

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 25-00002

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 EXHIBIT – RCL

PETITIONER'S EXHIBIT – PCOP BILL IMPACT – RCL

PETITIONERS EXHIBIT - COMPTROLLER MEMORANDUM – 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.

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, 24-00001, 24-00002, 24-00011, and
8 24-00032.

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

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

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

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

22 The purpose of TAWC's Petition, which this testimony accompanies (the
23 "Petition"), is to provide the required information and supporting documentation for the

1 2024 historical review period of December 1, 2023, through November 30, 2024, to comply
2 with the previously approved PCOP rider tariff, which as noted above was approved in
3 TPUC Docket No. 13-00130 and reviewed and adjusted in Docket Nos. 15-00001, 15-
4 00131, 16-00148, 18-00009, 19-00010, 20-00008, 21-00006, 22-00005, 23-00007, and 24-
5 00002. The information provided in my testimony is consistent with Tenn. Code Ann. §
6 65-5-103 *et seq.*, the decisions made in TPUC Docket No. 13-00130 and with any
7 adjustments ordered by the Commission in TPUC Docket Nos. 15-00001, 15-00131, 16-
8 00148, 18-00009, 19-00010, 20-00008, 21-00006, 22-00005, 23-00007, and 24-00002.

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

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

1 expenses that occurred between December 1, 2012 through November 30, 2013. The
2 approved tariff in Docket No. 13-00130 then identified each following review period as
3 subsequent 12-month periods. The table below summarizes the approved PCOP dockets
4 and review periods:

Docket	Review Period
	December 1, 2012 – November 30, 2013
15-00001	December 1, 2013 – November 30, 2014
15-00131	December 1, 2014 – November 30, 2015
16-00148	December 1, 2015 – November 30, 2016
18-00009	December 1, 2016 – November 30, 2017
19-00010	December 1, 2017 – November 30, 2018
20-00008	December 1, 2018 – November 30, 2019
21-00006	December 1, 2019 – November 30, 2020
22-00005	December 1, 2020 – November 30, 2021
23-00007	December 1, 2021 – November 30, 2022
24-00002	December 1, 2022 – November 30, 2023

5
6 The “current” review period that is the subject of this Petition is from December 1, 2023
7 through November 30, 2024. This Petition includes the current review period expenses,
8 compared to the amounts approved in TAWC’s last general rate case.

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

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

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

2 A. The purpose of my testimony is to support the calculation of the 2025 PCOP Rider
3 described in the Petition.

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

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

6 **Petitioner's Exhibit – PCOP Calc Exhibit – RCL**

7 **Petitioner's Exhibit – PCOP Bill Impact – RCL**

8 **Petitioner's Exhibit - Comptroller Memorandum – RCL**

9
10 I will discuss these exhibits in further detail in my testimony below.

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

13 A. Yes.

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

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

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

22 A. Yes.

23 **Q. DO THE PETITIONER'S EXHIBITS LISTED ABOVE ACCURATELY**
24 **SUMMARIZE SUCH DATA AND THE RESULTS OF ANALYSIS USING SUCH**
25 **DATA?**

26 A. Yes, they do.

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

2 A. Yes. The PCOP is mutually beneficial to customers, the public, and TAWC. Along with
3 the Capital Recovery Riders, the Production Costs and Other Pass-Throughs Rider reduces
4 the need for general rate cases, lessen the occurrence of consumer “rate shock,” and allow
5 for more efficient, streamlined regulation. The customers and the public benefit from
6 efficiently addressing changes in costs that are largely outside TAWC’s control, without
7 the expense of a general rate case. The Company benefits from a more efficient,
8 streamlined regulatory process that presents TAWC with the opportunity to timely recover
9 its expenses if they rise above 2012 levels for these costs.

