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Hon. Herbert H. Hilliard, Chairman
c/o Ectory Lawless, Docket Room Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243
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**RE: *Petition of Tennessee-American Water Company in Support of the Calculation
of the 2023 Capital Recovery Riders Reconciliation***
TPUC Docket No. 23-00018

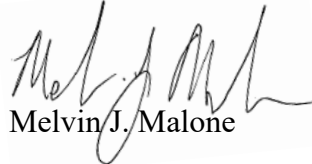
Dear Chairman Hilliard:

Attached for filing please find the *Rebuttal Testimony of Robert C. Lane* in the above-captioned matter.

As required, the original plus four (4) hard copies 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

Attachments

cc: Bob Lane, TAWC
Karen H. Stachowski, Consumer Advocate Division
Victoria B. Glover, Consumer Advocate Division

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 23-00018

REBUTTAL TESTIMONY

OF

ROBERT C. LANE

ON

**PETITION OF TENNESSEE-AMERICAN WATER COMPANY REGARDING
CHANGES TO THE QUALIFIED INFRASTRUCTURE INVESTMENT PROGRAM
RIDER, THE ECONOMIC DEVELOPMENT INVESTMENT RIDER, AND THE
SAFETY AND ENVIRONMENTAL COMPLIANCE RIDER AND IN SUPPORT OF
THE CALCULATION OF THE 2023 CAPITAL RECOVERY RIDERS
RECONCILIATION**

SPONSORING PETITIONER'S EXHIBITS:

**PETITIONER'S REBUTTAL EXHIBIT – CAPITAL RIDERS RECONCILIATION – RCL
PETITIONER'S REBUTTAL EXHIBIT – EARNINGS TEST – RCL**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Robert (Bob) C. Lane, and my business address is 109 Wiehl Street,
3 Chattanooga, Tennessee 37403.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by American Water Works Service Company (“Service Company”).
6 Service Company is a wholly owned subsidiary of American Water Works Company,
7 Inc. (“American Water”) that provides services to American Water’s subsidiaries,
8 including Tennessee-American Water Company (“TAWC” or “Company”). My current
9 role is Sr. Manager, Rates and Regulatory for TAWC.

10 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**
11 **TENNESSEE PUBLIC UTILITY COMMISSION?**

12 A. Yes, I have submitted testimony in several TPUC Dockets, including Docket Nos. 22-
13 00021 (2022 CRRs Recon), 22-00072 (2022 Annual CRRs), 23-00007 (2023 PCOP), and
14 23-00018 (2023 CRRs Recon).

15 **Q. WHAT ARE YOUR DUTIES AS SENIOR MANAGER RATES AND**
16 **REGULATORY FOR TENNESSEE AMERICAN WATER?**

17 A. I am responsible for managing and coordinating regulatory issues in Tennessee, and I am
18 the rates and regulatory lead for TAWC. My primary responsibilities encompass the
19 coordination of regulatory issues in Tennessee. This includes coordinating all reports and
20 filings, working with regulatory staff to make sure that all information produced
21 addresses the requirements or requests, and overseeing the preparation and filing of rate
22 cases and tariff changes. I work with senior management of TAWC. I am also responsible

1 for keeping abreast of changes in regulation, or trends in public utility regulations across
2 the United States that may impact TAWC.

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

4 A. This testimony responds to the Pre-filed Testimony of David Dittmore filed on behalf of
5 the Consumer Advocate Division of the Tennessee Attorney General's Office.

6 **Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR REBUTTAL**
7 **TESTIMONY?**

8 A. Yes, I am. I am sponsoring Petitioner's Rebuttal Exhibit – Capital Riders Reconciliation
9 – RCL and Petitioner's Rebuttal Exhibit – Earnings Test – RCL.

10 **Q. PLEASE IDENTIFY THE ADJUSTMENTS PROPOSED BY MR. DITTEMORE**
11 **YOU ARE RESPONDING TO.**

12 A. Mr. Dittmore proposes four (4) adjustments to the Earning Test calculation.
13 Additionally, Mr. Dittmore is proposing a new reporting requirement regarding the
14 repair or replacement of main breaks.

15 **Q. DOES MR. DITTEMORE OBJECT TO THE LEVEL AND TYPE OF**
16 **INVESTMENTS THAT TAWC MADE DURING 2023 OR PROPOSE ANY**
17 **ADJUSTMENTS TO THE CAPITAL INVESTMENT BY TAWC?**

18 A. No. Mr. Dittmore's adjustments are limited to adjustments to the earnings test and an
19 additional reporting requirement regarding the repair or replacement of Main Breaks.

