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

<b>PETITION OF NAVITAS TN NG,</b>	<b>)</b>	
<b>LLC FOR APPROVAL OF AN</b>	<b>)</b>	<b>DOCKET NO. 19-00057</b>
<b>ADJUSTMENT IN THE RATES,</b>	<b>)</b>	
<b>CHARGES, AND TARIFFS</b>	<b>)</b>	

**PRE-FILED DIRECT TESTIMONY OF**

**ALEX BRADLEY**

**ON BEHALF OF THE TENNESSEE ATTORNEY GENERAL  
CONSUMER ADVOCATE**

**January 10, 2020**

IN THE TENNESSEE PUBLIC UTILITY COMMISSION  
AT NASHVILLE, TENNESSEE

IN RE:

PETITION OF NAVITAS TN NG,  
LLC FOR APPROVAL OF AN  
ADJUSTMENT IN THE RATES,  
CHARGES, AND TARIFFS

DOCKET NO. 19-00057

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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<sup>th</sup> day of January, 2019.

Tiffany H. Blackman  
NOTARY PUBLIC

My commission expires: March 22, 2023



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

**A1.** My name is Alex 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 Accounting 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 both the National Association of Regulatory Utility Commissions (NARUC) and Michigan State University.

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

**A3.** Yes. I have previously testified in TPUC Docket Nos. 17-00108, 18-00009, 18-00107, 19-00010, 19-00034, 19-00042, and 19-00043.

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

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

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

2       **A5.**    My testimony will support and address the Consumer Advocate’s positions regarding  
3               Attrition Period Operation and Maintenance (“O&M”) Expenses and Taxes Other than  
4               Income Tax (“TOTI”). I will also describe the corporate operating structure relating to  
5               Navitas TN NG, LLC (“Company”, “Navitas”, or “Navitas TN”). I will identify  
6               ongoing levels of expenses and discuss certain adjustments made to test period O&M  
7               expenses to arrive at an attrition period amount. Mr. Dittmore will address Rate Base,  
8               Revenues, Depreciation Expense, Income Taxes, along with other concerns, and Dr.  
9               Klein will address Cost of Capital and Return on Equity.

10       **Q6.    WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION FOR**  
11       **YOUR TESTIMONY?**

12       **A6.**    I reviewed the Company’s Petition, filed testimony, minimum filing requirements, and  
13               responses to Discovery Requests. Additionally, I participated in multiple  
14               teleconferences with key Navitas personnel and reviewed the Company’s last general  
15               rate case, Docket No. 12-00068.

16                               **BACKGROUND ON NAVITAS TN**

17       **Q7.    CAN YOU PROVIDE A DESCRIPTION OF NAVITAS’ OPERATIONS?**

18       **A7.**    Yes. Navitas is a domestic limited liability company currently registered to do business  
19               in the State of Tennessee.<sup>1</sup> On December 30, 2010, Navitas received approval from

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<sup>1</sup> TPUC Docket No. 19-00057, Petition of Navitas TN NG, LLC for Approval of an Adjustment in the Rates, Charges, and Tariffs, page 1, lines 19-24.

1           this Commission to acquire the gas utility assets, franchise agreements, and authority  
2           to provide gas services from Gasco Distribution System, Inc.<sup>2</sup>

3           Currently, Navitas is engaged in the transportation, distribution, and sale of natural gas  
4           to customers residing in the Byrdstown and Jellico areas within Campbell, Fentress,  
5           and Pickett counties. Navitas also serves several customers who are located across the  
6           state line in Kentucky who, by agreement with the Kentucky Public Service  
7           Commission, are included within the Tennessee service territory.<sup>3</sup>

8           Navitas is a wholly-owned subsidiary of Navitas Assets LLC (“Navitas Assets”), a  
9           Delaware limited liability company. Navitas Assets has a principal office located at  
10          3186 Airway Avenue, Suite D, Costa Mesa, California 92626<sup>4</sup>. Navitas Assets is the  
11          parent corporation of one natural gas transmission pipeline along with natural gas  
12          distribution utilities in Texas, Tennessee, Kentucky, and Oklahoma<sup>5</sup>.

13          Navitas Utility Corporation (“NUC”) serves as utility operator for all Navitas Assets’  
14          distribution systems; providing management, accounting, customer service billing, and  
15          operations and maintenance for the systems.<sup>6</sup>

16          Navitas has had two prior rate cases before this Commission with the last rate case  
17          completed in 2013<sup>7</sup>, resulting rates are outlined on the following page:

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<sup>2</sup> TPUC Docket No. 10-00220, Order Approving Transfer of Control and Approving Transfer of Franchise Agreements and Financing Transactions.