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

11 A. Certainly. As set forth in the approved tariffs, the PCOP Rider is established on an annual
12 basis. Essentially, the calculation starts with levels of purchased power, purchased
13 chemical, purchased water, wheeling charges, waste disposal, and TPUC Inspection Fee
14 assessments and water sales that are authorized in the Company’s most recent rate case,
15 TPUC Docket No 12-00049. The authorized levels of purchased power, purchased
16 chemical, purchased water, wheeling charges, waste disposal, and TPUC Inspection Fee
17 assessments are divided by the authorized level of water sales in hundred gallons. Then
18 actual purchased power expense, purchased chemical expense, purchased water expense,
19 wheeling charges, waste disposal expense, and TPUC Inspection Fee assessments are
20 divided by the actual level of water sales in hundred gallons. The difference is the
21 incremental change in production costs per hundred gallons of water. This incremental
22 difference is then multiplied by the authorized level of water sales in hundred gallons. After
23 that, the amount of the PCOP revenues from the previous period that is either over or under

1 the anticipated amount is calculated with interest and added to the expense difference. The
2 total amount is grossed up for the authorized gross receipts tax rate, uncollectible rate, and
3 forfeited discounts from the previous rate case, and then divided by the authorized revenues
4 from the previous case. It is expressed as a percentage for all water charges. If it is negative,
5 the amount is to be credited to customers. If it is positive, it is added as a surcharge to the
6 customers' bills as additional revenues.

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

9 A. Yes. I have attached an exhibit that reflects the calculation of the PCOP Rider. The detailed
10 calculations are attached in an exhibit to my testimony as **Petitioner's Exhibit - PCOP**
11 **Calc Exhibit – RCL**. The calculations in this Petition are consistent with the calculations
12 made pursuant to and in compliance with the approved tariff in TPUC Docket No. 13-
13 00130 and again in Docket Nos. 15-00001, 15-00131, 16-00148, 18-00009, 19-00010, 20-
14 00008, 21-00006, 22-00005, 23-00007, and 24-00002, with the exception of using the
15 unaccounted for water limitation factor rather than the Non-Revenue Water limitation
16 factor to be consistent with TPUC precedent pursuant to the Commission's orders in TPUC
17 Docket Nos. 08-00039 and 10-00189 (formerly TRA dockets). TAWC is including with
18 the Petition its detailed work-papers supporting the calculation of the PCOP, including all
19 of the invoices for the review period. Again, these workpapers are consistent with the
20 calculations made pursuant to and in compliance with the approved tariff in TPUC Docket
21 No. 13-00130 and again in Docket Nos. 15-00001, 15-00131, 16-00148, 18-00009, 19-
22 00010, 20-00008, 21-00006, 22-00005, 23-00007, and 24-00002, with the exception of the
23 calculation of the unaccounted for water limitation factor. The Company is making this

1 adjustment to conform to the limitation factor on unaccounted for water adopted by the
2 Commission in TPUC Docket Nos. 12-00049, 10-00189 and 08-00039. The Company
3 realized there was an inconsistency between how the unaccounted for water limitation
4 factor had previously been implemented in more recent years and the clear language of
5 these previous Commission decisions applying a 15% unaccounted for water limitation
6 factor. TAWC is rectifying that in this filing.

7 **Q. CAN YOU ELABORATE ON THE DIFFERENCES BETWEEN NON-REVENUE**
8 **WATER AND UNACCOUNTED FOR WATER?**

9 A. Yes. In TPUC Docket No. 10-00189, the Commission adopted a 15% “unaccounted for
10 water” limitation factor for Tennessee-American, which is consistent with the
11 Commission’s action in TPUC Docket Nos. 08-00039 and 12-00049.

12 Inconsistent with the previously cited Commission decisions, an NRW limitation
13 factor has been employed in conjunction with the PCOP in recent years, as opposed to the
14 correct and applicable lost and unaccounted for water (“UFW”) methodology that was
15 initially used with the PCOP rider. As will be explained further below, NRW and UFW are
16 not the same.

17 NRW is limited to water for which revenue is not collected. In other words, NRW
18 is the difference between the system delivered water and the amount that is billed to
19 customers. Unaccounted for water, on the other hand, is the portion of NRW that a water
20 utility is not able to track/measure (*e.g.*, meter inaccuracies, data errors and unauthorized
21 non-metered charges). So, while there is a portion of NRW for which a utility company
22 cannot account, there is also a portion for which it can account. Moreover, that *accounted*
23 *for* portion of NRW may be productively used water, which is used in a way that serves the

