

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

<b>IN RE:</b>	)	
	)	
<b>APPLICATION OF LIMESTONE</b>	)	
<b>WATER UTILITY OPERATING</b>	)	
<b>COMPANY, LLC FOR AUTHORITY TO</b>	)	<b>DOCKET NO. 21-00059</b>
<b>PURCHASE TITLE TO THE ASSETS,</b>	)	
<b>PROPERTY AND REAL ESTATE OF A</b>	)	
<b>WATER SYSTEM, AND FOR A</b>	)	
<b>CERTIFICATE OF PUBLIC</b>	)	
<b>CONVENIENCE AND NECESSITY</b>	)	
	)	

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**DIRECT TESTIMONY**

**OF**

**ALEX BRADLEY**

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**July 8, 2022**

**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 & Tariff Specialist employed by the Consumer Advocate Division of the Tennessee Attorney General's Office ("Consumer Advocate").

**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 since 2013. My duties include reviewing utility regulatory filings, preparing analysis used to support Consumer Advocate testimony and exhibits, and preparing my own testimony and supporting exhibits. I have completed multiple regulatory trainings, including those 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 ("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, 21-00006, 21-00107, 22-00005, and 22-00032.

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

**A4.** I am testifying on behalf of the Consumer Advocate.

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

**A5.** The purpose of my testimony is to provide recommendations regarding the request of Limestone Water Utility Operating Company, LLC (“Limestone”, “Buyer”, or “Company”) and Central States Water Resources, Inc. (“CSWR”) to acquire the assets of Candlewood Lakes Property Owners Association, Inc. and Candlewood Lakes POA Water Works, Inc. (collectively, “Candlewood Lakes” or the “Seller”). My testimony provides the results of my review and provides a number of recommendations.

**Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION FOR THIS TESTIMONY?**

**A6.** I have reviewed the Petition of the parties along with their respective responses to discovery.

**Q7. WHAT ARE THE PETITIONERS REQUESTING FROM THE COMMISSION IN THIS PROCEEDING?**

**A7.** The petitioners are requesting that the Commission authorize Limestone to purchase the water system currently owned by Candlewood Lakes.

**Q8. CAN YOU PROVIDE A SUMMARY OF THE CANDLEWOOD LAKES SYSTEM?**

**A8.** Candlewood Lakes is currently a non-profit water system operating in Hardeman County that provides water service to approximately 308 customers.<sup>1</sup>

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<sup>1</sup> Direct Testimony of Josiah Cox, page 12.

1 **Q9. CAN YOU PROVIDE A SUMMARY OF THE OPERATIONS OF CENTRAL**  
2 **STATES WATER RESOURCES, LLC (“CSWR”)?**

3 **A9.** CSWR, an “upstream parent” company of Limestone, operates water and wastewater  
4 utilities in Missouri, Arkansas, Kentucky, Tennessee, Texas, and Louisiana.<sup>2</sup>

5 **Q10. CAN YOU SUMMARIZE YOUR RECOMMENDATIONS FOR THIS**  
6 **PROCEEDING?**

7 **A10.** I recommend the approval of the proposed transaction subject to the following conditions:

- 8 1. The Commission should require Limestone to record on its books a balance  
9 of Contribution in Aid of Construction (“CIAC”) equal to the balance of  
10 Plant in Service.
- 11 2. Legal expenses deferred as a regulatory asset and transaction costs should  
12 be reduced by half to account for the Seller’s legal expenses. The remaining  
13 50% of legal expenses should not be deferred as an above-the-line  
14 regulatory asset and any future recoverability or disallowance should be  
15 determined at a future rate proceeding.
- 16 3. Limestone should be precluded from restating historical account balances  
17 post acquisition and the prospective accounting entries for the acquisition  
18 should be submitted to the Commission prior to closing for review as a  
19 condition of Commission approval.
- 20 4. The requested Acquisition Premium, in this case, should be set aside in a  
21 separate account and its ultimate treatment determined in a future  
22 proceeding.
- 23 5. Limestone should maintain separate accounting records for Candlewood  
24 Lakes, distinct from its other systems.

