

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

IN RE:)	
)	
JOINT APPLICATION OF AQUA)	
UTILITIES COMPANY, INC., AND)	
LIMESTONE WATER UTILITY)	DOCKET NO. 19-00062
OPERATING COMPANY, LLC, FOR)	
AUTHORITY TO SELL OR TRANSFER)	
TITLE TO THE ASSETS, PROPERTY)	
AND REAL ESTATE OF A PUBLIC)	
UTILITY AND FOR A CERTIFICATE)	
OF PUBLIC CONVENIENCE AND)	
NECESSITY)	

DIRECT TESTIMONY

OF

ALEX BRADLEY

March 31, 2020

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

3 **A1.** My name is Alex Bradley. My business address is Office of the Tennessee Attorney
4 General, War Memorial Building, 301 6th Ave. North, Nashville, TN 37243. I am an
5 Accounting & Tariff Specialist employed by the Consumer Advocate Unit in the
6 Financial 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 Accounting 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 Advocate Unit in
12 the Financial Division of the Tennessee Attorney General's Office (Consumer
13 Advocate) since 2013. My duties include reviewing utility regulatory filings and
14 preparing analysis used to support Consumer Advocate testimony and exhibits. I have
15 completed multiple regulatory trainings sponsored by both the National Association of
16 Regulatory Utility Commissions (NARUC) and Michigan State University.

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

19 **A3.** Yes. I have previously testified in TPUC Docket Nos. 17-00108, 18-00009, 18-00107,
20 19-00010, 19-00034, 19-00042, 19-00043, and 19-00057.

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

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

Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A5. The purpose of my testimony is to provide an overview of Contributions in Aid of Construction (CIAC) and to support two recommendations; 1) Ensure the appropriate balance of Contributions in Aid of Construction is transferred to the books and records of Limestone Water Utility Operating Company (Limestone), the acquiring company and 2) Requiring Limestone to record funds received from Service Connection as Contributions in Aid of Construction rather than revenue, given Limestone's revenue requirement will be determined on a Rate Base rate of return basis.

Q6. PROVIDE A BRIEF BACKGROUND OF WHAT CIAC IS AND HOW IT EFFECTS THE RATESETTING FORMULA.

A6. CIAC represents non-investor supplied funds that were provided to the Company to construct the water and wastewater systems. Since these funds are not provided by the Utility, the appropriate ratemaking treatment is for them to serve as deduction to Rate Base. Additionally, CIAC is amortized at a rate of 2.5% yearly as a contra expense to Depreciation Expense to offset the Depreciation Expense of non-investor supplied plant.

Q7. WHAT WAS AQUA'S LAST APPROVED RATE CASE?

A7. Aqua Utility Company's (Aqua) last general rate case was TPUC Docket No. 15-00044, which established rates for the attrition period ending May 31, 2016.¹

Q8. WHAT WAS THE CIAC BALANCE ESTABLISHED IN TPUC DOCKET NO. 15-00044?

¹ *Joint Petition of Aqua Utilities Company and TRA Staff (as a Party) to Increase Rates and Charges*, p.2, ¶4, TPUC Docket No. 15-00044 (April 9, 2015).

1 **A8.** Aqua would have had \$322,438 in CIAC for the 12 months ending May 31, 2016.²

2 **Q9.** **WHAT WAS THE CIAC BALANCE SHOWN WITHIN THE PROPOSED**
3 **TRANSACTION?**

4 **A9.** Originally, Limestone showed [REDACTED] in CIAC being transferred as part of the proposed
5 sale; however, in response to Consumer Advocate DR 1-59 Limestone stated that
6 [REDACTED] in CIAC would be transferred to the books of Limestone from Aqua.

7 **Q10.** **IN YOUR OPINION, DOES THIS ALIGN WITH WHAT THE CURRENT**
8 **CIAC BALANCE WOULD BE?**

9 **A11.** Yes, if you were to take the CIAC balance of \$322,438 established in Aqua's last rate
10 case and reduced it for accumulated amortizations for the period of time elapsed since
11 the balance of [REDACTED] is within the range of reasonableness.