20 **Q. WHAT IS MR. DITTEMORE'S FIRST PROPOSED ADJUSTMENT TO THE**
21 **EARNINGS TEST?**

22 A. Mr. Dittmore's first adjustment is to remove the incremental level of Materials and
23 Supplies, above those authorized in TAWC's last rate case. Additionally, Mr. Dittmore

1 is proposing a new reporting requirement regarding the repair or replacement of main
2 breaks.

3 **Q. WHAT IS THE IMPACT OF THE FIRST ADJUSTMENT PROPOSED BY**
4 **MR. DITTEMORE?**

5 A. Mr. Dittemore's first adjustment is to reduce the working capital by \$1,093,109 to reflect
6 the amount TAWC utilized in the calculation of the earnings test rate base for 2022 that
7 was above that included in Rate Base in the Company's most recent rate case TPUC
8 Docket No. 12-00049.

9 **Q. WHAT IS TAWC's POSITION WITH REPECT TO THIS FIRST PROPOSED**
10 **ADJUSTMENT REDUCING THE MATERIALS AND SUPPLY BALANCE BY**
11 **\$1,093,109?**

12 A. TAWC's actual balance for Materials and Supplies is \$1,394,474 for 2022. While the
13 Company maintains that its position on this issue as set forth in the Petition and
14 supporting documentation is reasonable and appropriate, TAWC nonetheless accepts this
15 adjustment proposed by the Consumer Advocates.

16 **Q. DOES THE CONSUMER ADVOCATE MAKE ANY OTHER**
17 **RECOMMENDATIONS WITH REGARD TO WORKING CAPITAL?**

18 A. Yes. The Consumer Advocate recommends that the Company update all of the
19 components of Working Capital, including its lead lag study, in the Company's next
20 capital rider filing.

21 **Q. WHAT IS THE COMPANY'S POSITION ON THIS RECOMMENDATION?**

22 A. The Company agrees that the various components of Working Capital should be updated
23 in the next Capital Riders filing with one exception. The Company believes that the cost

1 and administrative burden to develop a new lead lag study is not appropriate for a Capital
2 Rider filing and proceeding. Rather, the Company proposes utilizing the Lead/Lag study
3 from the most recent rate case and applying lead lag days determined in that study to
4 develop a new working cash calculation by applying it to current volumes of expenses
5 and revenues. A new lead lag study would then be performed by the Company in its next
6 Rate Case.

7 **Q. WHAT IS THE SECOND ADJUSTMENT PROPOSED BY MR. DITTEMORE?**

8 A. Mr. Dittmore proposes to reduce the Company's actual expenses in 2022, by \$497,024
9 for purposes of the earnings test. Mr. Dittmore is seeking to reduce the actual power and
10 chemical costs associated with American Water's production of water. These costs,
11 incurred in 2022, were also subject to review in the Company's recently decided PCOP
12 proceeding, TPUC Docket No. 23-00007, that was decided by the Commission on May
13 8th, 2023. Removing these costs from the Company's booked expenses in the earnings
14 test has the result of increasing the earning of the Company by the same amount and
15 results in this amount being returned to customers.

16 **Q. HOW DOES MR. DITTEMORE ARRIVE AT THE PROPOSED AMOUNT OF**
17 **\$497,024?**

18 A. Mr. Dittmore arrives at this number by comparing the system delivered volumes to the
19 sales volumes. He calculates this non-revenue water to be 26% of total system deliveries.
20 This is consistent with the Company's Non-Revenue Water calculation presented in
21 TAWC in its most recent PCOP Rider filing, which was 25.9%.

1 **Q. WHAT DOES THE TERM “NON-REVENUE WATER” INCLUDE?**

2 A. Non-revenue water is water for which revenue was not collected. Non-revenue water is
3 the difference between the system delivered water and the amount that was billed to
4 customers. Non-revenue water does not necessarily equate to lost water or water not put
5 to productive use. For example:

- 6 • Non-revenue water includes water that is used for firefighting.
- 7 • Non-revenue water includes water that is put to productive use for water quality
8 purposes such as flushing pipes to maintain the quality of the water in pipes.
- 9 • Non-revenue water does not include water used in flow tests used by developers and
10 the Company in hydraulic modeling.
- 11 • Non-revenue water includes water used for fire hydrant testing to ensure the proper
12 function of the fire system to make sure sufficient pressure for effective firefighting.
- 13 • Non-revenue water includes water that is metered and used by customers but not
14 billed.

