

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

IN RE:)	
)	
PETITION OF TENNESSEE-)	
AMERICAN WATER COMPANY)	
REGARDING THE PRODUCTION)	DOCKET NO. 20-00008
COSTS AND OTHER PASS-)	
THROUGHS RIDER)	

DIRECT TESTIMONY

OF

ALEX BRADLEY

April 1, 2020

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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 Bradley. My business address is Office of the Tennessee Attorney General, War Memorial Building, 301 6th 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, 18-00107,
2 19-00010, 19-00034, 19-00042, 19-00043, and 19-00057.

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
22 amounts authorized in the Company's last general rate case, TPUC Docket No. 12-
23 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 1.¹

Table 1 - PCOP Surcharge Rate Since Inception							
Docket Number	13-00130	15-00001	15-00131	16-00148	18-00009	19-00010	20-00008
Covering the Twelve Months Ending	11/30/2013	11/30/2014	11/30/2015	11/30/2016	11/30/2017	11/30/2018	11/30/2019
Tariff Effective Date	April 15, 2014	August 17, 2015	May 10, 2016	July 11, 2017	May 15, 2018	July 15, 2019	TBD
Surcharge Rate	-1.15%	-0.73%	-0.36%	-0.89%	-1.25%	-1.10%	-0.65%

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, 18-00009, and 19-00010. 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.

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, 2019, compared to the amounts authorized in the Company's last

¹ 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

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, 2019 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 11/30/2019	Difference From Baseline Cost
Chemicals Expense	\$ 986,930	941,184	\$ (45,746)
Fuel & Purchased Power Expense	2,678,772	2,414,683	(264,089)
Waste Disposal Expense	213,308	329,809	116,501
Purchased Water Expense	51,331	24,509	(26,822)
TPUC Inspection	131,826	217,358	85,532
Total	\$ 4,062,167	\$ 3,927,543	\$ (134,624)

As shown in Table 2, the gross amount of Pass-Through Expenses incurred for the 12 months ending November 2019 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. 19-00010?

A9. A comparison of the requested gross amount of Pass-Through Expenses for the current PCOP Rider, set in TPUC Docket No. 19-00010, and the gross amount of Pass-Through Expenses incurred in the current review period are presented below in Table 3. As shown below the \$3,927,543 in PCOP expenses requested in this Docket results in an overall increase of \$105,699 when compared with the total gross PCOP expenses in the Company's last PCOP filing, TPUC Docket No. 19-00010.

Table 3 - 24 Month Difference by Expense Type			
Period Expense Incurred In	A	B	C
	For the 12 Months Ending 11/30/2018	For the 12 Months Ending 11/30/2019	Difference B-A=C
Chemicals Expense	922,281	941,184	\$ 18,903
Fuel & Purchased Power Expense	2,246,557	2,414,683	\$ 168,126
Waste Disposal Expense	416,185	329,809	\$ (86,376)
Purchased Water Expense	25,572	24,509	\$ (1,063)
TPUC Inspection	211,249	217,358	\$ 6,109
Total (Including Refund)	\$ 3,821,844	\$ 3,927,543	\$ 105,699

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?

A12. As shown in Exhibit EKC-1, the Company's NRW calculation is 28.1% or 13.1% greater than the baseline amount of 15%. The effect of this water loss over the

1 baseline amount results in a recoverability factor of 86.9% of the Fuel & Purchased
2 Power Expense and Chemicals Expense incurred over the Review Period.

3 **Q13. WHAT DOES THE 86.9% RECOVERABILITY FACTOR MEAN IN TERMS**
4 **OF DOLLARS?**

5 **A13.** The 86.9% NRW reduces the recoverable amount of Purchased Power Expense by
6 \$315,642 and the recoverable amount of Chemicals Expense by \$123,030, for a total
7 reduction in recoverable PCOP rider expenses of \$438,672. The total amount of
8 recoverable Pass-Through Expenses is reduced from \$3,927,543 to \$3,488,871.

9 **Q14. AS MENTIONED EARLIER, THE PCOP IS EXPRESSED AS A**
10 **PERCENTAGE OF A CUSTOMER'S BILL. HOW DOES THE AMOUNT OF**
11 **RECOVERABLE PCOP EXPENSES GO FROM A DOLLAR AMOUNT TO A**
12 **PERCENTAGE RATE?**

13 **A14.** The calculation of the PCOP percentage rate is a multistep formula. First, the amount
14 of NRW limited Pass-Through Expenses plus or minus any over-under collection from
15 the prior PCOP is divided by the review period actual water sales (in 100 gallons) to
16 determine the review period PCOP cost per 100 gallons. The review period PCOP
17 cost per 100 gallons is then compared to the PCOP cost per 100 gallons from the
18 Company's last base rate case (using PCOP expenses and water sales from that period)
19 to determine the incremental change in PCOP expenses per 100 gallons. That
20 incremental change is then multiplied by the water sales (in 100 gallons) from the
21 Company's last rate case to determine the deferral amount. The deferral amount is
22 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.