12 **Q12.** **WHY IS THE RECOGNITION OF THE CIAC BALANCE IMPORTANT FOR**
13 **THIS PROCEEDING?**

14 **A12.** If the transaction is approved Limestone intends to shift the utility from an operating
15 margin method of recovery to a rate base rate of return regulatory method of recovery.³

16 **Q13.** **BRIEFLY DESCRIBE AND CONTRAST THE RATE BASE METHOD AND**
17 **OPERATING MARGIN METHOD OF REGULATORY RECOVERY.**

18 **A13.** Mr. Shirley summarized the differences concisely and simply as follows:

19 In Tennessee, a "Fair Profit" for regulated water and wastewater
20 companies may be determined under two methods - the "Rate Base
21 Method" and the "Operating Margin Method." Under the Rate Base
22 Method, a Fair Profit is deemed to be a reasonable rate of return on
23 the owners' investment in the utility system (e.g., net utility plant
24 that is used and useful in providing utility service.) Under the

² Pre-filed Direct Testimony of Joe Shirley, TRA Staff Exhibit Schedule 2, ln. 8, TPUC Docket No. 15-00044 (April 10, 2015).

³ *Limestone Water Utility Operating Company's Response to the Consumer Advocate's First Discovery Request*, DR No. 1-45, TPUC Docket No. 19-000062, (February 14, 2020).

1 Operating Margin Method, a Fair Profit is deemed to be a reasonable
2 return on operating expenses requiring a return factor (e.g.,
3 operation and maintenance expenses, purchased power and water,
4 depreciation and certain taxes.)⁴
5

6 **Q14. BRIEFLY DESCRIBE HOW CIAC FACTORS INTO THE RATE BASE AND**
7 **OPERATING MARGIN METHODS OF REGULATORY RECOVERY.**

8 **A14.** Within the Rate Base Method, CIAC serves as a deduction to utility plant in service
9 which reduces the revenue requirement by reducing the return on utility plant in
10 service. This is appropriate as CIAC funds are those provided by a third-party and by
11 definition are not provided by owner/shareholders. Therefore, this source of cost-free
12 capital must be recognized in the Rate Base rate of return model. Additionally, as
13 stated above, the amortization of CIAC serves as a contra expense to Depreciation
14 Expense which reduces the Depreciation Expense recovered within the revenue
15 requirement.

16 Within the Operating Margin Method, CIAC only serves as a contra expense to
17 Depreciation Expense, which similarly to the Rate Base Method reduces the
18 Depreciation Expense recovered within the revenue requirement.

19 **Q15. ARE THEIR PREVIOUS COMMISSION ORDERS REGARDING CIAC FOR**
20 **AQUA?**

21 **A15.** Yes, In TPUC Docket No. 06-000187, the Commission ordered that “[t]he Service
22 Connection Charges shall be booked as Revenue at the tariff rate and added Utility
23 Plant in Service at actual cost.”⁵

⁴ Pre-Filed Direct Testimony of Joe Shirley, p. 2, ll. 15-22, TPUC Docket No. 15-00044.

⁵ *Final Order Approving Rate Increase and Rate Design*, p. 19, TPUC Docket No. 06-00187 (November 27, 2007).

1 **Q16. DO YOU BELIEVE THIS TREATMENT SHOULD BE CONTINUED IF THE**
2 **TRANSACTION IS APPROVED?**

3 **A16.** No, I do not. Limestone intends to shift the Utility to the Rate Base Method. Under
4 this method of regulatory recovery, accurate representation of utility plant funded by
5 those other than the Utility should be recorded as CIAC.

6 **Q15. DO YOU HAVE A RECOMMENDATION FOR THE COMMISSION**
7 **REGARDING CIAC FOR THIS PROCEEDING?**

8 **A15.** Yes, I would recommend that the Commission codify an amount of [REDACTED] be placed
9 on the books of Limestone as CIAC. I would also recommend that the Commission
10 clarify that the CIAC balance is to be amortized at an annual rate of 2.5%. I also
11 recommend the Commission require the Company record Service Connection Fees as
12 CIAC rather than to revenue.⁶

13 **Q16. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 **A16.** Yes.

⁶ *Id.*

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

IN RE:

**JOINT APPLICATION OF AQUA
UTILITIES COMPANY, INC., AND
LIMESTONE WATER UTILITY
OPERATING COMPANY, LLC, FOR
AUTHORITY TO SELL OR TRANSFER
TITLE TO THE ASSETS, PROPERTY
AND REAL ESTATE OF A PUBLIC
UTILITY AND FOR A CERTIFICATE
OF PUBLIC CONVENIENCE AND
NECESSITY**

DOCKET NO. 19-00062

AFFIDAVIT

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 31st day of March, 2020.

Tiffany H. Blackman
NOTARY PUBLIC



My commission expires: March 22, 2023