

**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. 19-00010</b>
<b>COSTS AND OTHER PASS-THROUGHS</b>	)	
<b>RIDER</b>	)	

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**DIRECT TESTIMONY**

**OF**

**ALEX BRADLEY**

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**May 10, 2019**

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

<b>IN RE:</b>	)	
	)	
<b>PETITION OF TENNESSEE- AMERICAN WATER COMPANY REGARDING THE PRODUCTION COSTS AND OTHER PASS- THROUGHS RIDER</b>	)	<b>DOCKET NO. 19-00010</b>
	)	
	)	

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**AFFIDAVIT**

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I, Alex Bradley, on behalf of the Consumer Advocate Unit 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 Unit.



Alex Bradley  
**ALEX BRADLEY**

Sworn to and subscribed before me  
this 10 day of may, 2019.

Terra Allen  
NOTARY PUBLIC

My commission expires: September 28, 2022.

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**I. OVERVIEW OF TENNESSEE AMERICAN WATER'S PETITION AND RESPONSES TO DISCOVERY**

**II. RESULTS OF MY REVIEW**

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

**A1.** My name is Alex L. Bradley. My business address is Office of the Tennessee Attorney General, War Memorial Building, 301 6<sup>th</sup> Ave. North, Nashville, TN 37243. I am an Accounting & Tariff Specialist employed by the Consumer Advocate Unit in the Financial Division of the Tennessee Attorney General's Office.

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

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

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

1       **A3.**    Yes. I have previously testified in TPUC Docket Nos. 17-00108, 18-00009, and 18-  
2               00107.

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

4       **A4.**    I am testifying on behalf of the Consumer Advocate Unit in the Financial Division  
5               of the Tennessee Attorney General's Office.

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

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

10      **Q6.    PLEASE PROVIDE A BRIEF OVERVIEW OF THE HISTORY AND INTENT**  
11       **OF THE PCOP RIDER.**

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

amounts authorized in the Company's last general rate case, TPUC Docket No. 12-00049.

As set out in the TPUC order in TPUC 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.<sup>1</sup>

Table 1 - PCOP Surcharge Rate Since Inception						
Docket Number	13-00130	15-00001	15-00131	16-00148	18-00009	19-00010
Covering The Twelve Months Ending	11/30/2013	11/30/2014	11/30/2015	11/30/2016	11/30/2017	11/30/2018
Tariff Effective Date	April 15, 2014	August 17, 2015	May 10, 2016	July 11, 2017	May 15, 2018	TBA
Surcharge Rate	-1.15%	-0.73%	-0.36%	-0.89%	-1.25%	-1.10%

**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 – EKC filed in this case. Additionally, I reviewed the discovery, testimonies, and orders filed in TPUC Docket Nos. 13-00130, 15-00001, 15-00131, 16-00148, and 18-00009. Finally, I have reviewed the Company's responses to the data requests submitted by the Consumer Advocate in this Docket.

**I. OVERVIEW OF TENNESSEE AMERICAN WATER'S PETITION AND RESPONSES TO DISCOVERY**

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

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<sup>1</sup> Table 1 shows the non-cumulative impact of the PCOP rider since inception, the surcharge rate shown for this docket (19-00010) is the revised rate as proposed by TAWC in response to CAU DR 2-1

**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, 2018, compared to the amounts authorized in the Company's last general rate case. A comparison of the gross amount of Pass-Through Expenses from the Company's last general rate case and for the twelve months ending November 30, 2018 is shown below in Table 2.

<b>Table 2 - Comparison of Expenses to Baseline Amounts</b>			
	<b>Authorized Amount Per Docket 12-00049</b>	<b>For the 12 Months Ending 11/30/2018</b>	<b>Difference From Baseline Cost</b>
Chemicals Expense	\$ 986,930	922,281	\$ (64,649)
Fuel & Purchased Power Expense	2,678,772	2,246,557	(432,215)
Waste Disposal Expense	213,308	416,185	202,877
Purchased Water Expense	51,331	25,572	(25,759)
TPUC Inspection	131,826	211,249	79,423
<b>Total</b>	<b>\$ 4,062,167</b>	<b>\$ 3,821,844</b>	<b>\$ (240,323)</b>

As shown in Table 2, the gross amount of Pass-Through Expenses incurred for the 12 months ending November 2018 were less than the gross amount of Pass-Through Expenses in the Company's last general rate case.

