

March 14, 2024

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VIA ELECTRONIC FILING

David Foster, Director
Utilities Division
c/o Ectory Lawless, Docket Room Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243
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RE: *Joint Application of Limestone Water Utility Operating Company, LLC, and Integrated Resource Management, Inc. d/b/a IRM Utility, Inc., for Approval of the Acquisition of and to Operate the Wastewater System of Integrated Resource Management, Inc. d/b/a IRM Utility, Inc., and to Transfer or Issue a Certificate of Public Convenience and Necessity, TPUC Docket No. 23-00037*

Dear Mr. Foster:

We are in receipt of your data requests to Limestone Water Utility Operating Company, LLC ("Limestone"), dated February 16, 2024. Please find Limestone's responses below.

1. *Please refer to paragraph 8 of the Stipulation and Settlement Agreement that states in part "any future proposed acquisition adjustment should be set aside in account 114.00 (Utility Plant Acquisition Adjustment)" and to paragraph 9 that states in part "the legal and regulatory costs associated with this transaction should be set aside in Account 183.002 (PSI - Legal)."*
 - a. *Is it the parties' intent to record the value of any future proposed acquisition adjustment into USOA Asset Account 114.00 and reflect such value in the reported balance of this account? Please explain your response.*
 - b. *Is it the parties' intent to record the value of the legal and regulatory costs associated with this transaction into USOA Asset Account 183.002 and reflect such value in the reported balance of this account? Please explain your response.*

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Response:

- a. Yes, it is Limestone's intent to record the value of any future proposed acquisition adjustment into USOA Asset account 114.000. It is not Limestone's intent to change the accounting treatment for acquisition adjustments ordered by the Commission.
 - b. Yes, it is Limestone's intent to record the value of legal and regulatory cost associated with this transaction into USOA account 183.002. It is not Limestone's intent to change the accounting treatment for acquisition adjustments ordered by the Commission.
2. *In each prior acquisition case involving Limestone, the Commission has ordered that Limestone is not authorized to book a regulatory asset for ratemaking purposes for any portion of the amount by which the purchase price exceeds the book value of the acquired assets.¹ Is it the parties' intent to change the previously ordered accounting treatment for acquisition adjustments by setting aside any future proposed acquisition adjustment into USOA Asset Account 114.00? Please explain and reconcile your response to the Commission orders referenced in footnote 1.*

If the parties do not intend to record the value of (1) any future proposed acquisition adjustment and (2) the legal and regulatory costs associated with this docket as assets in the

¹ See *In re: Joint Application of Aqua Utilities Company, Inc. and Limestone Water Utility Operating Company, LLC for Authority to Sell or Transfer Title to the Assets, Property, and Real Estate of a Public Utility and for a Certificate of Convenience and Necessity*, Docket No. 19-00062, 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 (Dec. 7, 2020);

In re: Application of Limestone Water Utility Operating Company, LLC for Authority to Sell or Transfer Title to the Assets, Property, and Real Estate of a Public Utility, Cartwright Creek L.L.C., and for a Certificate of Public Convenience and Necessity, Docket No. 21-00053, Order Approving Settlement Agreement and Transfer of Systems, and Granting Certificate of Convenience and Necessity, pp. 5,11 (Jan. 24, 2022);

In re: Application of Limestone Water Utility Operating Company, LLC for Authority to Sell or Transfer Title to the Assets, Property, and Real Estate of a Public Utility, Shiloh Falls Utilities, Inc., and for a Certificate of Public Convenience and Necessity, Docket No. 21-00055, Order Approving Settlement Agreement and Transfer of Systems, and Granting Certificate of Convenience and Necessity, pp. 5,12 (Dec. 2, 2022);

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 Candlewood Lakes, and for a Certificate of Public Convenience and Necessity, Docket No. 21-00059, Order Approving Settlement Agreement and Transfer of Systems, Granting Certificate of Convenience and Necessity, and Disallowing Continuation of Candlewood Lakes POA's Water Availability Fee pp. 5,12 (Jan. 5, 2023);

In re: Application of Limestone Water Utility Operating Company, LLC for Authority to Purchase Title to the Assets, Property, and Real Estate of a Wastewater System, Chapel Woods, and for a Certificate of Public Convenience and Necessity, Docket No. 21-00060, Order Approving Settlement Agreement and Transfer of System, and Granting Certificate of Convenience and Necessity, pp. 5,11 (Dec. 2, 2022); and