15 **Q. DOES MR. DITTEMORE ASSERT THAT THE COMMISSION SET AN**
16 **ACCEPTABLE WATER LOSS LEVEL OF 15%?**

17 A. Yes. Mr. Dittemore references the Commission’s decision in TPUC Docket No. 08-
18 00039, which provides in part that “[b]ased on the evidence presented, the panel limited
19 the unaccounted-for water percentage to fifteen percent” (emphasis added).
20 Mr. Dittemore conflates the term “non-revenue water” with the term “unaccounted for
21 water” and asserts that the Commission’s determination with respect to unaccounted for
22 water should also be applied to the non-revenue water percentages. Mr. Dittemore then
23 asserts that the allowed non-revenue water is 15% by citing previous Commission

1 decisions related to unaccounted for water. This is not the case. Mr. Dittemore conflates
2 the term “Non-Revenue Water” with the term “Unaccounted for Water.” These two terms
3 are not synonymous or interchangeable and thus do not refer to the same thing. The
4 Company, like all water companies, has ways to account for water in addition to that
5 water for which it gets revenue. The most straightforward is metered but unbilled water.
6 However, for flushing and firefighting there are generally accepted ways to calculate the
7 amount of water used. This is how water used for that purpose is accounted for by
8 utilities.

9 Furthermore, when setting the 15% standard in TPUC Docket No. 08-00039, the
10 Commission expressly used the term unaccounted for water, not the term non-revenue
11 water. As I discussed above, the term “unaccounted for water” differs from non-revenue
12 water. Thus, comparing the non-revenue water percentages to an authorized amount
13 based on unaccounted for water percentage is tantamount to comparing apples and
14 oranges for the sole purpose of justifying a particular outcome.

15 **Q. IN ADDITION TO MIS-MATCHING THE FOREGOING NONSYNONYMOUS**
16 **TERMS, WHAT OTHER PROBLEMS DOES MR. DITTEMORE’S PROPOSED**
17 **ADJUSTMENT TO ELIMINATE SOME WATER PRODUCTION COSTS FROM**
18 **EXPENSES IN THE EARNINGS TEST PRESENT?**

19 **A.** Mr. Dittemore’s Adjustment Number Two raises two additional issues. First, it results in
20 a double counting of an excess water loss adjustment, essentially excluding those costs
21 twice from rates. Second, it undermines the purpose of the earnings test by excluding
22 actual expenses incurred by the Company from its expenses used to evaluate the utility’s
23 earnings.

1 **Q. HOW DOES MR. DITTEMORE’S ADJUSTMENT NUMBER 2 RESULT IN**
2 **DOUBLE COUNTING OF COSTS ASSOCIATED WITH “EXCESS WATER**
3 **LOSS”?**

4 A. TAWC’s base rates already exclude costs associated with unaccounted for water in
5 excess of 15% consistent with the past decisions cited by Mr. Dittemore. Incremental
6 power and chemical costs associated with this limit on unaccounted for water have been
7 addressed by a similar reduction for costs recovered via the Production Costs and other
8 Passthrough Rider (“PCOP”) mechanism. In TPUC Docket No. 23-00007, the Company
9 excluded this same amount, \$497,024 from its PCOP filing, not seeking recovery of these
10 costs in rates. Now the Consumer Advocate seeks to remove these same costs incurred by
11 the Company from expense in the applications of earnings test in this proceeding. Doing
12 so would result in these same costs being returned to customers despite these costs not
13 being in rates. This exclusion from rates, paired with a proposal that these same costs,
14 \$497,024, be returned to customers, is double counting and is unfair to the Company and
15 is unreasonable. To exclude these costs from the earnings test when they have already
16 been excluded from rates would be double counting these exclusions.

17 **Q. HOW DOES MR. DITTEMORE’S ADJUSTMENT NUMBER 2 UNDERMINE**
18 **THE PURPOSE OF THE EARNINGS TEST BY EXCLUDING ACTUAL**
19 **EXPENSES INCURRED BY THE COMPANY FROM ITS EXPENSES USED TO**
20 **EVALUATE THE UTILITY’S EARNINGS?**

21 A. The earnings test is a consumer safeguard to ensure the Company does not earn more
22 than its authorized return while collecting the full capital surcharge amount. The earnings

1 test limits the collection of a capital rider surcharge such that revenues do not exceed the
2 authorized level of return.