<sup>3</sup> TPUC Docket No. 19-00057, Petition of Navitas TN NG, LLC for Approval of an Adjustment in the Rates, Charges, and Tariffs, page 2, lines 1-6.

<sup>4</sup> *Id.*, page 2, lines 9-10.

<sup>5</sup> Navitas Minimum Filing Requirements, Item #3, Company Organizational Chart.

<sup>6</sup> *Id.*

<sup>7</sup> TPUC Docket No. 12-00068.

Customer Class	Meter Charge	First 9 Ccf	Greater than 9 Ccf
Residential	9	1.665	0.795
Public Industrial & Inst.	14	2.885	0.755
Commercial	9	2.220	0.795

The rates adopted in 2013 were designed to provide recovery of approximately \$416,040<sup>9</sup> in operational expenses. The Company's current request seeks a total operating expense recovery of approximately \$483,000<sup>10</sup>, representing an increase of approximately 16%. A comparison of the rates currently in effect to those requested<sup>11</sup> by the Company is shown below:

		Current	Proposed	Difference	Increase
<b>Residential</b>	Meter Charge	\$9.000	\$14.490	\$5.490	<b>61%</b>
	First 9 Ccf	\$1.667	\$2.000	\$0.334	<b>20%</b>
	Greater than 9 Ccf	\$0.795	\$0.930	\$0.135	<b>17%</b>
<b>Public Industrial &amp; Institutional</b>	Meter Charge	\$14.000	\$19.490	\$5.490	<b>39%</b>
	First 9 Ccf	\$2.885	\$3.000	\$0.115	<b>4%</b>
	Greater than 9 Ccf	\$0.755	\$0.930	\$0.175	<b>23%</b>
<b>Commercial</b>	Meter Charge	\$9.000	\$14.490	\$5.490	<b>61%</b>
	First 9 Ccf	\$2.220	\$2.500	\$0.280	<b>13%</b>
	Greater than 9 Ccf	\$0.795	\$0.930	\$0.135	<b>17%</b>

## SUMMARY OF RESULTS

**Q8. WHAT TEST PERIOD AND ATTRITION YEAR DID THE CONSUMER ADVOCATE USE FOR THIS CASE?**

<sup>8</sup> *Id.*, Amended Revisions to Tariff.

<sup>9</sup> *Id.*, Settlement Exhibit A, Schedule 5, line 5 plus line 7 and line 8.

<sup>10</sup> TPUC Docket No. 19-00057, Minimum Filing Requirements, Item 12.

<sup>11</sup> *Id.*, Direct Testimony of Thomas Hartline, Exhibit.

1     **Q9.     GENERALLY, DESCRIBE THE WAY THE COMPANY BOOKS O&M**  
2     **EXPENSE FOR NAVITAS TN?**

3     **A9.**     Generally, O&M expenses are incurred by NUC and then charged to affiliates through  
4     allocations and/or direct charges. When the expense is direct-charged to Navitas TN,  
5     NUC records the charge under a subset O&M FERC account<sup>12</sup> ending in “.16” to  
6     indicate the charge is for Navitas TN operations. I will provide a caveat to this  
7     statement that there are some expenses that are incurred on the Navitas TN level<sup>13</sup> and  
8     that Navitas Assets also allocates certain expenses to Navitas TN as well.<sup>14</sup>

9     **Q10.  WHY IS IT IMPORTANT TO KNOW HOW THE EXPENSES ARE BOOKED**  
10    **ONTO THE FINANCIAL STATEMENTS OF NAVITAS TN?**

11    **A10.**    While NUC may not be regulated by this Commission, Navitas TN is regulated in this  
12    State. In order to adequately review the applicability of rate recovery of the expenses  
13    recorded on the books of Navitas TN, the review must include the financials of NUC.  
14    In the year ending 2018, NUC incurred \$3,746,023 in O&M expenses. Of this amount,  
15    \$413,104 was charged by NUC to Navitas TN, representing approximately 11% of  
16    NUC’s total O&M.

17    **Q11.  WHAT WERE THE RESULTS OF YOUR REVIEW OF TEST PERIOD O&M**  
18    **EXPENSES?**

19    **A11.**    Generally, I found the test period O&M expenses charged by NUC to Navitas TN to  
20    be reasonable; however, my results differ from the Company’s filed position due to a  
21    variety of issues. As I will later discuss, the results of my review are intended to capture

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<sup>12</sup> Accounts 874, 887, 903, 921, and 923

<sup>13</sup> For an example, Pipeline Safety Fees are incurred on the Navitas Tennessee level.