25 **I. BOOK BALANCE OF PLANT INCLUDING CONTRIBUTIONS IN AID OF**  
26 **CONSTRUCTION**

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<sup>2</sup> *Limestone’s Response to Consumer Advocate*, DR No. 2-1, TPUC Docket No. 21-00053 (August 11, 2021). Limestone identifies CSWR as an “upstream parent” and “U.S. Water” also as an upstream parent for equity needs. *Id.* In a previous docket, Limestone explained that [REDACTED]

[REDACTED] *Limestone’s Response to Consumer Advocate* DR No. 1-1, TPUC Docket No. 19-00062 (February 14, 2020) (CONFIDENTIAL). Central States [REDACTED] *Limestone’s Response to Consumer Advocate* DR No. 1-4b, TPUC Docket No. 19-00062 (February 14, 2021) (CONFIDENTIAL).

1 **Q11. WHAT IS YOUR RECOMMENDATION REGARDING THE PLANT BALANCE**  
2 **TO BE TRANSFERRED TO LIMESTONE?**

3 **A11.** As discussed below, the acquisition should reflect that the assets to be transferred be offset  
4 with an entry to CIAC in the corresponding value.

5 **Q12. CAN YOU ELABORATE ON YOUR CONCERNS REGARDING THE**  
6 **PROSPECTIVE ACCOUNTING TREATMENT AND HISTORICAL**  
7 **ACCOUNTING RECORDS?**

8 **A12.** Yes, I have concerns regarding the proposed accounting treatment of the assets to be  
9 transferred by Candlewood Lakes to Limestone. In Limestone's response to Consumer  
10 Advocate's DR No. 1-5 the Company indicated they intend to book plant in service of  
11 approximately \$307,500<sup>3</sup> in the year following acquisition. Additionally, the same  
12 response shows the Company does not intend to book any CIAC for this acquisition.  
13 Candlewood Lakes stated in response to Consumer Advocate's DR No. 1-2 that "the  
14 current board of Candlewood Lakes does not have information on how the water system  
15 was originally funded."<sup>4</sup> Additionally, in response to Consumer Advocate's DR No. 1-4  
16 the Seller stated, "none of the assets (to be transferred) were contributed by a third party."<sup>5</sup>

17 **Q13. WHY IS THE RESPONSE PROBLEMATIC?**

18 **A13.** Knowing how the system was originally funded is essential information for establishing  
19 the plant balances post acquisition. Without this knowledge, I can only speculate on the  
20 appropriate utility plant in service balance.

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<sup>3</sup> Limestone's Response to Consumer Advocate's First Discovery Request No. 1-5, Attachment 1-5.pdf.

<sup>4</sup> Candlewood Lakes' Response to Consumer Advocate's First Discovery Request No. 1-2.

<sup>5</sup> Candlewood Lakes' Response to Consumer Advocate's First Discovery Request No. 1-4.

1   **Q14. WHAT DOES THIS IMPLY FOR THE RATEPAYERS OF THE SYSTEM?**

2   **A14.** Without this information, ratepayers could be put in the untenable position of paying for a  
3       return of and on of utility assets that were originally paid for by the same ratepayers. The  
4       lack of information available by the Seller should not put ratepayers at risk for double-  
5       payment. The burden of demonstrating that plant in service was not funded by ratepayers  
6       should fall to the utility.

7   **Q15. ARE THERE ANY OTHER CONSIDERATIONS REGARDING THE**  
8       **HISTORICAL ACCOUNTING BALANCES?**

9   **A15.** Yes, in the response Consumer Advocate DR No. 1-2 the Seller indicated that ratepayers  
10       have paid at least two fees relating to the water system over the years. Specifically, the  
11       Seller indicated that customers had paid a \$500 tap fee to join the system and that those  
12       joining post 2009 had paid an additional \$320 service charge for water tank maintenance.<sup>6</sup>  
13       While this Commission has historically treated tap fees as revenues<sup>7</sup> which provided an  
14       immediate offset to the revenue requirement, I believe the age and current unregulated  
15       status of the system requires a different approach.

