

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

**IN RE:**

**PETITION OF TENNESSEE-AMERICAN  
WATER COMPANY REGARDING THE  
2024 PRODUCTION COSTS AND OTHER  
PASS-THROUGHS RIDER**

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**Docket No. 24-00002**

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**DIRECT TESTIMONY OF**

**ALEX BRADLEY**

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April 1, 2024

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

**A1.** My name is Alex Bradley. I am a Financial Analyst employed by the Consumer Advocate Division in the Office of the Tennessee Attorney General (“Consumer Advocate”). My business address is the Office of the Tennessee Attorney General, John Sevier State Office Building, 500 Dr. Martin L. King Jr. Blvd, Nashville, Tennessee 37243.

**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 an employee of 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 both the National Association of Regulatory Utility Commissioners and the Institute of Public Utilities at 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, 22-00032, 23-00007, 23-00008, 23-00016, 23-00029, and 23-00037.

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

2   **A4.**    I am testifying on behalf of the 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 Company's ("TAWC" or the "Company")  
6           Production Costs and Other Pass-Throughs ("PCOP") Rider.

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

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

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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 5.

<sup>4</sup>       *Id.*

resolution of TPUC Docket No. 21-00006<sup>5</sup> to incorporate the embedded amounts for the Company's Whitwell service territory. The PCOP Rider was 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,<sup>7</sup> the PCOP Rider is recovered as a percentage charge applied to a customer's bill as an aggregated amount 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>8</sup>

| <b>Table 1 - PCOP Surcharge Rate Since Inception</b> |                         |                       |                       |
|--|-------------------------|-----------------------|-----------------------|
| <b>Docket Number</b>                                 | <b>12 Months Ending</b> | <b>Effective Date</b> | <b>Surcharge Rate</b> |
| 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   | 11/30/2022              | 5/8/2023              | 2.14%                 |
| 24-00002   | 11/30/2023              | TBD                   | 4.40%                 |

**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 Thirty Seventh Revised Sheet No. 12 –Riders–1 filed in this docket.

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

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

<sup>7</sup> Order Approving Amended Petition, TRA Docket No. 13-00130 (January 27, 2016).

<sup>8</sup> Table 1 shows the non-cumulative impact of the PCOP Rider since inception.

1 Additionally, I reviewed the Company's responses to the data requests submitted by the  
 2 Consumer Advocate in this docket.

### 3 I. OVERVIEW OF TENNESSEE AMERICAN WATER'S PETITION

#### 4 Q8. PLEASE DESCRIBE THE RELIEF SOUGHT IN THIS DOCKET.

5 A8. The Company is petitioning the Commission to approve a new PCOP Rider surcharge  
 6 based on the actual Pass-Through Expenses incurred during the previous 12 months ending  
 7 November 30, 2023 ("Current Review Period"). This Petition compares the Current  
 8 Review Period amounts to the amounts authorized in the Company's last general rate case.  
 9 These amounts in the Petition are also adjusted to account for the embedded costs in the  
 10 Company's Whitwell and Jasper Highlands service territories. A comparison of the gross  
 11 amount of Pass-Through Expenses from the Company's last general rate case adjusted for  
 12 acquisitions and for the Current Review Period is shown below in Table 2.

| Table 2 - Comparison of Expenses to Baseline Amounts |   |   |                                  |
|--|---|---|----------------------------------|
| Expense:   | A/<br>Authorized<br>Amount per<br>Dockets 12-<br>00049, 21-00006,<br>and 22-00005 | B/<br>For the 12<br>Months Ending<br>11/30/2023 | Difference From<br>Baseline Cost |
| Chemicals  | \$ 1,013,993  | \$ 2,529,428                                    | \$ 1,515,435                     |
| Fuel & Purchased Power                               | \$ 2,736,254  | 2,694,395                                       | (41,859)                         |
| Waste Disposal                                       | \$ 335,102  | 664,538   | 329,436                          |
| Purchased Water                                      | \$ 146,435  | 154,339   | 7,904                            |
| TPUC Inspection Fee                                  | \$ 131,826  | 243,452   | 111,626                          |
| <b>Total</b>   | <b>\$ 4,363,610</b>   | <b>\$ 6,286,152</b>                             | <b>\$ 1,922,542</b>              |

13  
 14 As shown in Table 2 above, the gross amount of Pass-Through Expenses incurred for the  
 15 Current Review Period was more than the gross amount of Pass-Through Expenses in the  
 16 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. 23-00007?**

