

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

IN RE:)	
)	
PETITION OF TENNESSEE-AMERICAN)	
WATER COMPANY REGARDING)	
THE 2021 INVESTMENT AND RELATED)	
EXPENSE UNDER THE QUALIFIED)	Docket No. 20-00128
INFRASTRUCTURE INVESTMENT)	
PROGRAM RIDER, THE ECONOMIC)	
DEVELOPMENT INVESTMENT RIDER,)	
AND THE SAFETY AND ENVIRONMENTAL)	
RIDER, AND IN SUPPORT OF THE)	
CALCULATION COMPLIANCE RIDER)	
)	

DIRECT TESTIMONY OF

ALEX BRADLEY

JUNE 1, 2021

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, John Sevier State Office Building, 500 Dr. Martin L. King Jr. Blvd, Nashville, Tennessee 37243. I am an Accounting and 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 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 held by Michigan State University.

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

A3. Yes. I have previously testified in TPUC Docket Nos. 17-00108, 18-00009, 18-00107, 19-00010, 19-00034, 19-00042, 19-00043, 19-00057, 19-00062, 20-00028, 20-00049, 20-00086, and 21-00006.

Q4. ON WHOSE BEHALF ARE YOU TESTIFYING?

1 **A4.** I am testifying on behalf of the Consumer Advocate Unit in the Financial Division of the
2 Tennessee Attorney General’s Office (“Consumer Advocate”).

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

4 **A5.** My testimony will discuss the supporting calculations, general history, and my concerns
5 regarding Tennessee American Water’s (TAWC or the “Company”) decision to implement
6 new Capital Rider rates through the individual riders, the Qualified Infrastructure
7 Investment Program Rider (“QIIP”), the Economic Development Investment Rider
8 (“EDI”) and the Safety and Environmental Compliance Rider (“SEC”) (collectively, the
9 three riders are referred to as the “Capital Riders”).

10 **Q6. PLEASE PROVIDE A BRIEF OVERVIEW OF THE HISTORY AND INTENT OF**
11 **THE CAPITAL RIDERS.**

12 **A6.** In 2014, the Commission approved the Company’s petition in TRA¹ Docket No. 13-00130,
13 which authorized TAWC to put four alternative rate mechanisms into rates. Three of those
14 mechanisms approved by the Commission were the QIIP, the EDI, and the SEC. The
15 Capital Riders are designed to allow the Company recovery of the following:

16 **QIIP:** to recover infrastructure replacement and improvement projects for aging
17 utility assets.²

18 **EDI:** to recover either new or replacement infrastructure projects that promote
19 economic development within the Company’s service territory.³

20 **SEC:** to recover certain operational and capital costs pertaining to the Company’s
21 safety requirements and environmental compliance costs.⁴

¹ The Tennessee Regulatory Authority, or TRA, is the predecessor agency to the TPUC, just as the Tennessee Public Service Commission predated the TRA. While the nomenclature has changed, the scope and function of these entities has remained essentially the same.

² *Order Approving Amended Petition*, pg. 4., TRA Docket No. 13-00130 (January 27, 2016).

³ *Order Approving Amended Petition*, pg. 4., TRA Docket No. 13-00130 (January 27, 2016).

⁴ *Id.*

As set out in the Commission Order in TRA Docket No. 13-00130, the Capital Riders are recovered as a percentage charge that is applied to a customer's bill and is aggregated with the Company's other alternative-rate-mechanism riders. The history of the Capital Rider surcharges since their inception is presented below in Table 1.