16   **Q16. WHY IS ANOTHER APPROACH WARRANTED IN THIS MATTER?**

17   **A16.** I believe that a different approach regarding the treatment of these fees is necessary for a  
18       variety of reasons.

19       In TPUC Docket No. 19-00034, the Commission found that “continu[ing] to book tap fees  
20       as revenue could result in a double recovery of costs from ratepayers who pay the tap fee,  
21       as it does recognize any offset to rate base for investments funded by tap fees for

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<sup>6</sup> Candlewood Lakes’ Response to Consumer Advocate’s First Discovery Request No. 1-2.

<sup>7</sup> *Direct Testimony of Alex Bradley*, p. 4, TPUC Docket No. 19-00034.

1       ratemaking purposes. Recognizing this, the Commission ordered that the Cartwright Creek,  
2       the Company in question, should “classify and report [tap] fees in its books and records as  
3       Contributions in Aid of Construction . . . in accordance with the Uniform System of  
4       Accounts [(‘USoA’)], rather than operating revenues.”<sup>8</sup> Further the order references that  
5       “the US[o]A provides that money, services or property that represents an addition to the  
6       utility, which is provided at no cost to the utility by any person or governmental entity, and  
7       is utilized to offset acquisition improvement or construction costs of the utility's property,  
8       facility or equipment used to provide public utility services shall be recorded as CIAC.”<sup>9</sup>  
9       NARUC, USoA for Class A Wastewater Utilities, p. 92 ( 1996). While the USoA quoted  
10      above refers to wastewater utilities, the same principle applies to Water utilities and similar  
11      language is found in the NARUC, USoA for Water Utilities.<sup>10</sup>

12      An approach similar to that taken in TPUC Docket No. 19-00034 is warranted here.  
13      Typically, for non-profit systems, a tap fee is a charge to a homeowner who desires to  
14      receive water service. Often these fees cover the costs of connecting a customer and can  
15      recover from new customers a portion of the prior capital investment of the water utility.  
16      Additionally, it is also common practice for developers of subdivisions, in which no  
17      existing water service is available, to recoup the costs associated with the construction of  
18      the water plant within the costs of the lots sold.

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<sup>8</sup> *Order Approving Increase of Tap Fees*, p. 9, TPUC Docket No. 19-00034 (August 19, 2019).

<sup>9</sup> *Id.*, n.33.

<sup>10</sup> NARUC USoA for Water Utilities, Account 271, p. 83.

1 Regarding the additional \$320 service charge for water tank maintenance assessed to  
2 homeowners who joined the system post 2009, it is evident, as stated in the fee description,  
3 that this assessment was used to fund capital expenditures.

4 **Q17. HOW WOULD LIMESTONE’S REQUEST AFFECT THE SYSTEM’S**  
5 **RATEPAYERS?**

6 **A17.** Under Limestone’s request, that ratepayers would not receive the benefit of their  
7 contributions to the system. This is shown in the Company’s response to Consumer  
8 Advocate’s DR No. 1-5 where the prospective Balance Sheet shows no CIAC is  
9 contemplated to be carried onto the books of Limestone. Simply put, it would lead to an  
10 overstated rate base for the Candlewood Lakes system. This is important because, as stated  
11 in TPUC Docket No. 21-00053, Limestone “believes that a Rate Base rate of return  
12 methodology is most appropriate given the characteristics of Limestone’s operations.”<sup>11</sup>

13 **Q18. ARE THERE ANY OTHER FEES BEING CHARGED TO CUSTOMERS?**

14 **A18.** Yes, currently a Water Availability Fee is being charged to property owners who have not  
15 yet connected to the water system. In response to discovery Candlewood Lakes stated they  
16 are ‘currently charging a monthly \$52.20 Water Availability Fee to property owners and  
17 that this fee “covers line maintenance.”<sup>12</sup> Additionally, the Seller stated they intend to  
18 continue to collect this fee post acquisition.<sup>13</sup>

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<sup>11</sup> *Limestone Water Utility Operating Company, LLC Response to First Set of Data Request*, DR No. 1-27, TPUC Docket No. 21-00053 (July 16, 2021).