1 public interest. For example, it could be water used for firefighting, testing fire hydrants,
2 flushing pipes (to maintain water quality and reliability), or performing flow tests. Further,
3 metered water used by the Fire Academy is not billed. Therefore, there is a significant and
4 very real distinction between lost and unaccounted for water and NRW. Just because a
5 portion of the NRW (that is a productive use) is not billed, does not mean that the volume
6 of water used cannot be accounted for. Since there are many productive, necessary and
7 reasonable uses of water that are *accounted for* and included in non-revenue water, and as
8 such productive and affirmative uses are intentional, rather than unintentional like “loss”
9 and “unaccounted” for water, characterizing these intentional uses of water to formulate
10 and apply what amounts to a penalty against the utility is neither regulatorily sound nor
11 reasonably just or supportable. Water used for firefighting, testing fire hydrants, flushing
12 pipes, performing flow tests or other intentional and productive purposes is neither “loss”
13 nor “unaccounted for.” For the foregoing reasons, any attempt to use UFW and NRW
14 interchangeable affronts the public interest and may even risk a chilling effect on the
15 positive use of water for productive and essential purposes, albeit sometimes non-revenue
16 producing.

17 As demonstrated above, a 15% NRW limitation factor applies a far more rigorous
18 requirement than a 15% UFW limitation factor, as an NRW limitation factor exacts an
19 unfair penalty upon the Company not intended by the Commission for unbilled *accounted*
20 *for* water that is put to productive and accounted for use. As recognized by the Commission
21 in its previous TAWC rate case orders, a 15% NRW limitation factor is simply
22 unreasonable. Since the Company will always, responsibly, have unbilled yet productive
23 uses of water, such a standard would maintain a requirement that likely can never be met

1 by the Company. TAWC cannot responsibly eliminate water used for firefighting, testing
2 fire hydrants, flushing pipes or performing flow tests, in part, because doing so would be
3 against the public interest. Further, the use of a 15% NRW limitation factor is much more
4 stringent than the Tennessee state standard that the Tennessee Board of Utility Regulators
5 established under Tenn. Code Ann. § 7-82-702(a)(16) when it defined “Excessive Water
6 Loss” as any system with non-revenue water above 40%. In the unlikely event that the
7 Commission decides to take a direction different than long-standing Commission
8 precedence, including TPUC Docket Nos. 08-00039, 10-00189 and 12-00049, and adopt
9 an NRW limitation factor, rather than UFW limitation factor, for TAWC, the Commission
10 should nonetheless acknowledge and recognize the 40% standard set by the Tennessee
11 Board of Utility Regulators and applicable to publicly owned water utilities.¹

12 **Q. HAS TAWC INCLUDED DETAILED INFORMATION REGARDING THE**
13 **EXPENSES THAT MAKE UP EACH OF THE EXPENSE CATEGORIES FOR**
14 **THE PCOP RIDER?**

15 A. Yes. As it has in previous PCOP filings, TAWC began with the General Ledger for each
16 of the accounts for the appropriate expenses. TAWC then reconciled the monthly General
17 Ledger charges with the actual invoices appropriate for each monthly period. TAWC
18 removed any charges that were not consistent with the previous docket. This included
19 power charges that are not specific to production, late charges, or charges for service
20 periods outside the review period even if the invoice was applied to the General Ledger
21 during the review period.

¹ The state average NRW reported to the Tennessee Comptroller of the Treasury for fiscal year 2023 was 31.10%. *See Tennessee Comptroller of the Treasury Memorandum* (Dec. 12, 2023) (attached hereto as **Petitioner’s Exhibit - Comptroller Memorandum – RCL**).

Q. HOW ARE THE PCOP EXPENSES RECOVERED?

A. The PCOP is expressed as a percentage. The PCOP is applied to the total amount billed to each customer under the otherwise applicable rates and charges for basic service, metered usage charges, and private fire charges, and is applied prior to the inclusion of any other taxes, charges, or surcharges. The Capital Recovery Riders are combined into one line item on the bill of each customer, while the PCOP Rider is a second line item on the bill of each customer.