**Q9. HOW DOES THE AMOUNT OF PASS-THROUGH EXPENSES COMPARE TO THE COMPANY'S LAST APPROVED PCOP, IN TPUC DOCKET NO. 18-00009?**

**A9.** A comparison of the requested gross amount of Pass-Through Expenses for the current PCOP Rider, set in TPUC Docket No.18-00009, and the gross amount of Pass-Through Expenses incurred in the current review period are presented below in Table 3. As shown below the \$3,821,844 in PCOP expenses requested in this Docket results

in an overall increase of \$35,551 when compared with the total gross PCOP expenses in the Company's last PCOP filing, TPUC Docket No.18-00009.

Table 3 - 24 Month Difference by Expense Type			
Period Expense Incurred In	A	B	C
	For the 12 Months Ending 11/30/2017	For the 12 Months Ending 11/30/2018	Difference B-A=C
Chemicals Expense	\$ 933,712	922,281	\$ (11,431)
Fuel & Purchased Power Expense	2,281,013	2,246,557	\$ (34,456)
Waste Disposal Expense	326,010	416,185	\$ 90,175
Purchased Water Expense	31,610	25,572	\$ (6,038)
TPUC Inspection	213,948	211,249	\$ (2,699)
Total (Including Refund)	\$ 3,786,293	\$ 3,821,844	\$ 35,551

**Q10. DOES THE PCOP RIDER ALLOW FOR A FULL RECOVERY OF THESE COSTS?**

**A10.** It does not. As set out in the Tariff, the Company must adjust the Fuel & Purchased Power Expense and the Chemicals Expense by a Non-Revenue Water Limiter.

**Q11. WHAT IS THE NON-REVENUE WATER LIMITER?**

**A11.** The Non-Revenue Water Limiter (NRW) is the percentage of actual water system sales to water system delivery (water loss) compared to the same percentage from the Company's last rate case. Any water loss, expressed as a percentage, exceeding the amount set in the company's last base rate case results in a limitation of the amount of the Fuel & Purchased Power expense and the Chemicals Expense the Company can recover from ratepayers. The purpose of the NRW is to ensure compliance with the Commission's water loss policies.

**Q12. WHAT WAS THE NRW IN THE CURRENT TPUC DOCKET?**

1     **A12.** As shown in the Company's response to CA Discovery Request No. 2-1, the  
2           Company's revised NRW calculation is 21.8% or 6.8% greater than the baseline  
3           amount of 15%. The effect of this water loss over the baseline amount results in a  
4           recoverability factor of 93.2% of the Fuel & Purchased Power Expense and Chemicals  
5           Expense incurred over the Review Period.

6     **Q13. WHAT DOES THE 93.2% RECOVERABILITY FACTOR MEAN IN TERMS**  
7           **OF DOLLARS?**

8     **A13.** The Company's revision to the NRW from 87.4% to 93.2% increases the  
9           recoverability of the Pass-Through Expenses by \$184,074. The revised 93.2% NRW  
10          reduces the recoverable amount of Purchased Power Expense by \$152,356 and the  
11          recoverable amount of Chemicals Expense by \$62,547, for a total reduction in  
12          recoverable PCOP rider expenses of \$214,903. The total amount of recoverable Pass-  
13          Through Expenses is reduced from \$3,821,844 to \$3,606,941.

14    **Q14. AS MENTIONED EARLIER, THE PCOP IS EXPRESSED AS A**  
15          **PERCENTAGE OF A CUSTOMER'S BILL. HOW DOES THE AMOUNT OF**  
16          **RECOVERABLE PCOP EXPENSES GO FROM A DOLLAR AMOUNT TO A**  
17          **PERCENTAGE RATE?**

18    **A14.** The calculation of the PCOP percentage rate is a multistep formula. First, the amount  
19          of NRW limited Pass-Through Expenses plus or minus any over-under collection from  
20          the prior PCOP is divided by the review period actual water sales (in 100 gallons) to  
21          determine the review period PCOP cost per 100 gallons. The review period PCOP  
22          cost per 100 gallons is then compared to the PCOP cost per 100 gallons from the



Company's last base rate case (using PCOP expenses and water sales from that period) to determine the incremental change in PCOP expenses per 100 gallons. That incremental change is then multiplied by the water sales (in 100 gallons) from the Company's last rate case to determine the deferral amount. The deferral amount is then grossed up for revenue taxes. That grossed up amount is then divided by the total revenue as set in the Company's last rate case to determine a percentage. For an illustrative example of this calculation see Table 4 below.

