

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

<b>IN RE:</b>	)	
	)	
<b>PETITION OF TENNESSEE</b>	)	
<b>AMERICAN WATER COMPANY</b>	)	
<b>REGARDING THE PRODUCTION</b>	)	<b>DOCKET NO. 18-00009</b>
<b>COSTS AND OTHER PASS-</b>	)	
<b>THROUGHS RIDER</b>	)	
	)	

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**DIRECT TESTIMONY**

**OF**

**ALEX BRADLEY**

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**April 9, 2018**

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AT NASHVILLE, TENNESSEE

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AFFIDAVIT

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



Alex Bradley  
ALEX BRADLEY

Sworn to and subscribed before me  
this 9th day of April, 2018.

Emily Knight  
NOTARY PUBLIC

My commission expires: May 6, 2019

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

3       **A1.**   My name is Alex L. Bradley. My business address is Office of the Tennessee  
4       Attorney General, UBS Tower, 315 Deaderick Street, Nashville, TN 37243. I am an  
5       Accounting & Tariff Specialist employed by the Consumer Protection and Advocate  
6       Division of the Tennessee Attorney General's Office.

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

9       **A2.**   I received a Bachelor of Science in Business Administration with a major in  
10      Accountancy along with a Bachelor of Arts with a major in Political Science from  
11      Auburn University in 2012. I have been employed by the Consumer Protection and  
12      Advocate Division of the Tennessee Attorney General's Office (Consumer Advocate)  
13      since 2013. My duties include reviewing utility regulatory filings and preparing  
14      analysis used to support Consumer Advocate testimony and exhibits. I have  
15      completed regulatory training sponsored by the National Association of Regulatory  
16      Utility Commissions (NARUC) held by Michigan State University.

17      **Q3.   HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE**  
18      **TENNESSEE PUBLIC UTILITY COMMISSION?**

19      **A3.**   Yes. I have previously testified in TPUC Docket No. 17-00108.

1       **Q4.    ON WHOSE BEHALF ARE YOU TESTIFYING?**

2       **A4.**    I am testifying on behalf of the Consumer Advocate of the Tennessee Attorney  
3               General's Office.

4       **Q5.    WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5       **A5.**    My testimony will discuss the supporting calculations and general history of  
6               Tennessee American Water's (TAWC or Company) Production Costs and Other Pass-  
7               Throughs (PCOP) Rider.

8       **Q6.    PLEASE PROVIDE A BRIEF OVERVIEW OF THE HISTORY AND INTENT**  
9               **OF THE PCOP RIDER.**

10      **A6.**    In 2014, the Tennessee Public Service Commission (TPUC or Commission) approved  
11               Docket No. 13-00130 which authorized TAWC to put into rates four alternative rate  
12               mechanisms. One of the mechanisms approved by the Commission was the PCOP  
13               Rider which allows the Company pass-through recovery of its expenses for purchased  
14               power, chemicals, purchased water, wheeling cost, waste disposal and regulatory fees  
15               (collectively the Pass-Through Expenses). The PCOP Rider is designed to allow the  
16               Company recovery of these costs which are said to be out of its control and would, if  
17               they were to increase, reduce the opportunity for TAWC to earn its authorized rate of  
18               return. As approved, the PCOP Rider compares the Company's realized costs of the  
19               Pass-Through Expenses for the prior twelve month period to amounts authorized in the  
20               Company's last general rate case, TPUC Docket. No. 12-00049.

As set out in the TPUC order in Docket No. 13-00130, the PCOP is recovered as a percentage charge, applied to a customer's bill and is aggregated with the Company's other alternative rate mechanism riders. The history of the PCOP surcharge percentage since its inception is presented below in Table 1.

Table 1 - PCOP Surcharge Rate Since Inception					
Docket Number	13-00130	15-00001	15-00131	16-00148	18-00009
Covering The Twelve Months Ending	11/30/2013	11/30/2014	11/30/2015	11/30/2016	11/30/2017
Tariff Effective Date	April 15, 2014	August 17, 2015	May 10, 2016	July 11, 2017	TBA
Surcharge Rate	-1.15%	-0.73%	-0.36%	-0.89%	-1.21%

**Q7. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION FOR THIS TESTIMONY.**

**A7.** I have reviewed the Company's Pre-Filed Testimony along with the exhibits and work papers supporting Proposed Sheet No. 12 – Riders – LCB filed in this case. Additionally, I reviewed the discovery, testimonies, and orders filed in TPUC Docket Nos. 13-00130, 15-0001, 15-00131, and 16-00148. Finally, I have reviewed the Company's responses to the data requests submitted by the Consumer Advocate in this Docket.