3 Prior to 2022, to my knowledge, non-revenue water, unaccounted for water and
4 the Company's water costs associated with power and chemicals have not been an issue
5 in the Company's Capital Recovery Rider reconciliation or filing as an adjustment to
6 expenses in the earnings test. These expenses were incurred by the Company. That is
7 undisputed. Thus, these expenses reduced the amount of earnings available to
8 shareholders. Excluding these incurred costs from expenses when calculating the
9 earnings of the Company artificially inflates the earnings above that which are actually
10 available to shareholders and thus artificially exaggerates the Company's earnings.
11 Because earnings above authorized must be returned to customers in the Capital
12 Recovery Rider Reconciliation, under Mr. Dittemore's proposed adjustment the
13 Company would be required to return to customers earnings that it never earned. The
14 purpose of the earnings test is not to create earnings by excluding costs from
15 consideration and then requiring that the Company return to customers "phantom"
16 earnings that were not, and never would be, available to shareholders. Therefore,
17 Adjustment Number 2 proposed by Mr. Dittemore undermines the purpose of the Earning
18 Test and is not supported by sound regulatory principles.

19 **Q. WHAT IS TAWC'S POSITION WITH REGARD TO THE THIRD**
20 **ADJUSTMENT (Adjustment Number 3) PROPOSED BY MR. DITTEMORE?**

21 A. Mr. Dittemore's third adjustment combines three corrections identified by TAWC in
22 response to the Consumer Advocate's discovery requests. TAWC identified that it used
23 2021 data rather than 2022 data in adjusting ADIT balances for excluded operating

1 expense items resulting in a \$729 adjustment and results in a \$729 increase in the
2 earnings test excess of \$729. TAWC agrees with Mr. Dittimore's adjustment for this
3 item. Next, the Company corrected the revenue requirement impact from the capitalized
4 Annual Performance Plan (APP). This resulted in a decrease in rate base resulting in
5 additional earnings in excess of authorized of \$5,464. Again, Mr. Dittimore's third
6 adjustment correctly includes this correction by TAWC. And finally, an adjustment to the
7 APP portion of the reconciliation rider of \$10,933 is also needed and appropriate, as
8 noted in TAWC's discovery response. TAWC supports all three of the adjustments
9 included in Mr. Dittimore's Adjustment Number 3.

10 **Q. WHAT IS TAWC'S POSITION WITH REGARD TO THE FORTH**
11 **ADJUSTMENT (Adjustment Number 4) PROPOSED BY MR. DITTEMORE?**

12 A. TAWC does not support Mr. Dittimore's fourth adjustment to reduce earnings in excess
13 of authorized by \$15,021. Mr. Dittimore reaches this adjustment by applying a rate of
14 7.2345% rather than the Commission-authorized rate of return of 7.23%. While this
15 modest adjustment is in favor of the Company, TAWC does not support adjusting the
16 authorized ROR as proposed by Mr. Dittimore. As set forth in the settlement agreement,
17 the parties in TPUC Docket No. 12-00049, TAWC's last rate case, settled on an overall
18 rate of return of 7.23% "as fair and reasonable for the Company and its customers." At
19 that time, the parties in TPUC Docket No. 12-00049 knew that they were rounding the
20 ROR to two decimal places. TAWC does not believe it is advisable in this instance to
21 reinterpret what the settling parties intended, and what the Commission approved, over
22 11 years ago, particularly when the settlement is not ambiguous as to the ROR settled
23 upon. The parties were aware that the mathematical calculation if carried out to 4 decimal

1 places was 7.2345%, but decided to settle on 7.23% percent, rounding to two decimal
2 places. TAWC supported that settlement then, and still supports it today.

3 **Q. WHAT IS TAWC'S POSITION ON THE REPORTING REQUIREMENT**
4 **PROPOSED BY MR. DITTEMORE WITH RESPECT TO MAIN BREAKS**
5 **REPAIRS AND REPLACEMENT.**

6 A. TAWC agrees to this requirement that it file the additional information regarding main
7 break repair and replacement.

8 **Q. CAN YOU PLEASE SUMMARIZE THE CHANGES TO THE QIIP, SEC AND**
9 **EDI RIDERS CONSISTENT WITH THE POSITIONS TAKEN IN THIS**
10 **REBUTTAL TESTIMONY.**

11 A. Making adjustments consistent with this rebuttal testimony results in an QIIP Rider of
12 0.60%, and SEC Rider of 0.53% and an EDI Rider of (1.52%), with the composite rate of
13 (0.39%).

14 **Q. WHAT IS THE IMPACT ON CONSUMERS BILL FO THESE CHANGES TO**
15 **THE COMPANY'S PROPOSAL.**

16 A. The result of these changes is that an average consumer using 4156 gallons per month
17 would see a reduction of 8 cent reduction in their monthly bill, representing a 0.27%
18 decrease in the customer's monthly bill.

19 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 A. Yes, it does.