Table 4 - Calculation of PCOP Rider Percentage Calculation	
	20-00008 Amount
NRW Limited Actual Production Costs and Other Pass-Throughs	\$3,488,871
Over-Under Collection Adjustment	43,494
Review Period PCOP Costs Adjusted for Over-Under Collections	3,532,365
Actual Water Sales (100 Gallons)	94,297,560
Actual Rate Cost Production Costs and Other Pass-Throughs per 100 Gallons WS	\$0.03746
Base Rate Cost per 100 Gallons WS	0.04039
Incremental Change in Production Costs and Other Pass-Throughs per 100 Gallons WS	(\$0.00293)
Base Rate Case Water Sales 100 Gallons	100,578,654
Deferral Amount	(\$294,514)
Total Deferred Amount	(\$294,514)
Total Deferred Amount Grossed Up for revenue taxes	(305,563)
Projected Annual Base Rate Revenue subject to PCOP	47,073,724
PCOP %	-0.65%

Q15. EXPLAIN WHY THE 2019 PCOP PERCENTAGE IS LESS OF A REDUCTION THAN THAT PREVIOUSLY AUTHORIZED IN 19-00010?

A15. Even though the 2019 NRW limited PCOP expenses are \$118,070 less than the 2018 NRW PCOP expenses there are two other factors that led to the 2019 calculation to have a lower PCOP percentage than that of 2018. The first is prior period over-under collection adjustment. In 19-00010 the Company under returned \$72,416; however, in this docket the Company over returned \$43,494. As discussed by Company Witness Elaine K. Chambers this was due to the delay in implanting the 19-00010 PCOP

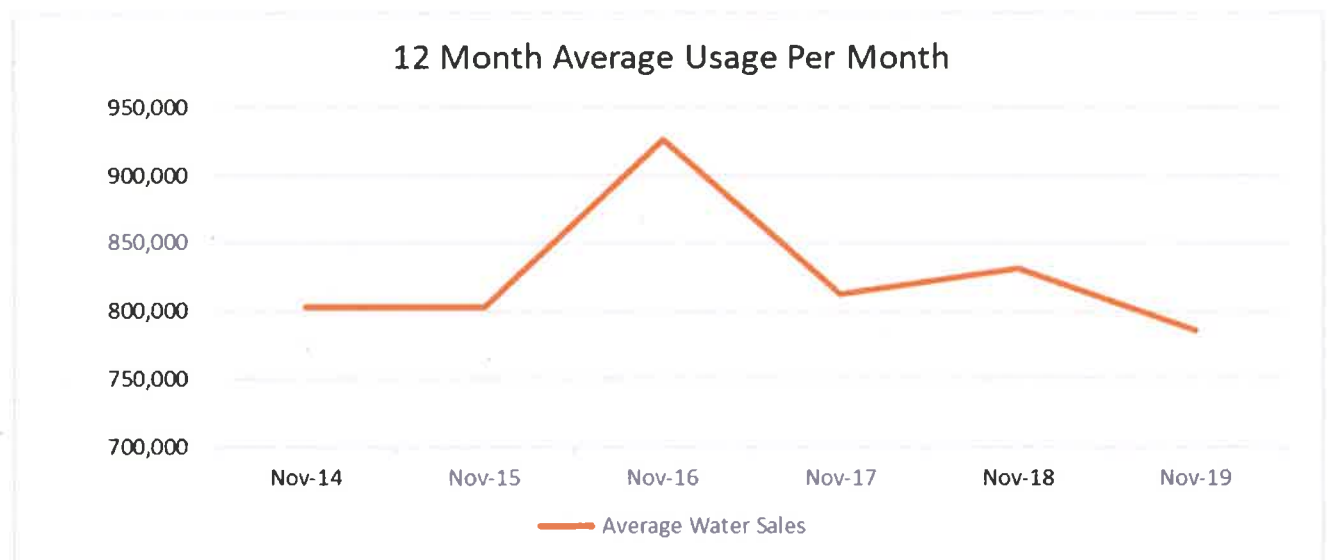
percentage.² The other factor is the decrease in actual water sales during the review period.

Q16. CAN YOU ELABORATE ON THE DECREASE IN WATER SALES?

A16. Yes, I can. As shown above the review period had 94,297,560 (100 gallons) in actual water sales. This is 5,453,854 (100 gallons) less water sales than the amount the prior PCOP filing, Docket 19-00010 or 5.42% of total water sales in the base amount established in Docket 12-00049.

Q17. ARE THE WATER SALES TRENDING DOWNWARD?

A17. As shown below, since 2014 monthly water sales have consistently hovered around or above an average of 800,000 (100 gallons) in water sales; however, the most recent review produced a result that was a deviation from the norm.



² Docket No. 20-00008, Pre-Filed Direct Testimony of Elaine K Chambers, Page 10-11, lines 18-23 & lines 1-3.

1 While total water sales still remain below the baseline amount established the Company's
2 2012 rate case the dataset of water sales since 2014 does not show a consistent trend of
3 ever decreasing water sales.

4 **II. RESULTS OF MY REVIEW**

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

7 **A15.** Yes, I reviewed TAWC's filing and supporting documentation. I also prepared data
8 requests for information not contained in the original filing. Additionally, I reviewed
9 the provided invoices to determine if the invoiced total was exclusive of late fees and
10 penalties and the applicable bill date.

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

12 **A16.** Overall, I found that the Company's PCOP filing included the actual production
13 expenditures (minus any fees or penalties), water system delivery/sales, along with the
14 applicable support. I also found that the PCOP calculation generally reflected the
15 methodologies established in Docket No. 13-00130.

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

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

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DOCKET NO. 20-00008

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