<b>Table 4 - Revised Calculation of PCOP Rider Percentage Calculation</b>	
	<b>19-00010</b>
	<b>Revised</b>
	<b>Amount</b>
NRW Limited Actual Production Costs and Other Pass-Throughs	\$3,606,941
Over-Under Collection Adjustment	(72,416)
Review Period PCOP Costs Adjusted for Over-Under Collections	3,534,525
Actual Water Sales (100 Gallons)	99,751,414
Actual Rate Cost Production Costs and Other Pass-Throughs per 100 Gallons WS	\$0.03543
Base Rate Cost per 100 Gallons WS	0.04039
Incremental Change in Production Costs and Other Pass-Throughs per 100 Gallons WS	(\$0.00495)
Base Rate Case Water Sales 100 Gallons	100,578,654
Deferral Amount	(\$498,330)
Total Deferred Amount	(\$498,330)
Total Deferred Amount Grossed Up for revenue taxes	(517,026)
Projected Annual Base Rate Revenue subject to PCOP	47,073,724
PCOP %	-1.10%

## II. RESULTS OF MY REVIEW

### **Q15. DID YOU REVIEW THE CALCULATIONS SUPPORTING THE PROPOSED PCOP SURCHARGE IN THIS FILING?**

**A15.** 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

the provided invoices to determine if the invoiced total was exclusive of late fees and penalties and the applicable bill date.

**Q16. WHAT WERE THE GENERAL RESULTS OF YOUR REVIEW?**

**A16.** The results of my review identified an area of concern.

**Q17. WHAT WAS THE AREA OF CONCERN YOU IDENTIFIED?**

**A17.** I had concerns with the actual water sales during the review period. As shown below in Table 5, comparing the actual water sales from the most recent review period to prior PCOP filings, showed a decline in the amount of actual water sales, while also having a growth in system delivery during the review period. The historic data shows that typically System Sales and System Delivery are positively correlated; however, in the most recent review period this was not true.

Table 5 - Historic Actual Water Sales					
Docket Number	15-00001	15-00131	16-00148	18-00009	19-00010
Review Period Ending	11/30/2014	11/30/2015	11/30/2016	11/30/2017	11/30/2018
Sales (100 Gallons)	96,335,661	96,367,785	111,094,902	97,522,641	92,343,389
System Delivery	127,004,287	123,145,321	135,604,277	124,882,147	127,529,621

**Q18. DID YOU ASK THE COMPANY ABOUT THE DECLINE IN WATER SALES DURING THE REVIEW PERIOD?**

**A18.** Yes, in CA Discovery Request No. 2-1, the Consumer Advocate inquired about the 5 million (100 gallons) reduction in water sales during the water period.

**Q19. WHAT WAS THE COMPANY'S RESPONSE?**

**A19.** In response to CA Discovery Request No. 2-1, the Company admitted that due to an error, the number included in the filing for actual water sales was understated. In its response the Company updated the actual water sales number to 99,751,414 (100

gallons). The Company's response changed the proposed PCOP percentage from -  
0.91% to -1.10%.

**Q20. WHY IS THE AMOUNT OF ACTUAL WATER SALES IMPORTANT TO  
THE CALCULATION OF THE PCOP?**

**A20.** Besides, as mentioned earlier, that the NRW is set based upon the difference between actual water sales and system delivery the amount of actual water sales is important due to its effect upon the calculation of how the review period PCOP expenses flow to a customer's bill. The higher the actual water sales number, the lower the cost of PCOP expenses per 100 gallons. As described earlier in my testimony, since the deferral amount is determined by the difference between the review period PCOP expenses per 100 gallons and the PCOP expenses per 100 gallons from the Company's last rate case the amount of actual water sales during the review period is critical to developing an accurate rate.

**Q21. DOES THIS CONCLUDE YOUR TESTIMONY?**

**A21.** Yes, however, I reserve the right to correct, amend or add to my testimony if new information becomes available or if I identify an error.