

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

July 15, 2024

IN RE:)	
)	
PETITION OF TENNESSEE-AMERICAN WATER)	DOCKET NO.
COMPANY REGARDING THE 2024 PRODUCTION)	24-00002
COSTS AND OTHER PASS-THROUGHS RIDER)	

ORDER APPROVING THE REVISED 2024 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, and Commissioner David Crowell 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 20, 2024, to consider the *Petition* filed by Tennessee-American Water Company (“TAWC” or the “Company”) on January 16, 2024. 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

¹ *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).

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 calculation of 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. 23-00007 for the actual costs incurred during December 1, 2021 through November 30, 2022.

PETITION

In accordance with the PCOP tariff, on January 16, 2024, TAWC filed the *Petition* for the period of December 1, 2022 through November 30, 2023. The Company submitted revised calculations on January 17, 2024.⁴ 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 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, 2023, and those approved in TPUC Docket No. 12-00049.

In the pre-filed testimony of Mr. Robert C. Lane in support of the *Petition*, the Company included exhibits demonstrating the PCOP calculations with supporting workpapers for the period

² See *In re: Petition of Tennessee-American Water Company Regarding the Production Costs and Other Pass-Throughs 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 *Tennessee-American Water Company's Exhibits, Workpapers, Invoices and Proposed Tariffs*, Calculation of Production Costs and Other Pass-Throughs (January 17, 2024).

of December 1, 2022, through November 30, 2023. The Company proposed a PCOP Rider rate of 4.40%, which was sourced from the books and records of TAWC.⁵ Mr. Lane testified that the Rider removes the need for a rate case and minimizes “rate shock” to consumers; thus, it continues to mutually benefit the Company and its customers and remains in the public interest.⁶ Mr. Lane testified that the Company reduced the fuel and power expenses and chemical expense by the 15% authorized water loss level.⁷

According to Mr. Lane, the PCOP calculation includes an adjustment for the Jasper Highlands development, consistent with the agreement between the Company and the Consumer Advocate, approved in TPUC Docket 22-000005. Further, TAWC’s calculations for the PCOP included base year revenues in the amount of \$1,242,200 for Whitwell.⁸

The Company requested a PCOP Rider of 4.40%, resulting in an annualized revenue increase of \$2,134,865.⁹ According to Mr. Lane, the cost drivers include an increase from baseline of \$1,260,388 in Chemical costs, an increase of \$329,436 in Waste Disposal Costs, an increase of \$111,626 for TPUC Inspection fees, and the under-collection of PCOP revenues in 2023 by \$345,433.¹⁰ Mr. Lane testified that the proposed increase is partially offset by a reduction of \$313,540 in Power Costs. Based upon this proposal, the average City of Chattanooga residential customer will realize an increase of \$0.50 in their monthly bill, or \$6.00 per year, and this represents a 1.71% increase in the average bill.¹¹

⁵ *Tennessee-American Water Company’s Exhibits, Workpapers, Invoices and Proposed Tariffs*, Exhibit - PCOP CALC – RCL (January 17, 2024).

⁶ Robert C. Lane, Pre-Filed Direct Testimony, p. 6 (January 16, 2024).

⁷ *Id.* at 10.

⁸ *Id.* at 11-12.

⁹ *Tennessee-American Water Company’s Exhibits, Workpapers, Invoices and Proposed Tariffs*, Exhibit - PCOP CALC – RCL (January 17, 2024).

¹⁰ Robert C. Lane, Pre-Filed Direct Testimony, p. 10 (January 16, 2024).

¹¹ *Id.* at 12-13.