Tennessee American Water Company
Qualified Infrastructure Improvement Program Rider (QIIP)
Economic Development Investment Rider (EDI)
Safety and Environmental Compliance Rider (SEC)
Reconciliation of the Calculation of Revenue Requirement
As of 12/31/2022

Line Number	Description	Qualified Infrastructure Investment Program QIIP Average YTD 12/31/2022			Economic Development Investment EDI Average YTD 12/31/2022			Safety and Environmental Compliance SEC Average YTD 12/31/2022			Total Average YTD 12/31/2022		
		Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
1	Additions Subject to Rider:	\$91,148,832	\$91,349,637	(\$200,805)	\$8,824,903	\$8,827,277	(\$2,374)	\$40,089,619	\$40,196,378	(\$106,759)	\$140,063,354	\$140,373,292	(\$309,938)
2	Plus: Cost of Removal less Salvage	18,626,758	18,054,675	572,083	2,021	2,159	(138)	4,322,504	4,339,593	(17,089)	22,951,282	22,396,427	554,855
3	Less: Contributions In Aid to Construction (CIAC)	2,314,600	2,313,483	1,117	273,854	243,483	30,371	0	0	0	2,588,454	2,556,966	31,488
4	Less: Deferred Income Taxes	9,972,679	9,897,666	75,013	740,433	837,834	(97,401)	5,024,195	5,048,511	(24,316)	15,737,307	15,784,461	(47,154)
5	Less: Accumulated Depreciation	7,827,555	7,829,695	(2,140)	289,656	290,580	(924)	5,304,689	5,268,757	35,932	13,421,900	13,389,032	32,868
6	Net Investment Supplied Additions:	\$89,660,756	\$89,363,468	\$297,288	\$7,522,981	\$7,457,539	\$65,441	\$34,083,239	\$34,218,253	(\$135,014)	\$131,266,975	\$131,039,260	\$227,715
7													
8	Pre-Tax Authorized Rate of Return:	8.45%	8.45%		8.45%	8.45%		8.45%	8.45%		8.45%	8.45%	
9	Pre-Tax Return on Additions:	\$7,577,636	\$7,552,511	\$25,125	\$635,801	\$630,270	\$5,531	\$2,880,529	\$2,891,939	(\$11,411)	\$11,093,966	\$11,074,721	\$19,245
10													
11	Depreciation Expense on Additions:	2,369,867	2,374,148	(4,281)	126,510	127,617	(1,107)	1,227,139	1,159,003	68,136	3,723,517	3,660,769	62,748
12													
13	Property and Franchise Taxes Associated:	1,142,581	1,134,479	8,101	119,274	118,717	557	507,395	507,916	(521)	1,769,250	1,761,112	8,138
14													
15	Revenues:	11,090,084	11,061,139	28,945	881,585	876,604	4,981	4,615,063	4,558,858	56,205	16,586,732	16,496,601	90,131
16													
17	Revenue Taxes	3.19%	3.19%		3.19%	3.19%		3.19%	3.19%		3.19%	3.19%	
18	Capital Riders Revenues with Revenue Taxes	11,455,633	11,425,734	29,899	910,644	905,498	5,146	4,767,184	4,709,127	58,057	17,133,461	17,040,359	93,102
19													
20	APP Revenue Reduction	(28,436)	(28,436)		(2,106)	(2,106)		(15,454)	(15,454)		(45,996)	(45,996)	
21													
22	Total Capital Riders Revenues with Revenue Taxes & APP	\$11,427,198	\$11,397,298	\$29,899	\$908,538	\$903,392	\$5,146	\$4,751,730	\$4,693,672	\$58,057	\$17,087,465	\$16,994,363	\$93,102
23													
24													
25	Actual Capital Riders Revenues Billed		\$10,000,076			\$962,192			\$4,078,323			\$15,040,591	
26													
27	(Over)/Under Capital Riders Revenue Billings		1,397,222			(58,799)			615,349			1,953,772	
28	Budget to Actual Adjustment		29,899			5,146			58,057			93,102	
29	2021 Reconciliation Amount		(366,744)			315,516			(840,771)			(892,000)	
30	Earnings Test Adjustment		(856,574)			(82,418)			(349,336)			(1,288,328)	
31	Interest (Prime - 7.75%)		7,897			6,953			(20,022)			(5,172)	
32													
33	Reconciliation Amount		\$211,700			\$186,397			(\$536,723)			(\$138,626)	
34													
35	Authorized Capital Riders Revenues (9/12th)		\$35,305,293			\$35,305,293			\$35,305,293			\$35,305,293	
36													
37	Current Reconciliation Factor Percentage		0.60%			0.53%			-1.52%			-0.39%	
38													

Explanation:

Tennessee American Water has been authorized 3 capital riders based on a 13-month average of in-service capital projects in the forecasted period. The revenue requirement for each rider is calculated similar to how total rate base is calculated by the Tennessee Public Utility Commission in a rate case. This table shows a comparison of the actual average over the reporting period to the proposed amount of each rider, and the total of the three.