In re: Expedited Joint Application of Limestone Water Utility Operating Company, LLC and DSH & Associates, LLC for Approval of the Acquisition of and to Operate the Wastewater System of DSH & Associates, LLC, at Lakeside Estates Development in LaFollette, Campbell County, Tennessee and to Transfer or Issue a Certificate of Public Convenience and Necessity, Docket No. 23-00016, Order Approving Settlement Agreement and Transfer of System, and Granting Certificate of Convenience and Necessity, pp. 5,14 (Dec. 26, 2023).

accounting books and records of Limestone, and if the parties do not intend to change the accounting treatment of Limestone's acquisition transactions set forth in the Commission orders referenced in footnote 1, then disregard responding to item nos. 3 through 8.

Response: It is not Limestone's intent to change the accounting treatment for acquisition adjustments ordered by the Commission. As it has done in the past, Limestone plans to record acquisition adjustments to USOA account 114.000. And consistent with past cases Limestone is not requesting the acquisition adjustment in this case, nor is the Commission being asked to approve any acquisition adjustment. However, in Limestone's initial rate case filed with TPUC, which will include the IRM system, the Company intends to present evidence and argument concerning the recovery of the acquisition adjustment recorded in account 114.000.

3. *Please refer to the GAAP definition of "asset" set forth in SFAC No. 8, attached hereto as Attachment A.*
 - a. *If the parties' intent is to record the value of any future proposed acquisition adjustment into USOA Asset Account 114.00, do the parties contend that this value constitutes a present right to an economic benefit for Limestone within the meaning of SFAC No. 8? Please explain.*
 - b. *If the parties' intent is to record the value of the legal and regulatory costs associated with this transaction into USOA Asset Account 183.002, do the parties contend that this value constitutes a present right to an economic benefit within the meaning of SFAC No. 8? Please explain.*

Response:

- a. Yes. It is Limestone's understanding that many activities are undertaken with the expectation of an economic benefit in the future including research and development, advertising, training, start-up activities, and pre-operating activities. The activities may result in creating a right to a future economic benefit, therefore, obtaining an asset or enhancing an existing asset. That said, based on the Stipulations entered into by the Company, the classification into Account 114 by the Company does not dictate the accounting treatment or the Commission's acceptance of these acquisition adjustment as an asset in future ratemaking proceedings.
- b. Yes. It is Limestone's understanding that many activities are undertaken with the expectation of an economic benefit in the future including research and development, advertising, training, start-up activities, and pre-operating activities. The activities may result in creating a right to a future economic benefit, therefore, obtaining an asset or enhancing an existing asset. That said, based on the Stipulations entered into by the Company, the classification into Account 183 by the Company does not dictate the accounting treatment or the Commission's acceptance of these legal and regulatory costs as an asset in future ratemaking proceedings.

4. *Please refer to the GAAP standards for recognition of assets created by rate regulators, such as the Commission, set forth in ASC 980, attached hereto as Attachment B, which are further discussed in section 12.02[2] of Hahne & Aliff's "Accounting for Public Utilities," attached hereto as Attachment C.*
 - a. *If the parties' intent is to record the value of any future proposed acquisition adjustment into USOA Asset Account 114.00, do the parties contend it is probable that this value will be included as allowable costs in a future ratemaking action and that future revenue will be provided to permit recovery of this value, consistent with the standards set forth in ASC 980? Please explain.*
 - b. *If the parties' intent is to record the value of the legal and regulatory costs associated with this transaction into USOA Asset Account 183.002, do the parties contend it is probable that this value will be included as allowable costs in a future ratemaking action and that future revenue will be provided to permit recovery of this value, consistent with the standards set forth in ASC 980? Please explain.*

Response:

