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April 8, 2021

VIA ELECTRONIC FILING

Hon. Kenneth C. Hill, Chairman
c/o Ectory Lawless, Docket Room Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243
TPUC.DocketRoom@tn.gov

RE: *Rulemaking Proceeding to Promulgate Rules for the Evaluation of Utility Acquisitions*, TPUC Docket No. 20-00025

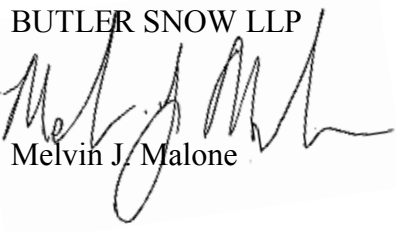
Dear Chairman Hill:

Please find attached for filing *Tennessee-American Water Company's Response to April 1, 2021 Notice of Follow-Up Workshop to Explore Standards for Utility Acquisitions* in the above-captioned docket.

As required, one (1) hard copy will be mailed to your office. Should you have any questions concerning this filing, or require additional information, please do not hesitate to contact me.

Very truly yours,

BUTLER SNOW LLP


Melvin J. Malone

clw

Attachment

cc: Elaine Chambers, TAWC

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**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE**

**RULEMAKING PROCEEDING TO
PROMULGATE RULES FOR THE
EVALUATION OF UTILITY
ACQUISITIONS**

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DOCKET NO. 20-00025

**TENNESSEE-AMERICAN WATER COMPANY’S RESPONSE
TO APRIL 1, 2021 NOTICE OF FOLLOW-UP WORKSHOP TO EXPLORE
STANDARDS FOR UTILITY ACQUISITIONS**

Tennessee-American Water Company (“Tennessee-American” or the “Company”) files this Response to the Notice of Follow-Up Workshop to Explore Standards for Utility Acquisitions issued in this matter by the Tennessee Public Utility Commission (“TPUC” or the “Commission”) on April 1, 2021. Tennessee-American appreciates the Commission’s continued exploration of this important matter and the opportunity to submit this Response and to participate in the follow-up workshop.

I. Introduction

The Commission’s Notice invites the submission of “any comments or other helpful information offered for consideration during the workshop” scheduled for April 12, 2021. Tennessee-American submitted written comments and proposed revisions to the Commission’s proposed rules on July 8, 2020 (original filing) and July 20, 2020 (substitute filing). On December 10, 2020, Tennessee-American submitted further comments and documents in response to the Commission’s November 30, 2020 Notice of Informal Technical Workshop to Explore Standards for Utility Acquisitions. In the interest of efficiency and ease of administrative burden,

the Company incorporates by this reference its July 20, 2020 Comments and its December 10, 2020 Response.

As discussed in Tennessee-American's July 20, 2020 Comments, and as recognized by the United States Environmental Protection Agency and the Tennessee Department of Environment and Conservation, Tennessee's water and wastewater infrastructure will require investment of more than \$10 billion over the next two decades.¹ In many circumstances, the ongoing investment requirements and the need to meet increasing water quality standards can only be met through the consolidation of smaller water and wastewater systems.² Therefore, Tennessee-American's prior submissions, like those filed by Atmos Energy and the Chattanooga Gas Company, encouraged the Commission to adopt policies that facilitate voluntary consolidation of utility systems by recognizing valuation methodologies that reflect the current value of utility assets and refraining from imposing a one-size-fits-all net book value/original cost approach.

II. Comments on Proposed Rules

The proposed rules published on April 1, 2021 (the "2021 Proposed Rules") take a balanced approach to the valuation of acquired utility assets, validating reproduction cost new less depreciation ("RCNLD") and average embedded cost valuation methodologies, while preserving the Commission's discretion in valuing acquired utility assets. Proposed Rule 1220-04-14-.03 expressly recognizes that the RCNLD and average embedded cost methodologies are appropriate to derive the value of the acquired assets for ratemaking purposes.³ However, it also recognizes

¹ See Tennessee-American Comments at 2 & nn. 1-2.

² See *id.* at 3-4 & nn. 3-6.

³ Proposed Rule 1220-04-14-.03(3)(a), (b).

that any other reasonable valuation method proposed by a party to the acquisition proceeding and approved by the Commission, or any other valuation method found by the Commission to be reasonable, are also appropriate.⁴ Proposed Rule 1220-04-14-.03 further provides that, notwithstanding the foregoing, the value of the assets added to the acquired rate base shall be just and reasonable and in no event shall exceed the negotiated sale price.⁵ Proposed Rule 1220-04-14-.04 provides that the Commission may order an acquisition adjustment to be incorporated into the acquired rate base if it is warranted under the circumstances and will not result in unjust or unreasonable rates and charges for either the acquiring utility or for customers. The Proposed Rules also provide for the treatment of post-acquisition capital investments,⁶ and regulatory, transaction and closing costs.⁷

Tennessee-American believes the Proposed Rules will allow the Commission to support the necessary and voluntary consolidation of small water and wastewater systems and investment in Tennessee infrastructure by providing appropriate compensation to the owners of selling utilities, while controlling the costs to be passed through to the customers of both the selling and the acquiring utilities. By omitting the traditional presumption that acquired rate base additions shall be set at net book value/original cost and recognizing the appropriateness of the other methodologies, the Proposed Rules would, if adopted, give the Commission the tools to facilitate consolidation of Tennessee's smaller water and wastewater systems which, lacking economies of scale, struggle to attract and maintain ongoing needed infrastructure investment and to meet ever-increasing water quality standards.

⁴ Proposed Rule 1220-04-14-.03(3)(c), (d).

⁵ Proposed Rule 1220-04-14-.03(5).

⁶ Proposed Rule 1220-04-14-.05.

⁷ Proposed Rule 1220-04-14-.06.

III. Conclusion

Tennessee-American appreciates the opportunity to submit this Response and to participate in follow-up workshop scheduled for April 12, 2021. Tennessee-American believes the 2021 Proposed Rules, if adopted and depending on implementation, would facilitate consolidation of small utility systems through acquisitions. Tennessee-American therefore believes the adoption of the 2021 Proposed Rules, as published on April 1, 2021, would serve the public interest.

RESPECTFULLY SUBMITTED,

A handwritten signature in black ink, appearing to read 'Melvin J. Malone', is written over a horizontal line.

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