**A9.** A comparison of the requested gross amount of Pass-Through Expenses for the PCOP Rider set in TPUC Docket No. 23-00007 ("Last Review Period") and the gross amount of Pass-Through Expenses incurred in this Petition's Current Review Period is presented below in Table 3. As shown below, the \$6,286,152 in PCOP Expenses requested in this Petition results in an overall increase of \$931,823 when compared with the total gross PCOP Expenses in the Company's Last Review Period, the PCOP Rider filing in TPUC Docket No. 23-00007.

| <b>Table 3 - 24 Month Difference by Expense Type</b>  |   |   |  |
|---|---|---|--|
| <b>Expense:</b>   | <b>A/<br/>For the 12<br/>Months Ending<br/>11/30/22</b> | <b>B/<br/>For the 12<br/>Months Ending<br/>11/30/23</b> | <b>Difference From<br/>Previous Cost</b> |
| Chemicals   | \$ 1,830,267  | \$ 2,529,428  | \$ 699,161                               |
| Fuel & Purchased Power  | 2,675,049   | 2,694,395   | \$ 19,346                                |
| Waste Disposal  | 498,620   | 664,538   | \$ 165,918                               |
| Purchased Water   | 116,289   | 154,339   | \$ 38,050                                |
| TPUC Inspection Fee   | 234,103   | 243,452   | \$ 9,349                                 |
| <b>SubTotal</b>   | <b>\$ 5,354,329</b>                                     | <b>\$ 6,286,152</b>                                     | <b>\$ 931,823</b>                        |
| Recoverable %   | 89.0%   | 89.9%   | 0.95%                                    |
| <b>Net PCOP Expense</b>   | <b>\$ 4,857,303</b>                                     | <b>\$ 5,759,422</b>                                     | <b>\$ 902,119</b>                        |
| A/ Docket 23-00007, Petitioner's Exhibit - PCOP - CALC - RCL (TAW_EXH_RCL_1_011723).xlsx, tab "Support Workpaper" |   |   |  |
| A/ Docket 24-00002, Petitioner's Exhibit - PCOP - CALC - RCL.xlsx, tab "Support Workpaper"                        |   |   |  |

**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 ("NRW")?**

**A11.** The 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 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 <Petitioner's Exhibit - PCOP CALC – RCL>, the Company’s NRW calculation is 25.1%. This 25.1% is 10.1% greater than the baseline amount of 15%. The effect of this water loss over the baseline amount results in a recoverability factor of 89.9% of the Fuel & Purchased Power Expense and Chemicals Expense incurred over the Current Review Period.

**Q13. WHAT DOES THE 89.9% RECOVERABILITY FACTOR MEAN IN TERMS OF DOLLARS?**

**A13.** The 89.9% NRW reduces the recoverable amount of Purchased Power Expense by \$271,681 and the recoverable amount of Chemicals Expense by \$255,047 for a total reduction in recoverable PCOP Expenses of \$526,729. The total amount of recoverable Pass-Through Expenses is reduced from \$6,286,152 to \$5,759,423.

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

**A.14** Consistent with the decision in TPUC Docket No. 21-00006, the Company added \$176,147 of PCOP Expenses to the base rate case PCOP Expenses, 1,527,738 (100 Gallons) to base

rate case water sales, and \$1,242,200 to base rate revenues. These adjustments are to account for these PCOP Expenses that are contained within the base rates of customers in the Company's Whitwell service territory.

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

**A15.** Yes. Consistent with the approval in TPUC Docket No. 22-00005,<sup>9</sup> the Company has added \$125,295 of PCOP Expenses to the calculation of base rate case PCOP Expense to account for the purchased water and power expenses already embedded in the base rates of customers in the Jasper Highlands service territory. Additionally, the Company proposes to add 97,030 (100 gallons) to the calculation of base rate water sales. The Company updated these values consistent with the Parties' agreement and the Commission's Final Order in TPUC Docket No. 22-00005<sup>10</sup> to account for increased customer growth in the Jasper Highlands Service Territory.

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

**A16.** The effect of the Company's proposals alters the PCOP Rider calculation in three ways. First, the proposed inclusion of Whitwell and Jasper Highlands base rate case PCOP Expenses increases the amount of base rate embedded costs from \$4,303,804<sup>11</sup> to \$4,363,609. Second, the inclusion of Whitwell and Jasper Highlands base rate water sales increases the amount of base period water sales from 102,182,076 (100 gallons) to

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<sup>9</sup> Order Approving Revised 2022 Production Costs and Other Pass-Through Rider, 5-6, TPUC Docket No. 22-00005 (September 15, 2022).