- a. While the Company understands that the Commission has the right to deny any such requests for an acquisition adjustment, Limestone Water believes that Tenn. Comp. R. & Regs. 1220-04-14-.04 empowers the Commission to grant an acquisition adjustment to be incorporated into the acquired rate base if such treatment is warranted. The Commission may consider such things as service improvements, remediation of health and safety concerns, and any other measurable benefits. As discussed in the Company's application and various exhibits, Limestone believes that it will be able to show proof of service improvements, health and safety concerns, and other measurable benefits in support of these acquisition adjustment.
 - b. While the Company understands that the Commission has the authority to deny any such requests, Limestone Water believes, as discussed in the Company's application and various exhibits, that it will be able to credibly and sufficiently demonstrate service improvements, health and safety concerns, and other measurable benefits, as well as the necessity of the legal and regulatory costs to bring such benefits to fruition.
5. *Please refer to paragraph 8 of the Stipulation and Settlement Agreement, which generally provides that Limestone is not requesting an acquisition adjustment in this docket, but that Limestone may in its initial rate case present evidence and argument regarding the value of an acquisition adjustment while the Consumer Advocate or other interested parties may oppose such value or present their own evidence and argument concerning such value. If the parties' intent is to record any future proposed acquisition adjustment into USOA Asset Account 114.00, do the parties contend that such recording is consistent with the asset recognition standards referenced in item nos. 3 and 4, above, in light of the parties' respective positions outlined in paragraph 8? Please explain.*

Response: Limestone does not believe that future regulatory treatment of the aforementioned costs is impacted by the provisions discussed above.

6. *Please refer to Commission Rule 1220-04-14-.04(2) regarding factors the Commission may consider when determining the recoverability of an acquisition adjustment. If the parties' intent is to record the value of any future proposed acquisition adjustment into USOA Asset Account 114.00, do the parties contend that such recording is appropriate without consideration of Commission Rule 1220-04-14-.04(2) in this case? Please explain.*

Response: Yes, per the USOA, account 114.00 shall include the difference between (a) the cost to the accounting utility of utility plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and (b) the original cost, estimated, if not known, of such property, less the amount or amounts credited by the accounting utility at the time of acquisition to accumulated depreciation, accumulated amortization and contribution in aid of construction with respect to such property. Because recording the costs in Account 114 does not mandate ratemaking treatment of said costs, Limestone believes that the rate case is the appropriate time to discuss the factors mentioned and for the Commission to make a determination on the factors.

7. *Please refer to paragraphs 9 and 13 of the Stipulation and Settlement Agreement which generally provide that the determination of recoverable regulatory and transaction costs will be deferred to Limestone's initial rate case and that, subject to certain limitations, Limestone may seek recovery of such costs while the Consumer Advocate or other interested parties may oppose such costs or present their own evidence and argument concerning the amount of such costs to be recovered in rates. If the parties' intent is to record the value of the legal and regulatory costs associated with this transaction in USOA Asset Account 183.002, do the parties contend that such recording is consistent with the asset recognition standards referenced in item nos. 3 and 4, above, in light of the parties' respective positions outlined in paragraphs 9 and 13? Please explain.*

Response: Limestone does not believe that the accounting treatment of the aforementioned costs is impacted by the provisions discussed above.

8. *Please refer to Commission Rule 1220-04-14-.06 regarding the ratemaking principles the Commission may consider when determining the recoverability of regulatory, transaction and closing costs related to a utility acquisition. If the parties' intent is to record the value of the legal and regulatory costs associated with this transaction into USOA Asset Account 183.002, do the parties contend that such recording is appropriate without consideration of Commission Rule 1220-04-14-.06 in this case? Please explain.*

Response: It is Limestone's understanding that the Commission's order in TPUC Docket No. 19-00062 made the determination that such costs should be considered for recovery in the Company's initial rate case. As such, the Company does not believe that any determinations have been made regarding the prudence or reasonableness of said costs. Additionally, none of these costs have been incorporated "for purposes of setting post-acquisition rates and charges."

David Foster, Director

March 14, 2024

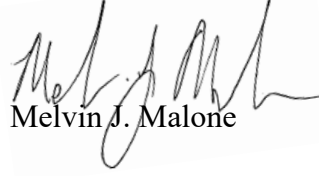
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Because these costs are simply being recorded and will have no ratemaking effects until such time that the Company files its first rate adjustment application, Limestone believes that this recording is appropriate.

Please feel free to reach out to me if you have any further questions.

Very truly yours,

BUTLER SNOW LLP

A handwritten signature in black ink, appearing to read "Melvin J. Malone", is written over a light gray rectangular background.

Melvin J. Malone

cc: Russ Mitten, Limestone Water Utility Operating Company, LLC
Chuck B. Welch, Jr., Farris Bobango PLC
Karen H. Stachowski, Consumer Advocate Division
Shilina B. Brown, Consumer Advocate Division