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

A. The PCOP established with this Petition recovers certain production costs and other costs that were in excess of the costs approved in the Company's previous rate case, TPUC Docket No. 12-00049. These rates are for costs incurred in 2024 and which the Company seeks recovery of in 2025. In 2026, the Company will seek recovery of production costs and other passthrough costs incurred in 2025. Each year the PCOP is reset based in the previous year's results and is not cumulative. So, in the 2026 PCOP filing, which will seek recovery for costs incurred in 2025, underlying determinants, such as gross receipt rate and uncollectibles rate, will be as determined in TPUC Docket No. 24-00032.

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

A. Since this Petition addresses costs incurred in 2024, the gross receipt rate is the established rate in the Company's immediately preceding Base Rate Case Order, currently TPUC Docket No. 12-00049.

Q. WHAT UNCOLLECTIBLES RATE IS USED TO DETERMINE THE PCOP?

1 A. Again, since this filing addresses 2024 costs, the uncollectible rate is the established rate
2 in the Company's immediately preceding Base Rate Case Order, currently TPUC Docket
3 No. 12-00049.

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

5 A. Because this filing addresses 2024 costs it is appropriate to use the forfeited discount rate
6 is the established rate in the Company's immediately preceding Base Rate Case Order,
7 currently TPUC Docket No. 12-00049.

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

10 A. Yes, with one exception, the calculations and workpapers are consistent with the
11 methodologies utilizes in TPUC Docket No. 23-00007 and reflect the methodology agreed
12 to by the Consumer Advocate and TAWC and approved by the Commission.

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

15 A. Yes. As noted above, the Company, as a result of the analysis and discovery in TPUC
16 Docket No. 24-00032, TAWC's general rate case filed May 1, 2024, realized that it was
17 utilizing the wrong metric to measure unaccounted for water. In this filing, the Company
18 is aligning with previous Commission directives and using the metric approved by the
19 Commission of 15% unaccounted water (UFW) in its order in TPUC Docket No. 08-00039
20 (at page 15) and again in TPUC Docket No. 10-00089 (at page 66), rather than the broader
21 and inapplicable measure of Non-Revenue Water (NRW).² For the 12-month period
22 ending November 30th, 2024, the unaccounted-for water percentage is 13.2%, below the

² See *Order Approving Settlement Agreement*, TPUC Docket No. 12-00049 (Nov. 20, 2012); *Final Order*, TPUC Docket No. 10-00189 (April 27, 2012); and *Order*, TPUC Docket No. 08-00039 (Jan. 13, 2009).

1 15% limitation previously established by the Commission Thus, no adjustment for
2 unaccounted-for water is made or warranted.

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

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

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

8 A. Yes. There is a difference between the amount of the PCOP that was authorized to be
9 collected in TPUC Docket No. 24-00002 and what was actually collected.

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

12 A. Yes. I have outlined above the change made to align the limitation of unaccounted for water
13 to previous Commission orders. Currently the Company unaccounted for water for the 12-
14 month period ending November 30, 2024 is 12.6%, below the 15% standard previously
15 adopted by the Commission.

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

18 A. The adjustment of PCOP Base Rate Expenses was calculated consistent with the agreement
19 between Consumer Advocate and the Company in TPUC Docket No. 22-00005. First the
20 actual production related expense for Jasper Highlands that were included in the
21 documentation supporting the acquisition of Jasper Highlands in TPUC Docket 20-00011
22 were divided by the total number of customers during 2017 to calculate a yearly production
23 cost of approximately \$309 a year. Multiplying the \$309 production cost per customer by

1 the number of customers by the February 2022 customer count returns a calculation of
2 approximately \$102,767 in production costs being recovered in the current rates of Jasper
3 Highlands.

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

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

10 **Q. WAS THERE AN ADJUSTMENT MADE TO PROJECTED ANNUAL BASE**
11 **RATE REVENUE SUBJECT TO PCOP TO ACCOUNT FOR WHITWELL BASE**
12 **YEAR REVENUES?**

13 A. Yes, there is an adjustment included.

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

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

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

21 A. TAWC is proposing a PCOP Rider that results in an annualized revenue increase of
22 \$1,537,427, grossed up for revenue taxes, or a surcharge of 3.17%. Total PCOP costs are,
23 before adjustment for revenue taxes, \$2,239,527 higher than the amount approved in TRA

1 12-00049, but is offset by an overcollection of \$705,542. The current PCOP Rider is
2 4.39%%, and this new proposed PCOP Rider is 3.17% a reduction of 1.22 percentage
3 points.