POSITION OF THE CONSUMER ADVOCATE

The Consumer Advocate Division of the Office of the Tennessee Attorney General (“Consumer Advocate”) formally sought intervention on February 8, 2023, which was granted by the Administrative Judge.¹² Following discovery in accordance with a procedural schedule, the Consumer Advocate filed the Pre-Filed Direct Testimony of Mr. Alex Bradley. Mr. Bradley provided detailed comparisons of current pass-through expenses against those authorized in the last rate case and last review period, illustrating the increases from the baseline costs.¹³ Mr. Bradley asserted that TAWC’s requested new PCOP rider rate is based on the actual expenses incurred during the review period from December 1, 2022 to November 30, 2023, and includes the embedded costs for the added service territories of Whitwell and Jasper Highlands.¹⁴

For the current review period, the Company’s Non-Revenue Water (“NRW”) is 25.1% which is 10.1% greater than the baseline amount, resulting in a recovery factor of 89.9% for the Fuel & Purchased Powers and Chemical Expenses.¹⁵ According to Mr. Bradley, the proposed PCOP rider represented the largest surcharges since inception. Mr. Bradley identified four major factors contributing to this increase: (1) Water sales less than the base rate case amount; (2) increased chemical costs; (3) increased sludge removal costs; and (4) increased recoverability relating to NRW.¹⁶ In conclusion, Mr. Bradley concluded that the Company’s PCOP rider calculation adheres to the methodologies established in prior dockets.¹⁷

JOINT LETTER OF THE PARTIES

In a letter from the Company dated April 22, 2024, the Parties jointly expressed that there were no outstanding contested or procedural issues. The letter represented that it was the position

¹² *Order Granting the Petition to Intervene Filed by Consumer Advocate* (February 21, 2024).

¹³ Alex Bradley, Pre-Filed Direct Testimony, pp. 3-5 (April 1, 2024).

¹⁴ *Id.* at 4.

¹⁵ *Id.* at 6.

¹⁶ *Id.* at 9-10.

¹⁷ *Id.* at 11.

of both the Consumer Advocate and the Company that the matter should be resolved in favor of the *Petition*. Further, unless requested by the Commission, the parties both waived opening statements, the live presentation of testimony, and cross-examination of witnesses by the parties.¹⁸

HEARING

A hearing in this matter was held before the voting panel on May 20, 2024, as noticed by the Commission on May 10, 2024. As noted previously herein, the Parties filed a letter indicating there were no outstanding disputes or contested issues, and the parties 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 – Victoria B. Glover, Esq., Office of the Tennessee Attorney General, P.O. Box 20207, Nashville, TN 37202.

Mr. Bob 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 4.40%, as calculated in the Company’s PCOP workpaper “Petitioner's Exhibit - PCOP CALC – RCL,” submitted on January 17, 2024. The panel found that the Company’s calculations were correct and, based on the Commission’s approved methodologies, resulted in an increase from the previously approved PCOP rider percentage of 2.13%. The total PCOP percentage is based upon 2023 Fuel & Power Expense of \$2,422,714, Chemical Expense of \$2,274,381, Purchased Water Expense of \$154,339, Waste Disposal

¹⁸ Letter to Chairman Herbert H. Hilliard from Tennessee-American Water Company, pp. 1-2 (April 22, 2024).

Expense of \$664,538, and Commission Inspection Fee Expense of \$243,452. The total PCOP expense includes recovery of \$345,433 because the revenues collected from customers during the review period was less than the amount authorized in the 2023 PCOP Rider proceeding. This resulted in a net PCOP expense recovery of \$6,104,856, which includes a baseline PCOP expense amount for Whitwell and Jasper Highlands operations.

The panel also found that the PCOP Rider continues to benefit the Company by allowing timely recovery of expenses without having to file base rate cases. 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 and voted unanimously to approve the *Petition*.

IT IS THEREFORE ORDERED THAT:

1. The total actual net Production Costs and Other Pass-Throughs Rider expense for the year ending November 30, 2023, includes \$2,274,381 for Chemical Expense; \$2,422,714 for Fuel & Power Expense; \$664,538 for Waste Disposal Expense; \$159,339 for Purchased Water Expense; and \$243,452 for the Tennessee Public Utility Commission Inspection Fee Expense. This amount is increased by \$345,433 to account for under-collections, resulting in a net Production Costs and Other Pass-Throughs Rider expense of \$6,104,865, for a total Production Costs and Other Pass-Throughs Rider percentage of 4.40%.

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,
Commissioner Kenneth C. Hill, and
Commissioner David Crowell concurring.**

None dissenting.

ATTEST:

A handwritten signature in dark ink, appearing to read "Earl Taylor" with a stylized flourish or initials "abh" at the end.

Earl R. Taylor, Executive Director