*Taxes - From Docket #22-00072 which was approved on 1/31/2023.

Earnings Test - Calculation methodology from Earnings Test workpaper

Tennessee American Water Company
2022 Reconciliation of Capital Riders
Rebuttal Exhibit
Earnings Test

Line #	Notes / Changes from Monthly		Reports						
			December-21	January-22	February-22	March-22	April-22	May-22	June-22
1	Additions:								
2	Plant in Service		\$414,722,861	\$416,049,158	\$417,399,258	\$418,601,201	\$419,911,580	\$420,999,479	\$422,465,420
3	Plant Under Construction		4,091,519	4,601,108	4,601,927	5,226,631	6,833,197	7,896,651	8,858,692
4	Property Held For Future Use		0	0	0	0	0	0	0
5	Other Additions:								
6	Leased Utility Plant		0	0	0	0	0	0	0
7	Unamortized Painting - net		0	0	0	0	0	0	0
8	Working Capital C/		3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884
9									
10	Total Additions		\$422,224,264	\$424,060,150	\$425,411,069	\$427,237,716	\$430,154,661	\$432,306,014	\$434,733,996
11									
12									
13	Deductions:								
14	Accumulated Depreciaton and Amortization		\$102,753,954	\$103,492,295	\$104,322,321	\$105,169,087	\$106,430,833	\$107,125,327	\$107,256,905
15	Accumulated Deferred Income Taxes D/	See footnote D/	50,483,606	50,760,844	50,747,247	50,757,604	50,996,243	51,026,216	51,146,715
16	Unamortized Investment Credit - Pre 1971		0	0	0	0	0	0	0
17	Customer Deposits		0	0	0	0	0	0	0
18	Other Deductions:		0	0	0	0	0	0	0
19	Contributions in Aid of Construction		18,808,619	18,767,658	18,891,531	18,912,499	19,001,195	19,125,940	19,186,852
20	Customer Advances for Construction		7,657,371	7,676,260	7,463,448	7,862,277	7,887,952	8,243,603	8,287,689
21	All Other A/		564,286	1,838,084	1,575,864	2,056,185	1,453,284	1,700,365	2,047,626
22	Jasper Highlands Reg. Liab.		815,400	815,400	815,400	815,400	815,400	815,400	815,400
23	Adjustment Eliminating Capitalized AWWCSC APP CapEx)		0	9,912	19,825	29,737	39,650	49,562	57,886
24									
25									
26	Total Deductions		\$181,083,236	\$183,360,453	\$183,835,636	\$185,602,789	\$186,624,557	\$188,086,413	\$188,799,073
27									
28	Rate Base		\$241,141,028	\$240,699,697	\$241,575,433	\$241,634,927	\$243,530,104	\$244,219,601	\$245,934,923
29									
30	Net Operating Income			\$1,408,265	\$1,093,093	\$1,175,107	\$1,597,428	\$1,855,249	\$1,829,042
31	Adjustments to NOI:								
32	2020 Earnings Test Surcharge Credits	After tax basis							
33	Allowance for funds used during construction	After tax basis		5,419	8,376	9,539	12,714	18,761	20,826
34	Adjustment to reflect effective federal			0	0	0	0	0	0
35	Income tax rate (debt assigned to parent)	After tax basis		31,111	31,229	31,234	31,480	31,584	31,799
36	Interest on customer deposits			0	0	0	0	0	0
37	Incentive Compensation	After tax basis		42,979	42,641	229,046	(87,550)	42,751	120,462
38	Lobbying Expenses			931	15,481	481	0	15,300	1,852
39	Lobbying - Salary	See Lobby Salary Exhibit tab		1,639	839	1,672	1,451	1,039	1,565
40	Labor - Non-recurring	After tax basis							
41	Legal - Main Break	After tax basis							
42									
43	Adjusted Net Operating Income			\$1,490,345	\$1,191,659	\$1,447,078	\$1,555,523	\$1,964,684	\$2,005,545
44									
45									
46	Rate of return	B/		7.43%	5.92%	7.19%	7.66%	9.65%	9.79%

Tennessee American Water Company
2022 Reconciliation of Capital Riders
Rebuttal Exhibit
Earnings Test

