

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

**IN RE:**

**PETITION OF TENNESSEE-AMERICAN  
WATER COMPANY REGARDING THE  
2023 PRODUCTION COSTS AND OTHER  
PASS-THROUGHS RIDER**

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**Docket No. 23-00007**

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**DIRECT TESTIMONY OF**

**ALEX BRADLEY**

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March 29, 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, John Sevier State Office Building, 500 Dr. Martin L. King Jr. Blvd, Nashville, Tennessee 37243. I am a Financial Analyst employed by the Consumer Advocate Division in the Office of the Tennessee Attorney General (“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 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, 21-00006, 21-00055, 21-000059, 21-00060, 21-00107, 22-00005, and 22-00032.

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

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

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

3   **A5.**    My testimony will discuss the supporting calculations, general history, and my concerns  
4           regarding Tennessee American Water' Company's ("TAWC" or the "Company")  
5           Production Costs and Other Pass-Throughs ("PCOP") Rider.

6   **Q6.     PLEASE PROVIDE A BRIEF OVERVIEW OF THE HISTORY AND INTENT OF**  
7           **THE PCOP RIDER.**

8   **A6.**    In 2014, the approved TRA<sup>1</sup> Docket No. 13-00130 which authorized TAWC to put into  
9           rates four alternative rate mechanisms.<sup>2</sup> One of the mechanisms approved by the  
10          Commission was the PCOP Rider which allows the Company pass-through recovery of its  
11          expenses for purchased power, chemicals, purchased water, wheeling cost, waste disposal  
12          and regulatory fees (collectively the "Pass-Through Expenses" or "PCOP Expenses").<sup>3</sup>  
13          The PCOP Rider is designed to allow the Company's recovery of these expenses, which  
14          are said to be out of the Company's control and would, if the costs were to increase, reduce  
15          the opportunity for TAWC to earn its authorized rate of return.<sup>4</sup> As approved, the PCOP  
16          Rider compares the Company's actual costs of the Pass-Through Expenses for the prior  
17          twelve-month period to amounts authorized in the Company's last general rate case, TRA  
18          Docket No. 12-00049. This was adjusted in the resolution of TPUC Docket No. 21-00006<sup>5</sup>

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

<sup>2</sup>       *Order Approving Amended Petition*, TRA Docket No. 13-00130 (January 27, 2016).

<sup>3</sup>       *Id.* at p. 5.

<sup>4</sup>       *Id.*

<sup>5</sup>       *Order Approving PCOP Rider Expenses for December 1, 2019 through November 30, 2020, as Revised*, pp. 7-8, TPUC Docket No. 21-00006 (November 1, 2021).

to incorporate the embedded amounts for the Company's Whitwell service territory and adjusted again in TPUC Docket No. 22-00005<sup>6</sup> to incorporate the embedded amounts for the Company's Jasper Highlands service territory.

As authorized by the Commission in TRA Docket No. 13-00130, the PCOP Rider 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.<sup>7</sup>

Table 1 - PCOP Surcharge Rate Since Inception			
Docket Number	12 Months Ending	Effective Date	Surcharge Rate
13-00130	11/30/2013	4/15/2014	-1.15%
15-00001	11/30/2014	8/17/2015	-0.73%
15-00131	11/30/2015	5/10/2016	-0.36%
16-00148	11/30/2016	7/11/2017	-0.89%
18-00009	11/30/2017	5/15/2018	-1.25%
19-00010	11/30/2018	7/15/2019	-1.10%
20-00008	11/30/2019	6/15/2020	-0.65%
21-00006	11/30/2020	8/9/2021	0.20%
22-00005	11/30/2021	7/11/2022	0.57%
23-00007	12/1/2021	TBD	2.14%

**Q7. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION FOR THIS TESTIMONY?**

**A7.** I reviewed the Company's Pre-Filed Testimony along with the exhibits and work papers supporting Proposed Sheet No. 12 – Riders – TNS filed in this docket. Additionally, I reviewed the Company's responses to the data requests submitted by the Consumer Advocate in this Docket.