Table 1										
Capital Rider Surcharges Since Inception										
Docket No.	QIIP \$	QIIP %	EDI \$	EDI %	SEC \$	SEC %	Total \$	Total %	Budget or Reconciliation	Effective Date
13-00130	\$ 373,273	0.79%	\$ 84,623	0.18%	\$ 53,015	0.11%	\$ 510,911	1.08%	Budget - 2014	April 15, 2014
15-00029	89,598	0.25%	(52,834)	-0.15%	22,600	0.06%	59,364	0.17%	Reconciliation - 2014	November 1, 2015
14-00121	1,001,897	2.13%	22,616	0.05%	1,664,812	3.54%	2,689,325	5.72%	Budget - 2015	June 30, 2015
16-00022	411,519	1.17%	(62,763)	-0.18%	(41,585)	-0.12%	307,171	0.87%	Reconciliation - 2015	October 11, 2016
15-00111	2,145,126	4.56%	47,256	0.10%	2,693,844	5.72%	4,886,226	10.38%	Budget - 2016	March 15, 2016
17-00020	622,513	1.76%	(10,908)	-0.03%	(291,715)	-0.83%	319,890	0.91%	Reconciliation - 2016	August 16, 2017
16-00126	3,539,145	7.52%	161,282	0.34%	2,868,066	6.09%	6,568,493	13.95%	Budget -2017	March 14, 2017
18-00022	547,960	1.55%	(28,970)	-0.08%	(219,809)	-0.62%	299,181	0.85%	Reconciliation - 2017	December 18, 2018
17-00124	4,730,639	10.05%	194,545	0.41%	2,809,385	5.97%	7,734,569	16.43%	Budget - 2018	April 10, 2018
19-00031	(403,036)	-1.14%	(112,806)	-0.32%	(324,484)	-0.92%	(840,326)	-2.38%	Reconciliation - 2018	April 1, 2019
18-00120	5,482,911	11.65%	306,548	0.41%	3,236,635	5.97%	9,026,094	18.03%	Budget 2019	September 1, 2019
20-00028	(732,529)	-2.07%	(175,919)	-0.50%	(394,676)	-1.12%	(1,303,124)	-3.69%	Reconciliation - 2019	September 14, 2020
19-00105	6,723,700	14.28%	536,171	1.14%	4,137,860	8.79%	11,397,731	24.21%	Budget 2020	June 1, 2020
21-00030	936,467	2.65%	(174,802)	-0.50%	277,509	0.79%	1,039,174	2.94%	Reconciliation - 2020	TBD
20-00128	9,010,519	19.14%	587,183	1.25%	4,564,309	9.70%	14,162,011	30.09%	Budget 2021	TBD

Q7. DESCRIBE THE RELIEF SOUGHT IN THIS DOCKET.

A7. The Company is petitioning the Commission to approve new Capital Riders Surcharges based upon the Company's forecasted eligible capital additions for the year ending 2021. These rates will be later trued-up to actuals (both for investment and recovery) in a later filing in calendar year 2022.

Q8. AS MENTIONED EARLIER, THE CAPITAL RIDERS ARE EXPRESSED AS A PERCENTAGE OF A CUSTOMER'S BILL. HOW DOES THE AMOUNT OF CAPITAL RIDER RECOVERY GO FROM A DOLLAR AMOUNT TO A PERCENTAGE RATE?

A8. The calculation of the Capital Riders is a multistep formula that is calculated separately for each individual surcharge. First, the Company takes the rider applicable additions, plus cost of removals, less salvage, deferred income taxes on that investment, and accumulated

1 depreciation to arrive at a net rider plant. Next, the Company applies the pre-tax rate of
2 return as authorized in the Company's last general rate case, 8.45145%, and applies it to
3 the net rider plant to arrive at the pre-tax required return. The pre-tax required return is
4 then combined with the depreciation and property tax expenses associated for those eligible
5 investments to arrive at the pretax revenue requirement for the rider. The pretax revenue
6 requirement amount is then grossed up for the revenue taxes and any Capitalized Annual
7 Performance Plan to arrive at the Capital Rider specific revenue requirement. This revenue
8 requirement is then divided by the base revenues from the Company's last rate case, TRA
9 Docket No. 12-00049, to determine the applicable percentage surcharge to bill customers.

10 **Q9. HAS THE OPERATIONAL FOOTPRINT OF TAWC CHANGED SINCE ITS**
11 **LAST BASE RATE CASE, TRA DOCKET NO. 12-00049?**

12 **A9.** Yes, the Company has sold a service territory and acquired two new service territories.

13 **Q10. WHAT SERVICE TERRITORY WAS SOLD?**

14 **A10.** Walden's Ridge was sold in 2015.⁵

15 **Q11. WHAT IS THE EFFECT OF THIS SALE WITHIN THE CALCULATION OF THE**
16 **CAPITAL RIDERS?**

17 **A11.** As stated earlier in my testimony, the Capital Riders are determined by taking the rider
18 specific revenue requirements and dividing them each by the projected annual revenues
19 from the Company's last rate case, TRA Docket No. 12-00049. In that case, the projected

⁵ *Tennessee-American Water Company's Responses to First Discovery Requests of the Consumer Advocate*, Response to Consumer Advocate DR No. 1-5, TPUC Docket No. 21-00006 (March 26, 2021).

1 annual revenues were \$47,073,724, which included \$554,062 in revenues associated with
2 the Walden's Ridge System that the Company no longer serves.

3 **Q12. WHAT SERVICE TERRITORIES HAVE BEEN ACQUIRED?**

4 **A12.** The Company acquired Jasper Highlands⁶ in 2021 and Whitwell⁷ in 2013. Per my analysis,
5 this added approximately 180 residential customers for Jasper Highlands and
6 approximately 2,680 residential customers for Whitwell.

7 **Q13. HAVE PER-CLASS REVENUES CHANGED SINCE THE CONCLUSION OF**
8 **THESE DOCKETS?**

9 **A13.** Yes. A comparison of the Projected Revenues by Customer Class from the Order in TRA
10 Docket No. 12-00049 to the revenues for the year ending 2020 reflects that revenues shifted
11 to the Residential and Private Fire Service classes and away from the Industrial and Other
12 Public Authorities classes.