Line #	Notes / Changes from Monthly							
	Reports	December-21	January-22	February-22	March-22	April-22	May-22	June-22
A/ All Other								
	Acquisition adjustment	\$3,749,579	\$3,749,579	\$3,749,579	\$3,749,579	\$3,749,579	\$3,749,579	\$3,749,579
	Accounts payable applicable to CWIP	(1,193,384)	157,296	(265,485)	254,325	(274,568)	(82,216)	491,173
	Unpaid for materials and supplies	60,947	22,020	61,424	20,215	58,056	111,061	(100,786)
	Taxes on CIAC-DEF. FIT & SIT	(2,052,856)	(2,090,811)	(1,969,654)	(1,967,934)	(2,079,783)	(2,078,059)	(2,092,340)
		<u>\$564,286</u>	<u>\$1,838,084</u>	<u>\$1,575,864</u>	<u>\$2,056,185</u>	<u>\$1,453,284</u>	<u>\$1,700,365</u>	<u>\$2,047,626</u>
C/ Per order								
	Cash working capital Lead Lag Study	\$591,674	\$591,674	\$591,674	\$591,674	\$591,674	\$591,674	\$591,674
	Incidental collection	(116,192)	(116,192)	(116,192)	(116,192)	(116,192)	(116,192)	(116,192)
	Average cash	0	0	0	0	0	0	0
	Other components	<u>\$2,934,402</u>	<u>2,934,402</u>	<u>2,934,402</u>	<u>2,934,402</u>	<u>2,934,402</u>	<u>2,934,402</u>	<u>2,934,402</u>
	Working Capital	\$3,409,884	\$3,409,884	\$3,409,884	\$3,409,884	\$3,409,884	\$3,409,884	\$3,409,884
D/ Adjust for ADIT Synchronization Between O&M and Rate Base								
			153,603	153,603	153,603	153,603	153,603	153,603
	Rate of Return - 2022	7.62%						
	Authorized Rate of Return	7.23%	(Schedule 1 Exhibit to Settlement Agreement Docket No. 12-00049)					
	Authorized Adjusted Net Operating Income	\$17,852,030						
	Actual 2022 Adjusted Net Operating Income	\$18,803,654						
	Above or (Below) Earnings	\$951,623						
	Gross-up Income Tax Rate	1.3538212						
	Revenue Requirement	\$1,288,328						

Tennessee American Water Company
2022 Reconciliation of Capital Riders
Rebuttal Exhibit
Earnings Test

Line #		July-22	August-22	September-22	October-22	November-22	December-22	13-Mth Average	
1	Additions:								
2	Plant in Service	\$425,648,369	\$427,075,579	\$425,372,680	\$426,498,470	\$429,153,088	\$439,076,362	\$423,305,654	
3	Plant Under Construction	8,635,702	9,610,216	11,150,229	11,980,806	12,000,256	5,417,618	7,761,889	
4	Property Held For Future Use	0	0	0	0	0	0	0	
5	Other Additions:								
6	Leased Utility Plant	0	0	0	0	0	0	0	
7	Unamortized Painting - net	0	0	0	0	0	0	0	
8	Working Capital C/	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	
9									
10	Total Additions	\$437,693,955	\$440,095,679	\$439,932,793	\$441,889,160	\$444,563,228	\$447,903,864	\$434,477,427	
11									
12									
13	Deductions:								
14	Accumulated Depreciaton and Amortization	\$108,301,464	\$109,042,953	\$106,706,991	\$107,539,806	\$108,423,884	\$108,674,244	106,556,928	
15	Accumulated Deferred Income Taxes D/	51,269,218	51,308,951	51,219,546	51,332,575	51,335,804	53,643,699	51,232,944	
16	Unamortized Investment Credit - Pre 1971	0	0	0	0	0	0	0	
17	Customer Deposits	0	0	0	0	0	0	0	
18	Other Deductions:	0	0	0	0	0	0	0	
19	Contributions in Aid of Construction	19,312,199	19,317,767	19,330,342	19,306,281	19,301,032	19,283,950	19,118,913	
20	Customer Advances for Construction	8,341,287	8,309,337	8,620,124	8,579,904	8,737,818	8,508,628	8,167,361	
21	All Other A/	1,156,224	1,859,879	1,542,651	1,418,197	1,770,150	2,083,952	1,620,519	
22	Jasper Highlands Reg. Liab.	815,400	815,400	815,400	815,400	815,400	730,800	808,892	
23	Adjustment Eliminating Capitalized AWWCSC APP CapEx)	67,533	77,181	86,828	96,476	106,124	84,929	55,819	
24									
25									
26	Total Deductions	\$189,263,325	\$190,731,468	\$188,321,882	\$189,088,639	\$190,490,212	\$193,010,202	\$187,561,376	
27									
28	Rate Base	\$248,430,630	\$249,364,211	\$251,610,911	\$252,800,521	\$254,073,016	\$254,893,662	\$246,916,051	13-Mth Average Rate Base
29								Total	
30	Net Operating Income	\$2,098,943	\$1,568,454	\$1,586,450	\$1,829,639	\$1,098,839	\$285,252	\$17,425,761	12 Mths Net Operating Income
31	Adjustments to NOI:								
32	2020 Earnings Test Surcharge Credits							0	
33	Allowance for funds used during construction	21,169	20,101	24,530	28,805	31,052	25,634	226,927	
34	Adjustment to reflect effective federal	0	0	0	0	0	0	0	
35	Income tax rate (debt assigned to parent)	32,114	32,249	32,544	32,719	32,902	33,033	383,998	
36	Interest on customer deposits	0	0	0	0	0	0	0	
37	Incentive Compensation	41,009	40,762	62,232	40,638	40,638	69,566	685,173	
38	Lobbying Expenses	15,481	0	0	14,787	315	655	65,283	
39	Lobbying - Salary	1,119	1,137	1,647	1,895	1,119	1,390	16,512	
40	Labor - Non-recurring							0	
41	Legal - Main Break							0	
42									
43	Adjusted Net Operating Income	\$2,209,834	\$1,662,704	\$1,707,403	\$1,948,483	\$1,204,866	\$415,530	\$18,803,654	12 Mths Adjusted Net Operating Income
44									
45									
46	Rate of return B/	10.67%	8.00%	8.14%	9.25%	5.69%	1.96%	7.62%	