<sup>6</sup> Order Approving Revised 2022 Production Costs And Other Pass-Through Rider, pp. 5-6, TPUC Docket No. 22-00005 (September 15, 2022).

<sup>7</sup> Table 1 shows the non-cumulative impact of the PCOP Rider since inception.

**I. OVERVIEW OF TENNESSEE AMERICAN WATER'S PETITION**

**Q8. PLEASE DESCRIBE THE RELIEF SOUGHT IN THIS DOCKET.**

**A8.** The Company is petitioning the Commission to approve a new PCOP Rider surcharge based on the actual Pass-Through Expenses incurred during the twelve months ended November 30, 2021, compared to the amounts authorized in the Company's last general rate case and adjusted to account the embedded costs in the Company's Whitwell and Jasper Highlands service territories. A comparison of the gross amount of Pass-Through Expenses from the Company's last general rate case adjusted for acquisitions and for the twelve months ending November 30, 2022, is shown below in Table 2.

<b>Table 2 - Comparison of Expenses to Baseline Amounts</b>			
<b>Expense:</b>	<b>A/ Authorized Amount per Dockets 12- 00049, 21-00006, and 22-00005</b>	<b>B/ For the 12 Months Ending 11/30/2022</b>	<b>Difference From Baseline Cost</b>
Chemicals	\$ 1,017,818	\$ 1,830,267	\$ 812,449
Fuel & Purchased Power	2,744,275	2,675,049	(69,226)
Waste Disposal	317,948	498,620	180,672
Purchased Water	129,214	116,289	(12,925)
TPUC Inspection Fee	131,826	234,103	102,277
<b>Total</b>	<b>\$ 4,341,081</b>	<b>\$ 5,354,329</b>	<b>\$ 1,013,248</b>
A/ Petitioner's Exhibit - PCOP - CALC - RCL (TAW_EXH_RCL_1_011723).xlsx, tab "Support Workpaper", Columns C+D+E			
B/ Petitioner's Exhibit - PCOP - CALC - RCL (TAW_EXH_RCL_1_011723).xlsx, tab "Support Workpaper", Column A			

As shown in Table 2 above, the gross amount of Pass-Through Expenses incurred for the 12 months ending November 2022 were more than the gross amount of Pass-Through Expenses in the Company's last general rate case, as adjusted.

**Q9. HOW DOES THE AMOUNT OF PASS-THROUGH EXPENSES COMPARE TO THE COMPANY'S LAST APPROVED PCOP, IN TPUC DOCKET NO. 22-00005?**

**A9.** A comparison of the requested gross amount of Pass-Through Expenses for the current PCOP Rider, set in TPUC Docket No. 22-00005, and the gross amount of Pass-Through Expenses incurred in the current review period are presented below in Table 3. As shown below the \$5,354,324 in PCOP expenses requested in this Docket results in an overall increase of \$1,237,561 when compared with the total gross PCOP expenses in the Company's last PCOP filing, TPUC Docket No. 22-00005.

<b>Table 2 - Comparison of Expenses to Baseline Amounts</b>			
<b>Expense:</b>	<b>A/ Authorized Amount per Dockets 12- 00049, 21-00006,</b>	<b>B/ For the 12 Months Ending 11/30/2022</b>	<b>Difference From Baseline Cost</b>
Chemicals	\$ 1,017,818	\$ 1,830,267	\$ 812,449
Fuel & Purchased Power	2,744,275	2,675,049	(69,226)
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Purchased Water	129,214	116,289	(12,925)
TPUC Inspection Fee	131,826	234,103	102,277
<b>Total</b>	<b>\$ 4,341,081</b>	<b>\$ 5,354,329</b>	<b>\$ 1,013,248</b>
A/ Docket 23-00007, Petitioner's Exhibit - PCOP - CALC - RCL (TAW_EXH_RCL_1_011723).xlsx, tab "Support Workpaper", Columns C+D+E			
B/ Docket 22-00005, Corrected TAW_EXH_TNS_1_0617225.xlsx, tab "Support Workpaper", Column A			

**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 Fuel & Purchased Power Expenses and Chemicals Expenses by a Non-Revenue Water Limiter.