<sup>14</sup> For an example, Navitas Assets charges a portion of the corporate office rent to Navitas Tennessee in FERC account 931.

the true cost of operations, not just the costs ultimately booked to Navitas TN. For the twelve months ending December 2018, the results of my review resulted in O&M expenditures of \$407,677 as shown below:

		12 Months Ending 12/31/2018		
Title	FERC Account	Consumer Adv.	Company	Difference
Distribution Expenses - Operation	874	\$ 72,727	\$ 74,719	\$ (1,992)
Distribution Expenses - Maintenance Mains	887	3,655	3,727	\$ (72)
Distribution Expenses - Maintenance Meters	893	17,544	17,560	\$ (16)
Customer Accounts Expense	903	12,980	12,980	\$ -
Customer Accounts - Bad Debt	904	1,410	1,410	\$ -
Customer Accounts - Other	908	12,526	12,526	\$ 0.474
Admin & General -Other	920	96,118	96,178	\$ (60)
Admin & General - Office Supplies	921	31,435	32,269	\$ (834)
Admin & General - Outside Services	923	39,654	38,985	\$ 669
Admin & General - Insurance	924	23,341	23,282	\$ 59
Admin & General - Safety / Security	925	3,788	6,940	\$ (3,152)
Admin & General - Employee Benefits	926	45,972	46,110	\$ (138)
Admin & General - Regulatory Commission	928	1,343	1,343	\$ -
Admin & General - Rents	931	44,033	43,948	\$ 85
Admin & General - Maintenance of Plant	932	1,152	1,127	\$ 25
<b>Total Operations and Maintenance Expense</b>		<b>407,677</b>	<b>413,104</b>	<b>\$ (5,427)</b>

**Q12. DESCRIBE YOUR DIFFERENCES WITH THE COMPANY'S FILED POSITION.**

**A12.** As stated earlier, the intent of my review was to capture the true cost of operating Navitas TN. In order to achieve this, I reallocated applicable NUC accounts on a monthly basis to capture all credits and debits in the period along with removing expenses that were non-jurisdictional.

As shown in my Exhibit AB-1, I began by presenting the Company's proposed Attrition Period O&M costs of \$421,366, represented on an account by account basis. Adjustment No. 1 removes the Company's proposed 2% increase<sup>15</sup>, approximately

<sup>15</sup> Item 12.xlsx, Item 12 Op expns, line 7.



1 \$8,000, to arrive at the per books Test Period amounts.<sup>16</sup> Adjustment No. 2 rebills test  
2 period costs to Navitas TN, which is necessary to synchronize those allocated costs  
3 with NUC Test Period expenses, approximately -\$1,600.

4 Adjustments Nos. 3, 4, and 5 adjust FERC account 925 to direct-charge those expenses  
5 that are easily identifiable to a specific service territory. Specifically, Adjustment No.  
6 3 and Adjustment No. 4 remove NUC allocated amounts for Oklahoma Pipeline Safety  
7 fees and Oklahoma Publication expenses that are not applicable to the Tennessee  
8 jurisdiction while Adjustment No. 5 direct-assigns the full costs of Tennessee  
9 publications to Navitas TN. The cumulative effect of these 3 adjustments is a reduction  
10 in O&M of approximately \$3,600. I would suggest that the Company refrain from  
11 placing jurisdictional pipeline safety fees in FERC account 925 – Safety/Security,  
12 because this account is allocated to all jurisdictions. I recommend that FERC account  
13 928 – Regulatory Commission<sup>17</sup> is the appropriate account to record these costs, and  
14 each jurisdiction should be directly assigned those costs exclusive to its jurisdiction.  
15 Adjustment No. 6 is a removal of a double charge within FERC account 931 – Rents,  
16 approximately -\$90.

17 Finally, Adjustment No. 7 increases the adjusted Test Period expenses by  
18 approximately \$23,600 to project into the Attrition Period using the growth factor that  
19 is discussed in the next section of my testimony.

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<sup>16</sup> Due to timing of the Company's allocation process the costs assigned to Navitas TN are not reflective of Test Period costs.

<sup>17</sup> Navitas TN currently books TPUC Pipeline Safety fees in account 928.

1 Including Mr. Dittermore's proposed \$42,162 in yearly Depreciation/Amortization  
2 expense, my Attrition Period total O&M of \$431,018, and my Attrition Period Other  
3 Taxes of \$13,592, the total Operating Expenses for the Attrition Period is \$487,071, as  
4 shown in both AB-1 and CA Exhibit Schedule 6.