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

5 A. The typical residential customer living in the City of Chattanooga and using an average of
6 3800 gallons per month will see a decrease on their bill of \$0.24 per month, or \$2.88 per
7 year from the PCOP Rider. This represents a 0.87% decrease in the average bill. A
8 summary of this information is attached to my testimony as **Petitioner's Exhibit - PCOP**
9 **Bill Impact – RCL.**

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

11 A. Yes. Tennessee-American understands that the purpose of the legislation was, in part, to
12 encourage timely recovery of expenses to enhance financial stability, while reducing the
13 costs to consumers and utilities for regulatory review and implementation and promoting
14 rate gradualism for consumers. TAWC believes the approved Production Costs and Other
15 Pass-throughs Rider is achieving that goal. Without the approved alternative rate
16 mechanisms of the PCOP and Capital Recovery Riders, TAWC would most likely have
17 needed to have filed multiple rate cases since 2012, as opposed to just the one filed on May
18 1, 2024. The PCOP is a balanced mechanism allowing the Company, in times of rising
19 prices, to recover increased production related costs in a timely fashion, saving customers,
20 intervenors, the Commission and the Company the expense and efforts associated with a
21 General Rate Case. The PCOP Rider is a key part of the Commission's streamlined
22 alternative regulation framework for Tennessee-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.

Tennessee American Water

2024 PCOP Reconciliation

Workbook Name: TAW_EXH_RCL_1_.xlsx

Workbook Information: This workbook calculates the PCOP surcharge percentage based on the reconciliation of PCOP related costs for the year December 2023 - November 2024.

Worksheet Name	Description / Purpose of Worksheet
1. Link In	1. Links in from each expense, authorized expense and sales from last rate case, current sales and system delivery and over-under collection.
2. PCOP Calc Exhibit	2. Calculation of the current PCOP rate.
3. Support Workpaper	3. Current expenses adjusted for Non-Revenue Water compared to authorized expenses from the last rate case.
4. Usage&Sysdel	4. Usage and system delivery for the 12 months ending November 2024.
5. Jasper Highlands Workpaper	5. Jasper Highlands adjustment calculation for each expense, water sales, and revenues included in calculation of PCOP.
6.	6.
7.	7.
8.	8.
9.	9.
10.	10.
11.	11.
12.	12.
13.	13.
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17.	17.
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19.	19.
20.	20.

There are three (3) other worksheets that are left blank intentionally and are used to identify and separate the Other Support, Exhibit and Workpaper worksheets.

Tennessee American Water Company
Docket No. 25-000XX

Calculation of Production Costs and Other Pass-Throughs ("PCOP") Including Non-Revenue Water
To Determine PCOP Tariff Rider
Actuals for the Year Ending November 30, 2024

Line Number	Description	Amount
<u>I. Calculation of the Base Rate Cost of Production Costs and Other Pass-Throughs as authorized in the Base Rate case (*):</u>		
1	Pro Forma Production Costs and Other Pass-Throughs	\$4,391,384
2	Pro Forma Water Sales (WS) in 100 Gallons	<u>102,201,410</u>
3	Base Rate Cost per 100 Gallons WS (Line 1 / Line 2)	<u>\$0.04297</u>
<u>II. Deferral calculation - Actual Non-Revenue Water Cost Production Costs and Other Pass-Throughs (adjusted for 15% NRW) vs. the Base Rate Cost (**):</u>		
4	Actual Production Costs and Other Pass-Throughs	\$6,630,911
5	Over-Under Collection Adjustment	(705,542)
6	Review Period PCOP Costs Adjusted for Over-Under Collections	5,925,369
7	Actual Water Sales (100 Gallons)	<u>102,994,325</u>
8	Actual Rate Cost Production Costs and Other Pass-Throughs per 100 Gallons WS (Line 6 / Line 7)	\$0.05753
9	Base Rate Cost per 100 Gallons WS (Line 3)	<u>0.04297</u>
10	Incremental Change in Production Costs and Other Pass-Throughs per 100 Gallons WS (Line 9 - Line 8)	\$0.01456
11	Base Rate Case Water Sales 100 Gallons (Line 2)	<u>102,201,410</u>
12	Deferral Amount (Line 10 * Line 11)	<u>\$1,488,368</u>
<u>III. Calculation of Production Costs and Other Pass-Throughs ("PCOP") Tariff Rider</u>		
13	Total Deferred Amount (Line 12)	\$1,488,368
14	Total Deferred Amount Grossed Up for revenue taxes (Line 13 / (1.0-.03191) (***)	1,537,427
15	Projected Annual Base Rate Revenue subject to PCOP (*)	<u>48,494,574</u>
16	PCOP % (Line 14 / Line 15)	<u>3.17%</u>

