was applied to the General Ledger
4 during the review period.

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

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

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

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

20 **Q. WHAT GROSS RECEIPT RATE IS UTILIZED IN THE FORMULA OF THE**
21 **PCOP?**

22 **A. The gross receipt 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 UNCOLLECTIBLES RATE IS USED TO DETERMINE THE PCOP?**

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

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

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

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

9 A. Yes. The fuel and power expenses, and chemical expenses have been reduced to assume
10 an authorized level of 15%. TAWC continues to work to reduce its unaccounted-for water
11 levels, but they currently remain above the TPUC authorized level of 15 set in TPUC 12-
12 00049

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

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

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

18 A. Yes. There is a difference between the amount of the PCOP that was authorized to be
19 collected in TPUC Docket No. 23-00007 and what was actually collected.

20 **Q. HAS TENNESSEE-AMERICAN MADE ANY CHANGES TO ITS**
21 **CALCULATIONS OR WORKPAPERS FROM THE PREVIOUS PCOP DOCKET?**

1 A. No, the current calculations and workpapers are consistent with the methodologies utilizes
2 in TPUC Docket Number 23-00007 and reflect the methodology agreed to by the
3 Consumer Advocate and TAWC and approved by the Commission.

4 **Q. CAN YOU PLEASE EXPLAIN HOW THE JASPER HIGHLANDS ADJUSTMENT**
5 **OF PCOP BASE RATE EXPENSES AND WATER SALES WAS CALCULATED?**

6 A. The adjustment of PCOP Base Rate Expenses was calculated consistent with the agreement
7 between Consumer Advocate and the Company in TPUC Docket No. 22-00005. First the
8 actual production related expense for Jasper Highlands that were included in the
9 documentation supporting the acquisition of Jasper Highlands in TPUC Docket 20-00011
10 were divided by the total number of customers during 2017 to calculate a yearly production
11 cost of approximately \$309 a year. Multiplying the \$309 production cost per customer by
12 the number of customers by the February 2022 customer count returns a calculation of
13 approximately \$102,767 in production costs being recovered in the current rates of Jasper
14 Highlands.

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

18 A. Yes. The Jasper Highlands proposed PCOP expenses is included in the Pro Forma
19 Production Costs and Pass-Throughs on Line 1 of the PCOP calc in Exhibit
20 TAW_EXH_RCL_1_011723.

21 **Q. WAS THERE AN ADJUSTMENT MADE TO PROJECTED ANNUAL BASE**
22 **RATE REVENUE SUBJECT TO PCOP TO ACCOUNT FOR WHITWELL BASE**
23 **YEAR REVENUES?**

1 A. Yes, there is an adjustment included.

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

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

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

9 A. TAWC is proposing a PCOP Rider that results in an annualized revenue increase of
10 \$2,129,197, or a surcharge of 4.39%. The primary drivers of this change are an increase
11 of \$1,260,388 in Chemical costs and an increase of \$ 329,436 in Waste Disposal costs
12 above those authorized in TPUC Docket No.12-00049, that are partially offset by a
13 reduction of \$ 313,390, in Power costs compared to those authorized in TPUC Docket
14 No.12-00049. In addition, the TRA/TPUC Inspection Fees has increased \$111,626 above
15 those authorized in TPUC Docket No.12-00049. In addition, TAWC under-collected
16 PCOP revenues in 2023 by \$345.433, partly due to the suspension of new rates until June
17 27, 2023. The current PCOP Rider is 2.13%, and this new proposed PCOP Rider is 4.39-
18 % a change of 2.26 percentage points.

19 **Q. HAS TENNESSEE AMERICAN FILED A TARIFF ADDRESSING THE**
20 **PROPOSED PCOP RIDER?**

21 A. Yes. A new tariff _ reflects the PCOP Rider and is attached to my testimony as **Petitioner's**
22 **Exhibit - Proposed Sheet No. 12- Riders - RCL.**

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

2 A. The typical residential customer living in the City of Chattanooga and using an average of
3 4,154 gallons per month will see an increase on their bill of \$0.50 per month, or \$6.00 per
4 year from the PCOP Rider. This represents a 1.71% increase in the average bill. A
5 summary of this information is attached to my testimony as **Petitioner's Exhibit 2022**
6 **PCOP Avg. Impact – RCL.**

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

8 A. Yes. Tennessee-American understands that the purpose of the legislation was, in part, to
9 encourage timely recovery of expenses to enhance financial stability, while reducing the
10 costs to consumers and utilities for regulatory review and implementation and promoting
11 rate gradualism for consumers. TAWC believes the approved Production Costs and Other
12 Pass-throughs Rider is achieving that goal. Specifically, with regard to the PCOP, TAWC
13 has been able to pass along expense savings related to PCOP eligible costs to its customers
14 seven out of the last nine years (from 2015 to 2023). Without the approved alternative rate
15 mechanisms of the PCOP and Capital Recovery Riders, TAWC would most likely have
16 filed at least one if not multiple rate cases since 2012. The PCOP is a balanced mechanism
17 allowing the Company, in times of rising prices, to recover increased production related
18 costs in a timely fashion, saving customers, intervenors, the Commission and the Company
19 the expense and efforts associated with a General Rate Case. The PCOP Rider is a key
20 part of the Commission's streamlined alternative regulation framework for Tennessee-
21 American.

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

4 A. No, I am not.

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

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

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

8 A. Yes.

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 Robert C. Lane, being by me first duly sworn deposed and said that:

He 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, his testimony would be as set forth in his pre-filed testimony in this matter.



Robert C. Lane

Sworn to and subscribed before me
this 12 day of Jan, 2024.

Kathryn Robinson
Notary Public

My Commission Expires: 10-20-2024