Tennessee American Water Company
2022 Reconciliation of Capital Riders
Rebuttal Exhibit
Earnings Test

Line #	July-22	August-22	September-22	October-22	November-22	December-22	13-Mth Average
A/ All Other							
Acquisition adjustment	3,749,579	\$3,749,579	\$3,749,579	\$3,749,579	\$3,749,579	\$3,749,579	
Accounts payable applicable to CWIP	(449,670)	101,291	(33,492)	(268,880)	119,912	414,661	
Unpaid for materials and supplies	(52,937)	71,772	(113,511)	23,215	(12,923)	(78,573)	
Taxes on CIAC-DEF. FIT & SIT	(\$2,090,748)	(2,062,763)	(2,059,925)	(2,085,717)	(2,086,418)	(2,001,715)	
	<u>\$1,156,224</u>	<u>\$1,859,879</u>	<u>\$1,542,651</u>	<u>\$1,418,197</u>	<u>\$1,770,150</u>	<u>\$2,083,952</u>	
C/ Per order							
Cash working capital Lead Lag Study	\$591,674	\$591,674	\$591,674	\$591,674	\$591,674	\$591,674	
Incidental collection	(116,192)	(116,192)	(116,192)	(116,192)	(116,192)	(116,192)	
Average cash	0	0	0	0	0	0	
Other components	<u>2,934,402</u>	<u>2,934,402</u>	<u>2,934,402</u>	<u>2,934,402</u>	<u>2,934,402</u>	<u>2,934,402</u>	
Working Capital	\$3,409,884	\$3,409,884	\$3,409,884	\$3,409,884	\$3,409,884	\$3,409,884	
D/ Adjust for ADIT Synchronization Between O&M and Rate Base	153,603	153,603	153,603	153,603	153,603	153,603	
Rate of Return - 2022							
Authorized Rate of Return							
Authorized Adjusted Net Operating Income							
Actual 2022 Adjusted Net Operating Income							
Above or (Below) Earnings							
Gross-up Income Tax Rate							
Revenue Requirement							

STATE OF Tennessee)
COUNTY OF Hamilton)

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Robert C. Lane, being by me first duly sworn deposed and said that:

He is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Public Utility Commission, and if present before the Commission and duly sworn, his testimony would be as set forth in his pre-filed testimony in this matter.



Robert C. Lane

Sworn to and subscribed before me
this 13 day of June, 2023.

Kathryn Robinson
Notary Public

My Commission Expires: 10/20/2024



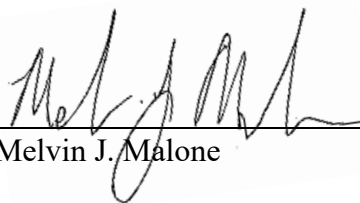
CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

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Consumer Advocate Division
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This the 13th day of June 2023.



Melvin J. Malone