5 **Q13. WHAT GROWTH FACTOR DID YOU USE TO PROJECT COSTS INTO THE**  
6 **ATTRITION PERIOD?**

7 **A13.** In choosing a growth factor to move expenses into the forward-looking Attrition Period  
8 ending 2020, I examined two historic factors. First, I measured historic O&M expenses  
9 year over year since the Company's last rate case by examining the Company's  
10 quarterly reports to this Commission. Second, I measured the historic Gross Domestic  
11 Product deflator<sup>18</sup>. The results of these calculations are presented below and shown in  
12 Exhibit AB-2.

	Compounding Factor
Historic O&M Growth	1.058
GDP Deflator	1.049

13  
14 In deciding which factor to use to forecast how those expenses are affected by inflation,  
15 I chose to use the more conservative result, the historic O&M growth. The use of this  
16 factor results in a higher revenue requirement than the use of the GDP deflator.

17 **Q14. WHAT IS THE RESULTING ATTRITION YEAR OPERATIONS AND**  
18 **MAINTENANCE EXPENSE AFTER YOUR ADJUSTMENTS?**

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<sup>18</sup> The Gross Domestic Product ('GDP') price deflator measures price changes of all services and goods produced within a single economy in a given year. While similar to Consumer Price Index (CPI) it differs in that CPI only measures the prices paid by a typical consumer for certain goods and services.

**A14.** As shown in AB-1, the Consumer Advocate's Attrition Year proposed O&M is \$431,318. This equates to \$9,952 more than the Company's request of \$421,366. A comparison of these totals by account is shown below.

		12 Months Ending 12/31/2020		
Title	Ferc Account	Consumer Adv.	Company	Difference
Distribution Expenses - Operation	874	\$ 76,945	\$ 76,213	\$ 732
Distribution Expenses - Maintenance Mains	887	\$ 3,867	\$ 3,802	\$ 65
Distribution Expenses - Maintenance Meters	893	\$ 18,561	\$ 17,911	\$ 650
Customer Accounts Expense	903	\$ 13,733	\$ 13,240	\$ 493
Customer Accounts - Bad Debt	904	\$ 1,491	\$ 1,438	\$ 54
Customer Accounts - Other	908	\$ 13,253	\$ 12,777	\$ 476
Admin & General -Other	920	\$ 101,692	\$ 98,102	\$ 3,590
Admin & General - Office Supplies	921	\$ 33,258	\$ 32,914	\$ 344
Admin & General - Outside Services	923	\$ 41,953	\$ 39,765	\$ 2,189
Admin & General - Insurance	924	\$ 24,695	\$ 23,748	\$ 947
Admin & General - Safety / Security	925	\$ 4,008	\$ 7,079	\$ (3,071)
Admin & General - Employee Benefits	926	\$ 48,638	\$ 47,032	\$ 1,606
Admin & General - Regulatory Commission	928	\$ 1,421	\$ 1,370	\$ 51
Admin & General - Rents	931	\$ 46,586	\$ 44,827	\$ 1,759
Admin & General - Maintenance of Plant	932	\$ 1,219	\$ 1,150	\$ 69
<b>Total Operations and Maintenance Expense</b>		<b>431,318</b>	<b>421,366</b>	<b>9,952</b>

**Q15. DESCRIBE THE COMPANY'S EXPENSE FOR TAXES OTHER THAN INCOME TAX?**

**A15.** The Company sought recovery of an Attrition Year amount of \$13,104 in Taxes other than Income Tax. This was comprised solely of Ad Valorem Expense.

**Q16. DOES NAVITAS TN DIRECTLY CHARGE CUSTOMERS FOR ANY TAXES?**

**A16.** Yes, in reviewing a sample Navitas TN customer bill provided through discovery<sup>19</sup>, Navitas TN directly charges its customers for certain taxes. The Company has not requested rate recovery of any taxes besides Ad Valorem. It is my understanding that

<sup>19</sup> TPUC Docket No. 19-00057, Discovery Response No. 2-4.

1 sales taxes, local franchise taxes, and the gross receipts tax appear as a single line item,  
2 “Tax”, on the customer’s invoice.<sup>20</sup>

3 **Q17. WHAT WAS THE RESULT OF THE CONSUMER ADVOCATE’S REVIEW INTO**  
4 **TAXES?**

5 **A17.** I agree with the Company that the test period amount of Ad Valorem taxes incurred was  
6 \$12,847; however, my growth factor leads to a higher attrition year amount. As shown on  
7 Exhibit AB-1, the Consumer Advocate’s attrition year amount of Ad Valorem is \$13,592,  
8 or \$488 over the requested amount.