<sup>10</sup> Id.

<sup>11</sup> Supplemental Testimony of Tricia N. Sinopole on Changes to the Production Costs and Other Pass-Throughs Rider, TPUC Docket No. 22-00005 (June 17, 2023).



1 102,203,422 (100 gallons).<sup>12</sup> Taken together, these adjustments increase the embedded  
2 base rate cost of PCOP Expenses per 100 gallons from \$0.04212 to \$0.04270. This  
3 \$0.04270 is used to determine the incremental increase/decrease in review period PCOP  
4 Expenses per 100 gallons. Finally, the inclusion of the base revenues from the Whitwell  
5 and Jasper Highlands service territories increases the projected annual base rate revenues  
6 from \$48,315,924<sup>13</sup> to \$48,494,574. This increase in projected base rate revenues increases  
7 the amount of revenues that the calculation of the percentage charge for the PCOP Rider is  
8 derived from.

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

13 **A17.** The calculation of the PCOP Rider percentage rate is a multistep formula. First, the amount  
14 of NRW limited Pass-Through Expenses plus or minus any over or under-collection from  
15 the prior PCOP Rider 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 Rider  
17 cost per 100 gallons is then compared to the PCOP Rider cost per 100 gallons from the  
18 Company's last base rate case (using the adjusted PCOP Expenses and water sales from  
19 that period) to determine the incremental change in PCOP Expenses per 100 gallons. This  
20 incremental change is then multiplied by the adjusted water sales (in 100 gallons) from the  
21 Company's last rate case to determine the deferral amount. The deferral amount is then

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<sup>12</sup> *Id.*

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

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:

| <b>Table 4 - Company's Proposed Calculation of PCOP Rider Percentage</b>          |                 |
|---|-----------------|
|   | <b>24-00002</b> |
|   | <b>Amount</b>   |
| Actual Production Costs and Other Pass-Throughs                                   | \$5,759,423     |
| Over-Under Collection Adjustment  | 345,433         |
| Review Period PCOP Costs Adjusted for Over-Under Collections                      | 6,104,856       |
| Actual Water Sales (100 Gallons)  | 97,030,038      |
| Actual Rate Cost Production Costs and Other Pass-Throughs per 100 Gallons WS      | \$0.06292       |
| Base Rate Cost per 100 Gallons WS   | \$0.04270       |
| Incremental Change in Production Costs and Other Pass-Throughs per 100 Gallons WS | \$0.02022       |
| Base Rate Case Water Sales 100 Gallons  | 102,203,422     |
| Deferral Amount   | \$2,066,742     |
|   |                 |
|   |                 |
|   |                 |
|   |                 |
|   |                 |
| Total Deferred Amount   | \$2,066,742     |
| Total Deferred Amount Grossed Up for revenue taxes                                | 2,134,865       |
| Projected Annual Base Rate Revenue subject to PCOP                                | 48,494,574      |
| PCOP %  | <b>4.40%</b>    |