13 *[Intentionally Blank – Graph Below]*

⁶ *Order Approving Asset Purchase Agreement and Granting Certificate of Convenience and Necessity*, TPUC Docket No. 20-00011 (February 26, 2021).

⁷ *Order Approving Purchase Agreement, Franchise Water Agreement and Certificate of Public Convenience and Necessity*, TRA Docket No. 12-00157 (October 15, 2013).

Line			A/ 12-00049 Settlement Target Revenues	12-00049 Percentage of Sales Revenue	B/ 2020 Revenues	2020 Percentage of Sales Revenue
No.						
1	Residential	\$	20,205,423	42.92%	\$ 21,231,674	45.85%
2	Commercial		14,934,291	31.73%	14,814,367	31.99%
3	Industrial		4,270,456	9.07%	3,710,392	8.01%
4	Other Public Authority		3,648,239	7.75%	2,979,268	6.43%
5	Other Water Utility		16,116	0.03%	4,745	0.01%
	Special Contract -Sale for Resale					
6	Fort Oglethorpe		489,579	1.04%	432,402	0.93%
7	Catoosa County		227,441	0.48%	178,061	0.38%
8	Signal Mountain		453,907	0.96%	417,630	0.90%
9	Walden's Ridge		554,062	1.18%	0	0.00%
10	Private Fire Service		2,274,210	4.83%	2,534,759	5.47%
11	Total Water Sales	\$	47,073,724		\$ 46,303,298	
A/ 12-00049, Settlement Exh, Sch 16						
B/ 21-00006, DR 2-1, attachment TAW_R_CAPDDR2_001_041221_Attachment						

Q14. WHAT DOES THIS SHIFT IN BASE REVENUES MEAN FOR THE RECOVERY OF THE CAPITAL RIDERS?

A14. As presently designed, it means that more of the Capital Riders will be collected from Residential ratepayers, as they currently make up approximately 46% of revenues, compared to the projected 43% from the decision in the base rate case.

Q15. ARE THERE ANY INTERCLASS ISSUES WITHIN THE RESIDENTIAL CLASS REGARDING CAPITAL RIDER RECOVERY?

A15. Yes. As illustrated below, the average proposed Capital Rider amount varies greatly in each service territory. Additionally, the service territories acquired since the completion of TRA Docket No. 12-00049 have rates that have not underwent a general rate case to determine appropriateness.

Area	Service Charge - 5/8" Meter	Volumetric Charge	Bill Before Surcharges	2020 Authorized Capital Surcharges at 24.21%	2021 QIP Surcharge at 4.86%	2021 EDI Surcharge at 0.11%	2021 SEC Surcharge at 0.91%	2021 Proposed Capital Rider Adjustments	Total Proposed Surcharges
Chattanooga	\$13.96	\$7.60	\$21.56	\$5.22	\$1.05	\$0.02	\$0.20	\$1.27	\$6.49
Lookout Mountain	\$15.66	\$12.39	\$28.05	\$6.79	\$1.36	\$0.03	\$0.26	\$1.65	\$8.44
Lakeview	\$15.66	\$9.16	\$24.82	\$6.01	\$1.21	\$0.03	\$0.23	\$1.46	\$7.47
Suck Creek	\$30.60	\$16.12	\$46.72	\$11.31	\$2.27	\$0.05	\$0.43	\$2.75	\$14.06
Whitwell - Inside	\$20.45	\$10.30	\$30.75	\$7.45	\$1.49	\$0.03	\$0.28	\$1.80	\$9.25
Whitwell - Outside	\$23.37	\$12.56	\$35.93	\$8.70	\$1.75	\$0.04	\$0.33	\$2.11	\$10.81
Jasper Highlands	\$52.15	\$3.51	\$55.66	\$13.48	\$2.71	\$0.04	\$0.51	\$3.25	\$16.73

Q16. DO YOU HAVE CONCERNS WITH THE STRUCTURE OF THE TAWC CAPITAL RIDER MECHANISM?

A16. Yes. I have concerns with the application of the capital rider revenue requirement on a percentage of customer revenue basis. This results in customers with higher rates paying proportionally higher surcharge rates than peer customers with lower rates. I also have concerns with the overall structure of the capital rider mechanism. These issues will be addressed in TPUC Docket No. 19-00103, however, so there is no need to address such issues in this testimony.

Q17. DOES THIS CONCLUDE YOUR TESTIMONY?

A17. 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.

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CALCULATION COMPLIANCE RIDER**

Docket No. 20-00128

AFFIDAVIT OF ALEX BRADLEY

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

Sworn to and subscribed before me

This 28 day of May, 2021.



NOTARY PUBLIC

My Commission Expires: September 28, 2022