<sup>12</sup> Candlewood Lakes’ Response to Consumer Advocate’s First Discovery Request No. 1-3.

<sup>13</sup> *Id.*



**Q19. DO YOU HAVE ANY PROPOSALS REGARDING THE UNDERLYING ACCOUNTING FOR TAP FEES AND MAINTENANCE FEES?**

**A19.** It is my opinion that these fees should be considered contributed capital to the system. Due to the lack of information regarding the number of fees paid coupled with the lack of information regarding the source of the plant's original funding, I am unable to determine what the approximate value of that contribution should be. Given that, it is my opinion that the acquisition should reflect that the assets to be transferred be offset with a credit entry to Account 271 -CIAC in the corresponding value. In other words, that the acquisition would have a net rate base of zero.

**II. RECOVERY OF LEGAL EXPENSES RESULTING FROM THE TRANSACTION**

**Q20. WHAT IS YOUR RECOMMENDATION REGARDING THIS ISSUE?**

**A20.** As discussed below, legal expenses deferred as a regulatory asset and transaction costs should be reduced by half to account for the Seller's legal expenses. The recoverability or disallowance of the remaining costs should be determined at a future rate proceeding.

**Q21. HOW DID THIS ISSUE ARISE?**

**A21.** The issue arose in response to Consumer Advocate's DR No. 1-10, where the Seller indicated that "all [legal] costs related to 'this docket', will be billed to Limestone."

**Q22. IS THIS THE APPROACH TAKEN IN PRIOR ACQUISITION DOCKETS?**

**A22.** Yes, in TPUC Docket No. 21-00053, the regulatory and transaction costs relating to the acquisition of the Cartwright Creek system by Limestone were to be deferred and the

appropriate treatment/recovery of these costs were to be determined in Limestone's initial rate case.<sup>14</sup>

**Q23. DO YOU AGREE THIS APPROACH IS APPROPRIATE FOR THIS MATTER?**

**A23.** I am in agreement with this approach with one caveat. As stated earlier, the legal expenses for both parties are being borne by Limestone; in my opinion, this could lead to the possibility of rate recovery of legal expenditures that should be borne by the Seller. Legal and transaction costs deferred as a regulatory asset should be only include 50% of the legal fees accumulated by the parties' collective counsel. In summary, only the Buyer's transaction costs should be deferred. The agreement between the parties that the Seller should not bear any transaction costs should not then require the ratepayers to bear the costs truly incurred by the Seller and which should be borne by the departing entity, Candlewood Lakes.

**III. HISTORICAL ACCOUNT BALANCES**

**Q24. WHAT IS YOUR RECOMMENDATION REGARDING THIS ISSUE?**

**A24.** As discussed below, as a matter of public interest Limestone should not be permitted to restate the account balances for the Candlewood Lakes' system at a later date. Additionally, the prospective accounting entries to record the acquisition should be submitted to the Commission prior to closing.

**Q25. HOW DID THIS ISSUE ARISE?**

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<sup>14</sup> *Order Approving Settlement Agreement and Transfer of Systems, and Granting Certificate of Convenience and Necessity*, pp. 17, TPUC Docket No. 21-00053 (January 24, 2022).

