

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

IN RE:)	
)	
APPLICATION OF TENNESSEE)	
WATER SERVICE, INC. FOR)	DOCKET NO. 19-00028
ADJUSTMENT OF RATES AND)	
CHARGES, APPROVAL OF A)	
QUALIFIED INFRASTRUCTURE)	
INVESTMENT PROGRAM, AND)	
MODIFICATIONS TO CERTAIN)	
TERMS AND CONDITIONS FOR THE)	
PROVISION OF WATER SERVICE.)	
)	

**DIRECT TESTIMONY
OF
ANTHONY GRAY**

**ON BEHALF OF
TENNESSEE WATER SERVICE, INC.**

February 28, 2019

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

2 **A.** My name is Anthony Gray, and my business address is 4494 Parkway Plaza Boulevard,
3 Suite 375, Charlotte NC 28217.

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

5 **A.** I am the Senior Financial and Regulatory Analyst for Tennessee Water Service, Inc.
6 (“TWS” or “Company”) in Tennessee and for Carolina Water Service of North Carolina,
7 both of which are subsidiaries of Utilities, Inc. (“UI”).

8 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

9 **A.** I am a graduate of the University of Charleston with a Bachelor of Science in Accounting
10 and Finance. I have been with the Company for 4 years and have held the positions of
11 Financial Analyst I, Financial Analyst II, and my current role as Senior Financial and
12 Regulatory Analyst. Prior to joining UI, I was an employed with Sam’s Mart Inc, and the
13 Public Service Commission of West Virginia in the capacity of Staff Accountant and
14 Utilities Analyst I respectively.

15 **Q. WHAT ARE YOUR DUTIES WITH TENNESSEE WATER SERVICE, INC.?**

16 **A.** My primary responsibilities include supporting the financial planning and forecasting,
17 budgeting, and financial analysis processes for the Company. I am also responsible for
18 supporting the preparation, filing, and processing of rate applications.

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

20 **A.** The purpose of my testimony is to support the Company’s pro-forma adjustments for
21 customer count, present rate revenues, and operating expenses.

22 **Q. PLEASE EXPLAIN THE COMPANY’S PRO-FORMA CUSTOMER COUNT.**

1 **A.** The Company started with the actual customer count of 209 at December 31, 2018. Using
2 the monthly reconnects experienced in 2018 as an estimate for additions, the company
3 was able to extrapolate to the midpoint of the Attrition Year, June 2020, to arrive at a
4 total projected customer count of 311.

5 **Q. PLEASE EXPLAIN THE CALCULATION OF THE COMPANY’S PRESENT**
6 **RATE REVENUES.**

7 **A.** Present rate revenues were calculated using the pro-forma customer count at June 2020
8 and the average billable usage per customer in the Test Year Ended September 30, 2018.
9 The Company utilized the currently effective tariff rates, inclusive of the base charge
10 adjustment approved by TPUC in the 2017 Emergency Petition (Docket No. 17-00108).

11 **Q. PLEASE DESCRIBE THE COMPANY’S METHOD FOR CALCULATING PRO-**
12 **FORMA OPERATING EXPENSES.**

13 **A.** The Company started by calculating the 3-year average cost per customer for each
14 operating expense line item using historical data for the three years ending September 30,
15 2014, 2015, and 2016. The operating years chosen are representative of normal
16 operations for TWS and excludes any financial impact the Company has experienced
17 from the wildfire that affected the greater Gatlinburg area in November 2016. Once the 3-
18 year average costs per customer were determined, the product of the per customer cost
19 for each expense line item and the estimated customer count at the mid-point of the
20 Attrition Year (311) was adjusted using a Consumer Price Index inflator of 7.58%, to
21 account for inflation between the midpoint of the Test Year and midpoint of the Attrition
22 Year. The following costs incurred by the Company for the Test Year were adjusted to

1 reflect the levels determined by these calculations; Chemicals, Insurance, Maintenance
2 and Repair, Maintenance Testing, Miscellaneous, Office Supplies, Office Utilities,
3 Outside Services, Pension & Other Benefits, Purchased Power, Rent, and Transportation.

4 **Q. DID THE COMPANY UTILIZE ANY OTHER METHODOLOGY IN**
5 **DETERMINING PRO-FORMA ADJUSTMENTS FOR OPERATING**
6 **EXPENSES?**

7 **A.** Yes. The following expenses were determined using a different methodology: 1) Salaries
8 and Wages, 2) Purchased Water, 3) Rate Case Expense, 4) Uncollectible (Bad Debt
9 Expense), and 5) Corporate Cost Allocations.

10 Pro-forma Salaries and Wages for this filing was derived from the Company's
11 operating budget and forecast for 2020. Headcount during the Test Year was updated to
12 reflect current state as of October 1, 2018. The base annual salary for each employee was
13 updated to reflect the expected levels for operating year 2020. Overtime pay for hourly
14 employees were calculated using the Test Year hours times the new hourly rate. Expected
15 bonuses in 2020 were also included in this calculation. The sum of the new base salary,
16 overtime pay and expected bonus payouts were used to arrive at the annual going-level
17 salaries and wages amount. Payroll taxes were also updated to reflect the impact of the
18 pro-forma salaries and wages amounts calculated (*See Schedule I – Pro-Forma Salary &*
19 *Wages, Payroll Taxes*).

20 Pro-forma purchased water expense was calculated by first determining the total
21 system delivery (pumped and purchased gallons) per customer per month ("SDPCPM.")
22 during the Test Year. The SDPCPM was then updated to reflect the estimated customer

1 count at the mid-point of the Attrition Year to calculate the Company's going-level
2 annual amount for total system delivery. The going-level purchased water gallons were
3 derived using the three-year average of the ratio between pumped and purchased gallons
4 ending September 30, 2016. The current purchased water vendor rates were then applied
5 to the gallons to determine the annual expense (*See Schedule H – Pro-Forma Purchased*
6 *Water Expense*).

7 Pro-forma rate case expense was updated to reflect the deferred balance of the
8 2017 Emergency Petition plus the estimated cost for the current proceeding to be
9 amortized over a 5-year period (*See Schedule D – Pro-Forma Deferred Charges*).

10 Pro-forma bad debt expense was updated using the Test Year actual rate times the
11 proposed service revenues calculated for this proceeding.

12 For corporate cost allocations, a portion of the pro-forma adjustment for outside
13 services-other and rent expense line items were derived using the 2020 budget from the
14 Company's shared service group. The amounts allocated to TWS was approximately
15 0.07% of the total corporate cost and was derived by using the customer count of TWS as
16 percentage of all subsidiaries of UI (*See Schedule G – Summary of O&M Pro-Forma*
17 *Adjustments, Column E*).

18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

19 **A.** Yes, it does. However, I reserve the right to update or amend this testimony upon receipt
20 of additional data or other information that may become available.

STATE OF North Carolina)

County of Mecklenburg :SS

DATED this 27th day of February, 2019.

A. Gray
Anthony Gray

SUBSCRIBED AND SWORN TO before me this 27th day of February, 2019.

Alexa Bird
Notary Public for the State of North Carolina