(*) The numbers are taken from the settlement agreement in Docket No. 12-00049 and include the Whitwell adjustment from Docket No. 21-00006, as well as a proposed adjustment for Jasper Highlands. The Projected Annual Base Rate Revenue subject to PCOP on Line 15 includes revenues from Docket No. 12-00049, as well as proposed adjustments to include Whitwell and Jasper Highlands base revenues.

(**) The numbers are actuals for the year ended November 30, 2024 including Non-Revenue Water for Purchased Power and Chemicals.

(***) Assumes Gross Receipts Tax @ 3.0%, Uncollectibles @ 1.0571%, and Forfeited Discount Rate @ -0.8661%.

Tennessee American Water Company
Docket No. 25-000XX
For the Twelve Months Ending November 30, 2024
PCOP Actual Expenses

Line #	Description	A	B	C	D	E	F	G	H
		For the 12 Months Ending 11/30/2024	**NRW Limited 12 Mos Ending 11/2023 (Column A, Lines 2 and 3 x Line 18 Recoverable %)	Authorized Amount Per Docket 12-00049	Whitwell Adjustment as Settled per Docket 21-00006	Jasper Highlands Proposed Adjustment	B - (C + D + E) Difference NRW Limited from Authorized Docket 12-00049	Adjust Difference for TRA Fee Recovered Via SEC, EDI, or QIIP 12 Months Ending 11/30/2024	F - G Adjusted Difference
1	Purchased Water Including Wheeling Charges	\$205,611	\$205,611	\$51,331	\$50	\$115,935	\$38,295	\$0	\$38,295
2	Purchased Power**	2,903,942	2,903,942	2,678,772	38,373	37,135	\$149,663		149,663
3	Chemicals**	2,468,765	2,468,765	986,930	30,855		\$1,450,980		1,450,980
4	Waste Disposal	788,031	788,031	213,308	106,869		\$467,854		467,854
5	TRA Inspection Fee	264,561	264,561	131,826	0		\$132,735		132,735
6									
7	Total	\$6,630,911	\$6,630,911	\$4,062,167	\$176,147	\$153,070	\$2,239,527	\$0	\$2,239,527
8									
9									
10	Water Sales in 100 Gallons	1,029,943,250	1,029,943,250	100,578,654	1,527,738	95,018		1,029,943,250	
11									
12	Cost per 100 Gallons (Line 7 / Line 10)	\$0.00644	\$0.00644	\$0.04039	\$0.11530	\$1.61095	(\$0.03395)	\$0.00000	(\$0.03395)
	Recoverable % for Production Costs	For the 12 Months Ending 11/30/2024							
13	Water System Deliveries	0							
14	Unaccounted for Water	138,572,236							
15	Non-Revenue-Unaccounted for Water % [1 - (Line 13 / Line 14)]	100.0%							
16	Non-Revenue-Unaccounted for Water % Authorized	15.0%							
17	Variance (If Line 15 > Line 16 then Line 15 - Line 16)	0.0%							
18	Recoverable % (1 - Line 17)	100.0%							

**Non-Revenue Unaccounted for Water is only applied to purchased power and chemicals.

Tennessee American Water Company
Docket No. 25-000XX
For the Twelve Months Ending November 30, 2024
Usage

	Water Usage	System Delivery	NRW %
2023 Dec	7,710,381	10,348,999	25.50%
2024 Jan	8,232,685	11,853,394	30.55%
2024 Feb	7,411,494	10,337,237	28.30%
2024 Mar	7,411,494	11,000,349	32.62%
2024 Apr	7,596,482	10,659,443	28.73%
2024 May	7,335,289	11,294,702	35.06%
2024 Jun	8,666,364	11,985,749	27.69%
2024 Jul	10,416,644	12,758,952	18.36%
2024 Aug	9,540,929	13,026,001	26.75%
2024 Sep	10,579,466	12,241,213	13.58%
2024 Oct	9,512,259	12,259,950	22.41%
2024 Nov	8,580,837	10,806,248	20.59%
	102,994,325	138,572,236	25.67%