**Q11. WHAT IS THE NON-REVENUE WATER LIMITER?**

**A11.** The Non-Revenue Water ("NRW") Limiter 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

1 set in the Company's last base rate case results in a limitation of the amount of the Fuel &  
2 Purchased Power expense and the Chemicals Expense the Company can recover from  
3 ratepayers. The purpose of the NRW is to ensure compliance with the Commission's water  
4 loss policies.

5 **Q12. WHAT WAS THE NRW IN THE CURRENT TPUC DOCKET?**

6 **A12.** As shown in Petitioner's Exhibit - PCOP - CALC - RCL, the Company's NRW calculation  
7 is 26% or 11% greater than the baseline amount of 15%. The effect of this water loss over  
8 the baseline amount results in a recoverability factor of 89% of the Fuel & Purchased Power  
9 Expense and Chemicals Expense incurred over the Review Period.

10 **Q13. WHAT DOES THE 89.0% RECOVERABILITY FACTOR MEAN IN TERMS OF**  
11 **DOLLARS?**

12 **A13.** The 89% NRW reduces the recoverable amount of Purchased Power Expense by \$295,110  
13 and the recoverable amount of Chemicals Expense by \$201,914 for a total reduction in  
14 recoverable PCOP Expenses of \$497,024. The total amount of recoverable Pass-Through  
15 Expenses is reduced from \$5,354,329 to \$4,857,304.

16 **Q14. ARE THERE ANY OTHER ADJUSTMENTS MADE TO THE RECOVERABLE**  
17 **PASS-THRU EXPENSES?**

18 **A.14** Consistent with the decision in TPUC Docket No. 21-00006, the Company added \$176,147  
19 of PCOP Expenses to the base rate case PCOP Expenses, 1,527,738 (100 Gallons) to base  
20 rate case water sales, and \$1,242,200 to base rate revenues. These adjustments are to  
21 account for these PCOP Expenses that are contained within the base rates of customers in  
22 the Company's Whitwell service territory.

1 **Q15. HAS THE COMPANY PROPOSED ANY ADDITIONAL CHANGES TO THESE**  
2 **ADJUSTMENTS?**

3 **A15.** Yes. Consistent with the decision in TPUC Docket No. 22-00005, the Company has added  
4 \$102,767 of PCOP expenses to the calculation of base rate case PCOP Expense to account  
5 for the purchased water and power expenses already embedded in the base rates of  
6 customers in the Jasper Highlands service territory. Additionally, the Company proposes  
7 to add 95,018 (100 gallons) to the calculation of base rate water sales. The Company  
8 updated these values consistent with the Parties' agreement and the Commission's Final  
9 Order in TPUC Docket 22-00005 to account for increased customer growth in the Jasper  
10 Highlands Service Territory.

11 **Q16. WHAT IS THE EFFECT OF THESE ADJUSTMENTS?**

12 **A16.** The effect of the Company's proposals alters the PCOP calculation in three ways. First,  
13 the proposed inclusion of Whitwell and Jasper Highlands base rate case PCOP Expenses  
14 increases the amount of base rate embedded costs from \$4,303,804<sup>8</sup> to \$4,341,081.  
15 Second, the inclusion of Whitwell and Jasper Highlands base rate water sales increases the  
16 amount of base period water sales from 102,182,076 (100 gallons) to 102,201,410 (100  
17 gallons).<sup>9</sup> Taken together, these adjustments increase the embedded base rate cost of PCOP  
18 expenses per 100 gallons from \$0.04212 to \$0.04248. This \$0.04248 is used to determine  
19 the incremental increase/decrease in review period PCOP Expenses per 100 gallons.  
20 Finally, the inclusion of the base revenues from the Whitwell and Jasper Highlands service

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<sup>8</sup> Supplemental Testimony of Tricia N. Sinopole on Changes to the Production Costs and Other Pass-Throughs Rider, TPUC Docket 22-00005 (June 17, 2023).