9 **Q18. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 **A18.** Yes, it does. I reserve the right, however, to supplement my testimony if new information  
11 becomes available.

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<sup>20</sup> TPUC Docket No. 12-00068, Direct Testimony of Aumiller, page 26, lines 20-22.

	A/ Attrition Period Ending 12/31/2020 Company	CA Adjustments								Total Attrition Period	
		No. 1	No. 2	No. 3	No. 4	No. 5	No. 6	No. 7	No. 8		
		To Remove 1% Annual Increase Charges	To Rebill Based on NUC actual	To Remove Allocated Oklahoma Pipeline Safety Fees	To Remove Allocated Oklahoma Publications	To Direct Assign Tennessee Publications	Rebill	Increase to Attrition Period	DND Depreciation Adjustment		
Distribution Expenses - Operation	\$ 76,213	(1,494)	(1,992)					4,218		\$ 76,945	4,217.58
Distribution Expenses - Maintenance Mains	\$ 3,802	(75)	(72)					212		\$ 3,867	
Distribution Expenses - Maintenance Meters	\$ 17,911	(351)	(16)					1,017		\$ 18,561	
Customer Accounts Expense	\$ 13,240	(260)	-					753		\$ 13,733	
Customer Accounts - Bad Debt	\$ 1,438	(28)	-					82		\$ 1,491	
Customer Accounts - Other	\$ 12,777	(251)	(0)					726		\$ 13,252	
Admin & General -Other	\$ 98,102	(1,924)	(60)					5,574		\$ 101,692	
Admin & General - Office Supplies	\$ 32,914	(645)	(834)					1,823		\$ 33,258	
Admin & General - Outside Services	\$ 39,765	(780)	669					2,300		\$ 41,953	
Admin & General - Insurance	\$ 23,748	(466)	59					1,354		\$ 24,695	
Admin & General - Safety / Security	\$ 7,079	(139)	508	(1,509)	(2,775)	623		220		\$ 4,008	
Admin & General - Employee Benefits	\$ 47,032	(922)	(138)					2,666		\$ 48,638	
Admin & General - Regulatory Commission	\$ 1,370	(27)	-					78		\$ 1,421	
Admin & General - Rents	\$ 44,827	(879)	176				(91)	2,554		\$ 46,586	
Admin & General - Maintenance of Plant	\$ 1,150	(23)	25					67		\$ 1,219	
<b>O&amp;M Subtotal</b>	<b>\$ 421,366</b>	<b>\$ (8,262)</b>	<b>\$ (1,676)</b>	<b>\$ (1,509)</b>	<b>\$ (2,775)</b>	<b>\$ 623</b>	<b>\$ (91)</b>	<b>\$ 23,642</b>	<b>\$ -</b>	<b>\$ 431,318</b>	
Ad Valorem Expense	\$ 13,104	(257)						745		\$ 13,592	
Depreciation Expense	\$ 58,386								(16,224)	\$ 42,162	
<b>Total Operating Expenses</b>	<b>492,856</b>	<b>(8,519)</b>	<b>(1,676)</b>	<b>(1,509)</b>	<b>(2,775)</b>	<b>623</b>	<b>(91)</b>	<b>24,387</b>	<b>(16,224)</b>	<b>487,072</b>	

A/ Item #12 Support for Petition

Office of the Tennessee Attorney General - Consumer Advocate Unit  
Navitas Tennessee LLC  
Operation and Maintenance Expense

AB-2

A/ Year	2013	2014	2015	2016	2017	2018
Quarter						
1	98,723	79,934	92,547	95,071	97,395	103,939
2	102,832	103,501	94,208	103,529	98,653	105,206
3	99,713	96,278	94,990	90,459	97,759	107,216
4	108,203	87,858	92,579	92,293	93,983	96,743
Yearly	<b>409,471</b>	<b>367,571</b>	<b>374,324</b>	<b>381,352</b>	<b>387,790</b>	<b>413,104</b>
Growth		-11%	2%	2%	2%	6%

Four Year Average

2.86%

Increase from End of Test Year to Attrition Year Endpoint  
December 2018 to December 2020

2

Compound Adjustment for Growth

1.058

A/ Quarterly TPUC Reports by Navitas, page 1, sum of lines 8 through 12