Tennessee American Water Company
Docket No. 25-000XX
For the Twelve Months Ending November 30, 2024
Jasper Highlands Acquisition Adjustment Calc

	Year	Billed Usage	Water Sales Revenue	Purchased Water	Purchased Power	Total PCOP	Customer Count	Customer Count Source:	Yearly Purchased Water per Customer	Yearly Purchased Power per Customer	Yearly PCOP per Customer
A/	2017	3,379,792	\$ 178,650	\$ 16,362	\$ 5,241	\$ 21,603	70	C/	\$ 234	\$ 75	\$ 309
B/	2024	9,501,833	\$ 712,777	\$ 166,907	\$ 36,130	\$ 203,037	496	D/			
Estimated Purchased Water embedded in base rates					\$ 115,935						
Estimated Purchased Power embedded in base rates					\$ 37,135						
Toal Estimated PCOP embedded in base rates					<u>\$ 153,070</u>						

A/ 20-00011 - REVISED CONFIDENTIAL Exhibit DB-3 - Jasper Highlands Water System - Financial Statements 2017.xlsx
B/ CO. Exh, tab Jasper Workpaper
C/ 20-00011, Confidential attachment Dr 1-13
D/ Tab "JH Bill Anaylsis"

Tennessee American Water Company
Docket No. 25-000XX
For the Twelve Months Ending November 30, 2024
Petitioners Exhibit PCOP Bill Impact - RCL

Usage		2024 Bill	2025 Bill	Change	
5/8"	3800 Gallons	\$ 27.27	\$ 27.51	\$ 0.24	0.88%



JASON E. MUMPOWER
Comptroller

December 12, 2023

MEMORANDUM

To:

From: Ross Colona, Assistant Director, Local Government Finance
Designated Manager of the Tennessee Board of Utility Regulation

A handwritten signature in blue ink, appearing to read "R. Colona".

Subject: Water Loss Filing per section 7-82-401(i), *Tennessee Code Annotated*

In accordance with TCA 7-82-401(i), this report summarizes the water loss reported to the Comptroller of the Treasury by utilities under the jurisdiction of the Tennessee Board of Utility Regulation ("TBOUR").

Utilities are required to submit an Annual Information Report to the Comptroller of the Treasury every fiscal year. As part of the Annual Information Report submission, utilities must report the water produced or purchased, water sold to customers, and active water customer count.

There were 375 Annual Information Report submissions for fiscal year 2023 for water systems that are reflected in the data below.

	Utility Count	Average Water Loss	Median Water Loss	Median Water Customer Count
Upper East	66	34.56%	34.39%	3,350
Lower East	57	32.13%	30.83%	4,756
Upper Middle	57	26.73%	26.07%	3,175
Lower Middle	64	30.11%	29.15%	2,876
Upper West	76	33.13%	33.35%	1,181
Lower West	55	28.76%	29.24%	1,434
Total	375	31.10%	30.91%	2,534

The TBOUR set the regulatory threshold for excessive water loss to be 40% water loss by volume or higher. When a utility violates the 40% threshold, the utility is required to develop a water loss mitigation plan that provides the steps the utility will undergo to remedy its water loss. TBOUR staff then periodically review the utility's water loss submission for progress that the utility is improving its water loss.

The included table lists the utilities with water loss cases under the TBOUR as of December 1, 2023 for violating the 40% regulatory requirement and the respective water loss



JASON E. MUMPOWER
Comptroller

percentages. There are some utilities on this list that have water loss less than 40%. These are indicative of cases that have improved their water loss percentage, but the cases have not been officially closed by the TBOUR.