<sup>9</sup> *Id.*



territories increases the projected annual base rate revenues from \$48,315,924<sup>10</sup> to \$48,418,691. This increases the amount of revenues that the calculation of the percentage charge for the PCOP is derived from.

**Q17. AS MENTIONED EARLIER, THE PCOP IS EXPRESSED AS A PERCENTAGE OF A CUSTOMER’S BILL. HOW DOES THE AMOUNT OF RECOVERABLE PCOP EXPENSES GO FROM A DOLLAR AMOUNT TO A PERCENTAGE RATE?**

**A17.** The calculation of the PCOP percentage rate is a multistep formula. First, the amount of NRW limited Pass-Through Expenses plus or minus any over-under collection from the prior PCOP is divided by the review period actual water sales (in 100 gallons) to determine the review period PCOP cost per 100 gallons. The review period PCOP cost per 100 gallons is then compared to the PCOP cost per 100 gallons from the Company’s last base rate case (using the adjusted PCOP Expenses and water sales from that period) to determine the incremental change in PCOP Expenses per 100 gallons. This incremental change is then multiplied by the adjusted water sales (in 100 gallons) from the Company’s last rate case to determine the deferral amount. The deferral amount is then grossed up for revenue taxes. This grossed up amount is then divided by the total adjusted 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:

*[Intentionally Blank – Table on Next Page]*

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<sup>10</sup> *Id.*

<b>Table 4 - Company's Proposed Calculation of PCOP Rider Percentage</b>	
	<b>23-00007</b>
	<b>Amount</b>
Actual Production Costs and Other Pass-Throughs	\$4,857,304
Over-Under Collection Adjustment	109,652
Review Period PCOP Costs Adjusted for Over-Under Collections	4,966,956
Actual Water Sales (100 Gallons)	95,018,328
Actual Rate Cost Production Costs and Other Pass-Throughs per 100 Gallons WS	\$0.05227
Base Rate Cost per 100 Gallons WS	0.04248
Incremental Change in Production Costs and Other Pass-Throughs per 100 Gallons WS	\$0.00980
Base Rate Case Water Sales 100 Gallons	102,201,410
Deferral Amount	\$1,001,361
Total Deferred Amount	\$1,001,361
Total Deferred Amount Grossed Up for revenue taxes	1,034,368
Projected Annual Base Rate Revenue subject to PCOP	48,418,691
PCOP %	<b>2.14%</b>