**Q8. PLEASE DESCRIBE THE RELIEF SOUGHT IN THIS DOCKET.**

**A8.** TAWC is petitioning the Commission to approve a new PCOP Rider surcharge based on the actual Pass-Through Expenses incurred during the twelve months ending November, 30 2017 compared to the amounts authorized in the Company's last general rate case, a net reduction of \$653,761 of baseline Pass-Through Expenses. A comparison of the amount of Pass-Through Expenses from the Company's last general

rate case and for the twelve months ending November, 30 2017 (per the Company's Petition) is shown below in Table 2.

Table 2 - Comparison of Expenses to Baseline Amounts			
	Authorized Amount Per Docket 12-00049	For the 12 Months Ending 11/30/2017	Difference From Baseline Cost
Chemicals Expense	\$ 986,930	\$ 869,209	\$ (117,721)
Fuel & Purchased Power Expense	2,678,772	2,123,434	(555,338)
Waste Disposal Expense	213,308	344,010	130,702
Purchased Water Expense	51,331	31,610	(19,721)
TPUC Inspection	131,826	213,948	82,122
Refund Over / (Under)		(173,805)	(173,805)
<b>Total</b>	<b>\$ 4,062,167</b>	<b>\$ 3,408,406</b>	<b>\$ (653,761)</b>

**Q9. WHAT IS THE RESULT OF THE OF ACTUAL COSTS INCURRED IN THE TWELVE MONTHS ENDING NOVEMBER 30, 2017?**

**A9.** As shown in Tables 1 and 2 above, the resulting total of \$3,408,406 translates to a change in the effective rate percentage moving from -0.89% to -1.21% of a customer's total bill, producing a net decrease of \$634,415 in the PCOP deferral account per the last PCOP approved surcharge. The Company's provided workpapers and exhibits which lay out the charges incurred in the most recent twelve month period resulted in less expense than the costs incurred for the PCOP Rider currently in effect. A comparison of the expense amounts for the current PCOP Rider, set in TPUC Docket No. 16-00148, and the level of expense incurred in the last twelve month period are presented below in Table 3. As shown below in Table 3 the \$3,408,406 sought for recovery in this Docket results in an overall decrease of \$634,415, or 16.00%, when

1 compared the total requested recovery amount in the Company's last PCOP filing,  
2 TPUC Docket No. 16-00148.

Table 3 - 24 Month Difference by Expense Type			
Period Expense Incurred In	For the 12 Months Ending 11/30/2016	For the 12 Months Ending 11/30/2017	Difference
Chemicals Expense	\$ 1,023,399	\$ 869,209	\$ (154,190)
Fuel & Purchased Power Expense	2,390,646	2,123,434	(267,212)
Waste Disposal Expense	311,083	344,010	32,927
Purchased Water Expense	40,296	31,610	(8,686)
TPUC Inspection	193,639	213,948	20,309
Refund Over / (Under)	83,758	(173,805)	
Total (Including Refund)	\$ 4,042,821	\$ 3,408,406	\$ (634,415)

3  
4 **Q10. HOW DOES THE AMOUNT SOUGHT FOR RECOVERY IN THIS DOCKET**  
5 **COMPARE TO THE COSTS APPROVED IN TPUC DOCKET NOS. 12-00049,**  
6 **13-00130, 15-00001, 15-00131, AND 16-00148?**

7 **A10.** Overall, when compared to the baseline amounts set in the Company's last general rate  
8 case, the Pass-Through Expenses have been less than the set baseline amounts every  
9 year since its inception. In comparing each component of the PCOP, all but two items  
10 have had reductions in total cost. As shown in Table 2 above, the two cost  
11 components that have risen over the baseline levels set in Docket No. 12-00049 are the  
12 waste disposal expense and the TPUC inspection fee.

13 **Q11. DO YOU OBJECT TO THE INCREASES IN THE WASTE DISPOSAL**  
14 **EXPENSES AND THE TPUC INSPECTION FEE EXPENSE??**

15 **A11.** I do not.