**A25.** In response to Consumer Advocate’s DR No. 1-8, Limestone stated it was “unable to confirm it agrees with Candlewood Lakes’ historic accounting practices.”<sup>15</sup> Additionally, in response to Consumer Advocate’s DR No. 1-9, Limestone stated it was “seek(ing) to reserve the opportunity to modify historical account balances.”<sup>16</sup>

**Q26. DO YOU AGREE WITH THE COMPANY ON THIS POINT?**

**A26.** I do not agree with the Company’s position.

**Q27. CAN YOU ELABORATE ON YOUR DISAGREEMENT?**

**A27.** Reserving the right to modify the recorded balances of the Candlewood Lakes system removes the Commission’s ability analyze the impact of the proposed transaction. As stated by Mr. Dave Dittmore in TPUC Docket No. 21-00053:

Accounting entries should be submitted to the Commission before closing for review as a condition of the Commission’s approval of the transaction. The Commission, its Staff, and the Consumer Advocate should have the opportunity to review Limestone’s proposed accounting entries used to record the acquisition.<sup>17</sup>

The prospective buyer has the responsibility to perform its due diligence before submitting its request to the Commission. Any “corrections” to accounting records would impact the value of the utility as well as have potentially significant implications on the purchase price agreed to between the parties.

**Q28. DO YOU HAVE A RECOMMENDATION REGARDING THIS ISSUE?**

**A28.** Yes. The Commission should not permit an acquiring utility to restate the historical accounting records of the selling utility in the future unless such accounting issue was

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<sup>15</sup> Limestone’s Response to Consumer Advocate’s First Discovery Request No. 1-8.

<sup>16</sup> Limestone’s Response to Consumer Advocate’s First Discovery Request No. 1-9.

<sup>17</sup> *Direct Testimony of David Dittmore*, p. 21, TPUC Docket No. 21-00053 (August 30, 2021).

1 raised within the Application and specifically approved by the Commission within the  
2 acquisition docket. Additionally, the prospective accounting entries of Limestone should  
3 be submitted to the Commission before closing to allow the Commission, its Staff, and the  
4 Consumer Advocate an opportunity to review the proposed accounting entries for the  
5 acquisition.

#### 6 IV. ACQUISITION PREMIUM

##### 7 **Q29. WHAT IS YOUR RECOMMENDATION REGARDING THIS ISSUE?**

8 **A29.** As discussed below, any potential acquisition premium should be recorded to a separate  
9 account and its treatment, for ratemaking purposes, be determined in a future proceeding.

##### 10 **Q30. WHAT IS AN ACQUISITION PREMIUM?**

11 **A30.** As stated by Mr. Dittmore in TPUC Docket No. 21-00053, “[a]n Acquisition Premium  
12 represents the acquisition costs of utility assets in excess of their net book value.”<sup>18</sup>

##### 13 **Q31. IS THE COMPANY REQUESTING AN ACQUISITION PREMIUM IN THIS** 14 **CASE?**

15 **A31.** No. However, as stated earlier in my testimony, the discovery responses of the Seller lead  
16 me to the opinion that the water plant may have been funded completely by ratepayers. If  
17 this is case then the net book value of the assets would be zero, and the purchase price of  
18 \$60,000 would represent an acquisition premium.

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<sup>18</sup> *Id.*, p. 23.

1 **Q32. ARE YOU RECOMMENDING THE COMMISSION RULE ON THE**  
2 **APPROPRIATE REGULATORY TREATMENT OF THE ACQUISITION**  
3 **PREMIUM IN THIS PROCEEDING?**

4 **A32.** No.

5 **Q33. WHAT ARE YOU RECOMMENDING REGARDING ACCOUNTING FOR THE**  
6 **ACQUISITION PREMIUM?**

7 **A33.** Any potential Acquisition Premium should be set aside in a separate account and its  
8 ultimate disposition determined in a future proceeding. There should be no assumption  
9 that this balance will be recoverable in a subsequent rate case proceeding. The burden to  
10 justify the recovery of this balance rests with Limestone.