**Q18. WHAT ARE FACTORS DRIVING THE INCREASE IN THE PROPOSED PCOP PERCENTAGE?**

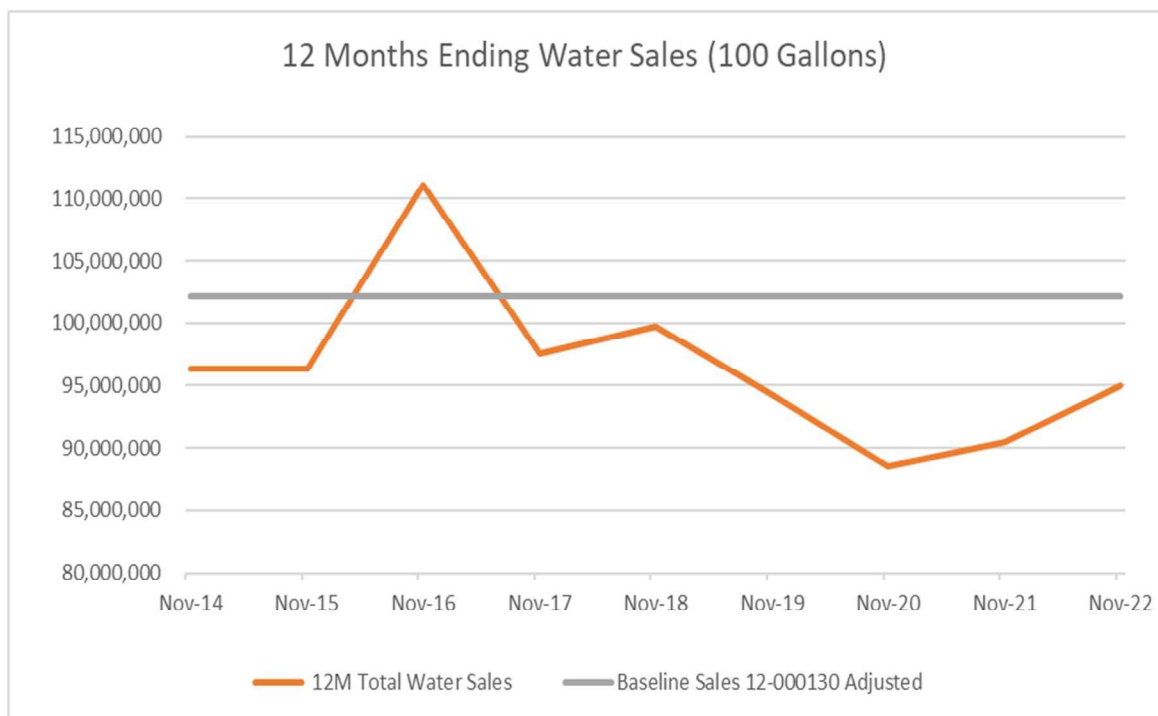
**A18.** The Advocate notes that current proposed PCOP will be the largest surcharge since its inception. In my review I determined there are four major factors driving the increase in the PCOP percentage in this proposal: (1) water sales less than the base rate case amount of water sales; (2) increased costs of chemicals; (3) increased costs of purchased power; and (4) increased costs of sludge removal.

**Q19. WILL YOU ELABORATE ON THE WATER-SALES?**

**A19.** Yes. As shown above the review period had 95,018,328 (100 gallons) in actual water sales. This is 4,588,685 (100 gallons) more water sales than the amount of water sales in the prior PCOP filing, TPUC Docket No. 22-00005. However, the review period water sales are 7,183,082 (100 gallons) less than the adjusted base period water sales that the calculation of the PCOP is compared against.

**Q20. HOW ARE WATER SALES TRENDING?**

**A20.** As shown below, water sales have trended up since 2020. However, the review period represents the fourth lowest amount of water sales since the inception of the PCOP and are still below the amount of baseline water sales from TRA Docket No. 12-00049.



**II. RESULTS OF MY REVIEW**

**Q21. DID YOU REVIEW THE CALCULATIONS SUPPORTING THE PROPOSED PCOP SURCHARGE IN THIS FILING?**

1   **A21.**   Yes. I reviewed TAWC's filing and supporting documentation. I also prepared data  
2           requests for information not contained in the original filing.

3   **Q22.   WHAT WERE THE GENERAL RESULTS OF YOUR REVIEW?**

4   **A22.**   Overall, I found that the Company's PCOP filing included the actual production  
5           expenditures (minus any fees or penalties), water system delivery/sales, along with the  
6           applicable support. Also, I found that the PCOP calculation generally reflected the  
7           methodologies established in TPUC Docket Numbers 13-00130, 21-00006, and 22-00005.

8   **Q23.   DOES THIS COMPLETE YOUR TESTIMONY?**

9   **A23.**   Yes.

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


<b>IN RE:</b>	)	
	)	
<b>PETITION OF TENNESSEE-</b>	)	
<b>AMERICAN WATER COMPANY</b>	)	<b>DOCKET NO. 23-00007</b>
<b>REGARDING THE 2023 PRODUCTION</b>	)	
<b>COSTS AND OTHER PASS-</b>	)	
<b>THROUGHS RIDER</b>	)	

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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 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 29<sup>th</sup> day of March, 2023.

  
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NOTARY PUBLIC



My Commission Expires: January 31, 2027.