Utility Name	Water Loss Percentage
Adamsville	57.5%
Alamo	40.5%
Alpha-Talbott Utility District	42.9%
Arthur-Shawnee Utility District	50.1%
Bean Station Utility District	44.2%
Benton	62.5%
Big Sandy	67.4%
Bloomingtondale Utility District	43.0%
Byrdstown	65.8%
Camden	43.2%
Cedar Grove Utility District	49.8%
Celina	42.6%
Centerville	45.1%
Cherokee Hills Utility District	36.4%
Claiborne Utilities District	35.4%
Clearfork Utility District	54.4%
Clinton	40.5%
Collinwood	45.1%
Copper Basin Utility District	54.8%
County Wide Utility District	46.5%
Cross Anchor Utility District	48.1%
Cumberland Utility District of Roane and Morgan Counties	58.6%
Dover	37.9%
Dunlap	37.9%
Dyersburg Suburban Consolidated Utility District	44.3%
East Sevier County Utility District	63.2%
Elizabethton	52.6%
Erin	58.0%
Etowah	40.7%
First Utility District of Carter County	58.3%
First Utility District of Hardin County	49.1%



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First Utility District of Hawkins County	44.0%
Friendsville	42.0%
Gibson County Municipal Water District	54.4%
Gleason	47.9%
Grand Junction	51.6%
Graysville	40.1%
Hallsdale-Powell Utility District	38.0%
Harriman	57.1%
Henry	44.0%
Hollow Rock	57.8%
Iron City Utility District	57.8%
Jackson County Utility District	52.1%
Jasper	43.1%
Jefferson City	55.5%
LaFollette	45.6%
Lakeview Utility District	48.6%
Lawrenceburg	47.2%
Lenoir City	44.9%
Lexington	45.9%
Linden	46.2%
Livingston	44.1%
Lobelville	59.5%
Lynnville	98.8%
Madison Suburban Utility District of Davidson County	29.7%
Madisonville	44.3%
Mason	63.6%
McEwen	48.4%
McKenzie	57.6%
McLemoresville	40.6%
Metropolitan Government of Lynchburg and Moore County	47.3%
Mount Pleasant	45.4%
Mountain City	51.1%
North Stewart Utility District	42.2%
North West Utility District	43.3%
Northwest Dyersburg Utility District	39.2%
Northwest Henry Utility District	61.6%



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Ocoee Utility District	51.3%
Oliver Springs	76.8%
Oneida	48.6%
Perryville Utility District	51.3%
Portland	41.5%
Puryear	40.9%
Red Boiling Springs	29.3%
Ridgely	40.1%
Roan Mountain Utility District	52.3%
Rockwood	49.4%
Rocky Top	23.0%
Rogersville	36.8%
Samburg Utility District	43.2%
Sardis	29.9%
Savannah Valley Utility District	44.3%
Smithville	42.6%
Sneedville Utility District	45.5%
South Carroll Utility District	54.8%
South Elizabethton Utility District	49.4%
South Fulton	40.3%
Spencer	38.3%
Spring City	42.8%
Spring Creek Utility District of Hardeman County	69.5%
Surgoinsville Utility District	43.5%
Tellico Plains	62.4%
Tennessee Ridge	52.9%
Trenton	47.7%
Troy	52.9%
Watertown	45.8%
Waverly	40.7%
Waynesboro	52.7%
White Pine	41.8%
Woodbury	50.7%

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE**

**PETITION OF TENNESSEE-
AMERICAN WATER COMPANY
REGARDING THE 2025 PRODUCTION
COSTS AND OTHER PASS-
THROUGHS RIDER**

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DOCKET NO. 25-_____

VERIFICATION

STATE OF Tennessee)
)
COUNTY OF Hamilton)

I, ROBERT C. LANE, being duly sworn, state that I am authorized to testify on behalf of Tennessee-American Water Company in the above-referenced docket, that if present before the Commission and duly sworn, my testimony would be as set forth in my pre-filed testimony in this matter, and that my testimony herein is true and correct to the best of my knowledge, information, and belief.



ROBERT C. LANE

Sworn to and subscribed before me
this 14th day of January, 2025.

Tara Watson

Notary Public

My Commission Expires: 2-28-28



CERTIFICATE OF SERVICE

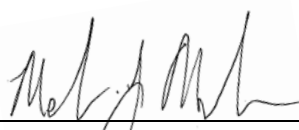
I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

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This the 15th day of January 2025.



Melvin J. Malone