11 **Q34. IS THIS RECOMMENDATION CONSISTENT WITH THE COMMISSION'S**  
12 **RULING ON ACQUISITION PREMIUM ACCOUNTING IN TPUC DOCKET NO.**  
13 **19-00062?**

14 **A34.** Yes. In that order, the Commission found:

15 Limestone is not requesting an acquisition premium and the Commission is  
16 not approving any acquisition adjustment related to the purchase of Aqua's  
17 assets; accordingly, Limestone's beginning value of the acquired assets for  
18 ratemaking purposes shall be the value recorded in Aqua's books and  
19 records at the date of the acquisition. Further, Limestone is not authorized  
20 to book an above-the-line regulatory asset for rate-making purposes for any  
21 portion of the amount by which the purchase price exceeds the value of the  
22 acquired assets as reflected in Aqua's books and records at the date of  
23 acquisition. In any future rate proceeding, Limestone may present evidence  
24 and argument concerning the value of assets used and useful for  
25 provisioning public utilities services, and the Consumer Advocate or other

1 interested parties may oppose such values or present their own evidence and  
2 argument concerning the value of such assets.<sup>19</sup>

3 **V. SEPARATE ACCOUNTING RECORDS**

4 **Q35. ARE THERE ANY OTHER CONDITIONS YOU WOULD RECOMMEND?**

5 **A35.** Yes, I recommend that Limestone be required to maintain separate accounting records for  
6 Candlewood Lakes, distinct from its other systems. This is the same recommendation  
7 made by Mr. Dittmore in TPUC Docket No. 21-00053<sup>20</sup> and which Limestone was  
8 previously agreeable to.<sup>21</sup>

9 **VI. OTHER CONSIDERATIONS**

10 **Q36. DID THE COMPANY PROVIDE A STATEMENT ABOUT THE AFFECT OF THE**  
11 **ACQUISITION ON RATES?**

12 **A36.** In response to Consumer Advocate's DR No. 1-11, Limestone stated that it was their  
13 "contention that the provision of service will not be adversely impacted by the acquisition  
14 is based on the fact Limestone proposes to adopt Candlewood Lakes current rates. No  
15 change in rates means the affordability of rates won't be adversely affected."<sup>22</sup>

16 **Q37. DO YOU HAVE A RESPONSE TO THE COMPANY'S STATEMENT?**

17 **A37.** Yes, I am concerned about the results of this proceeding will have on future rates. While  
18 Limestone is not asking for a change of rates in this proceeding, the operating costs and  
19 the level of capital expenditures will have a future impact on the revenue requirement when

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<sup>19</sup> *Order Approving Sale of Assets, Property, and Real Estate and Certificate of Public Convenience of Aqua Utilities Company, LLC Subject to Conditions and Requirements of the Tennessee Public Utility Commission*, pp. 17-18, TPUC Docket No. 19-00062 (December 7, 2020).

<sup>20</sup> *Direct Testimony of David Dittmore*, p. 22, TPUC Docket No. 21-00053.

<sup>21</sup> *Limestone's Response to Consumer Advocate*, DR No. 23, TPUC Docket No. 21-00053.

<sup>22</sup> *Limestone's Response to Consumer Advocate's First Discovery Request* No. 1-11.

1 Limestone petitions the Commission for its initial rate increase request. The Commission  
2 should require all prospective buyers to estimate the impact of the acquisition on future  
3 rates in subsequent acquisition filings so that the Commission may evaluate whether the  
4 acquisition is in the public interest.

5 **Q38. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 **A38.** Yes. However, I reserve the right to supplement my testimony if additional information  
7 becomes available.

IN THE TENNESSEE PUBLIC UTILITY COMMISSION  
AT NASHVILLE, TENNESSEE

IN RE:

APPLICATION OF LIMESTONE  
WATER UTILITY OPERATING  
COMPANY, LLC FOR AUTHORITY TO  
PURCHASE TITLE TO THE ASSETS,  
PROPERTY AND REAL ESTATE OF A  
WATER SYSTEM, AND FOR A  
CERTIFICATE OF PUBLIC  
CONVENIENCE AND NECESSITY

DOCKET NO. 21-00059

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AFFIDAVIT

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I, Alex Bradley, on behalf of the Consumer Advocate Division 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 Division.

  
ALEX BRADLEY

Sworn to and subscribed before me  
this 15 day of July, 2022.



NOTARY PUBLIC



My commission expires: September 28, 2022.