16 **Q12. DID YOU REVIEW THE CALCULATIONS SUPPORTING THE PROPOSED**  
17 **PCOP SURCHARGE IN THIS FILING?**

**A12.** Yes, I reviewed TAWC's filing and supporting documentation. I also prepared data requests for information not contained in the original filing. Additionally, I reviewed a sample of invoices to confirm that the amounts listed in the Company's filing corresponded to an invoiced amount.

**Q13. WHAT WERE THE RESULTS OF YOUR REVIEW?**

**A13.** During the course of my review, I was able to identify one invoice that fell outside the relevant time period for inclusion within this filing<sup>1</sup>. The resulting adjustment (CPAD Adjustment 1) reduces the total waste disposal expense by \$18,000 as shown in Table 4 below.

Table 4 - CPAD Adjustment 1 - Waste Disposal Expense			
Vendor	CPAD Water Invoiced Total	TAWC Water Invoiced Total	Difference
City of Chattanooga- Dept. of Public Works	\$ 500	\$ 500	\$ -
City of Chattanooga- Dept. of Public Works	7,704	7,704	-
City of Chattanooga- Dept. of Public Works	90,884	90,884	-
Denali Water Solutions LLC	77,064	77,064	-
Marion Environmental Inc.	149,859	167,859	(18,000)
<b>Total</b>	<b>\$ 326,010</b>	<b>\$ 344,010</b>	<b>\$ (18,000)</b>

**Q14. HOW DOES THE CONSUMER ADVOCATE'S ADJUSTMENT 1 MODIFY THE OVERALL PCOP PERCENTAGE APPLIED TO A CUSTOMER'S BILL?**

**A14.** As shown in Table 5 below, the result of CPAD Adjustment 1 is that the PCOP percentage to be applied to a customer's bill decreases from -1.21% to -1.25%, a decrease of 0.04%.

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<sup>1</sup> See Company's Response to CPAD Discovery Request #2-1 filed on March 23, 2018



<b>Table 5 - Comparison of TAWC and CPAD PCOP Rider Percentage</b>			
	<b>Per Company</b>	<b>Per CPAD</b>	<b>Difference</b>
Chemicals Expense	\$ 869,209	\$ 869,209	\$ -
Fuel & Purchased Power Expense	2,123,434	2,123,434	-
Waste Disposal Expense	344,010	326,010	18,000
Purchased Water Expense	31,610	31,610	-
TPUC Inspection	213,948	213,948	-
Refund Over / (Under)	(173,805)	(173,805)	-
<b>Total</b>	<b>\$ 3,408,406</b>	<b>\$ 3,390,406</b>	<b>\$ 18,000</b>
Actual Water Sales (100 Gallons)	97,522,641	97,522,641	0
Actual PCOP per 100 Gallons	\$ 0.03495	\$ 0.03477	\$ 0.00018
Incremental Change in PCOP gallons	\$ (0.00544)	\$ (0.00562)	\$ 0.00018
Total Deferred Amount	(546,954)	(565,518)	18,564
Total Deferred Amount Grossed Up for Revenue Taxes	(567,474)	(586,734)	19,261
Projected Annual Base Rate Revenue Subject to PCOP	\$47,073,724	\$47,073,724	\$ -
<b>PCOP %</b>	<b>-1.21%</b>	<b>-1.25%</b>	<b>0.04%</b>

**Q15. WHAT WERE THE RESULTS OF YOUR REVIEW BESIDES CPAD ADJUSTMENT 1?**

**A15.** Besides CPAD Adjustment 1, my review found that the calculations supporting the PCOP were done in the same manner as the Company's prior PCOP filings. That is to say, the amounts for fuel & purchased power, purchased water, and waste disposal tied to invoiced amounts while the amount for purchased chemicals and the TPUC inspection fee tied to the Company's General Ledger. While my review of invoices was limited to only a sampling of invoices I identified no material errors in the recording of these invoices.

**Q16. WHAT IS YOUR RECOMMENDED PCOP SURCHARGE?**

**A16.** Based on my review, I would recommend that TPUC adopt a PCOP recovery surcharge from the current rate of -0.89% to -1.25% as shown on Table 5 above.

**Q17. DOES THIS CONCLUDE YOUR TESTIMONY?**

1       **A17.** Yes, however, I reserve the right to correct, amend or add to my testimony if new  
2       information becomes available<sup>2</sup> or if I identify an error.

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<sup>2</sup> In TAWC's Response to CPAD Discovery Request #2-1 filed on March 23, 2018, the Company stated it "will provide an update to the filing to include this adjustment and any other adjustments that may be necessary by April 23, 2018."