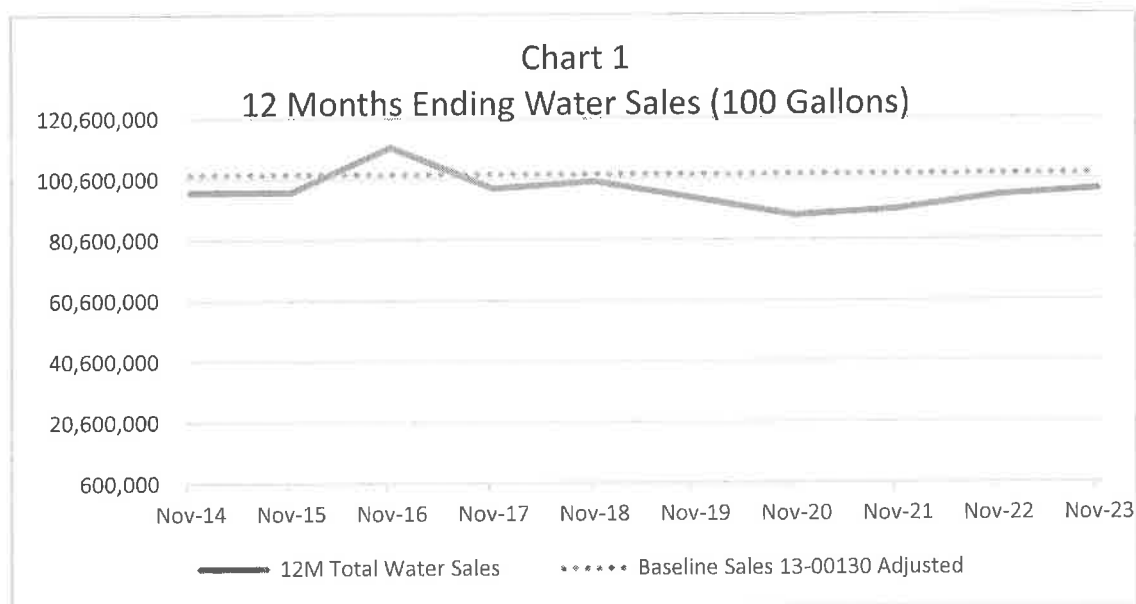
**Q18. WHAT ARE FACTORS DRIVING THE INCREASE IN THE PROPOSED PCOP PERCENTAGE?**

**A18.** The Consumer Advocate notes that the current proposed PCOP Rider will be the largest surcharge since its inception. In my review, I determined that there are four major factors driving the increase in the PCOP Rider 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 sludge removal; and (4) increased recoverability of chemical and fuel/purchased power expenses as it relates to the Non-Revenue Water adjustment.

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

**A19.** Yes. As shown above the review period had 97,030,038 (100 gallons) in actual water sales. This is 2,011,710 (100 gallons) more water sales than the amount of water sales in the prior PCOP Rider filing, TPUC Docket No. 23-00007. However, as shown below in Chart 1, the Current Review Period water sales are 5,173,384 (100 gallons) less than the adjusted base period water sales that the calculation of the PCOP is compared against from TRA Docket No. 12-00049, as adjusted.



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

**A20.** As shown above in Chart 1, water sales have trended up since 2020. However, the Current Review Period water sales are still below the amount of baseline water sales from TRA Docket No. 12-00049.

**Q21. CAN YOU ELABORATE ON THE SECOND OBSERVATION OF CHEMICAL COSTS? (Confidential)**

**A21.**

[REDACTED]

[REDACTED]

[REDACTED]<sup>14</sup>

## **II. RESULTS OF MY REVIEW**

**Q22. DID YOU REVIEW THE CALCULATIONS SUPPORTING THE PROPOSED PCOP SURCHARGE IN THIS FILING?**

**A22.** Yes. I reviewed TAWC's filing and supporting documentation. I also prepared data requests for information not contained in the original filing.

**Q23. WHAT WERE THE GENERAL RESULTS OF YOUR REVIEW?**

**A23.** Overall, I found that the Company's current PCOP Rider filing includes the actual production expenditures (minus any fees or penalties), water system delivery/sales, along with the applicable support. Also, I found that the PCOP Rider calculation generally reflected the methodologies established in TPUC Docket Nos. 13-00130, 21-00006, and 22-00005.

**Q24. WHAT IS THE IMPACT TO THE AVERAGE CUSTOMER BILL?**

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<sup>14</sup> *Petition*, CONFIDENTIAL File <Workpaper\_Chemicals -2023.xlsx>.

1   **A24.**   As shown in <Petitioner's Exhibit - PCOP AVG IMPACT - RCL1> the average monthly  
2           impact on a residential customer using 4,156 gallons of water per month would be a bill  
3           increase of \$0.95 per month or approximately \$11.40 per year. This is an increase of  
4           \$0.50 per month or \$6.00 per year over the previous PCOP Rider.<sup>15</sup>

5   **Q25.   DOES THIS COMPLETE YOUR TESTIMONY?**

6   **A25.**   Yes.

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<sup>15</sup>       *Direct Testimony of Robert C. Lane at 13:2-4, TPUC Docket No. 24-00002 (January 16, 2024).*

IN THE TENNESSEE PUBLIC UTILITY COMMISSION  
AT NASHVILLE, TENNESSEE

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AMERICAN WATER COMPANY  
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THROUGHS RIDER

DOCKET NO. 24-00002

AFFIDAVIT

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

ALEX BRADLEY

Sworn to and subscribed before me

This 1<sup>st</sup> day of April, 2024.

Terra Allen

NOTARY PUBLIC



My Commission Expires: 1/31/2027