

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

IN RE:)	
)	
TENNESSEE WATER SERVICE, INC.)	
PETITION APPROVAL OF ITS 2024)	DOCKET NO. 24-00028
ANNUAL RATE REVIEW FILING)	
PURSUANT TO TENN. CODE ANN. § 65-)	
5-103(d)(6) AND REQUEST FOR RATE)	
STRUCTURE MODIFICATION)	
)	
)	
)	
)	

**REBUTTAL TESTIMONY
OF
PHILIP J. DRENNAN**

**ON BEHALF OF
TENNESSEE WATER SERVICE, INC.**

July 15, 2024

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

2 **A.** My name is Philip J. Drennan. I serve as Regional Vice President of Finance for
3 Tennessee Water Service, Inc. (“TWS” or “the Company”). My business address is 500
4 W. Monroe St. Suite 3600, Chicago, IL 60661-3779.

5 **Q. ARE YOU THE SAME PHILIP J. DRENNAN WHO SUBMITTED DIRECT**
6 **TESTIMONY IN THIS PROCEEDING?**

7 **A.** Yes I am.

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
9 **PROCEEDING?**

10 **A.** The purpose of my testimony is to respond on behalf of Tennessee Water Service, Inc.
11 (“TWS” or “Company”) to the direct testimony of David Dittemore, filed on behalf of the
12 Consumer Advocate Division of the Tennessee Attorney General’s Office (“Consumer
13 Advocate”) in this proceeding.

14 **Q. PLEASE DETAIL YOUR TESTIMONY’S SUPPORTING EXHIBITS AND**
15 **SCHEDULES.**

16 **A.** This testimony includes the following Exhibits and Schedules:

17 Exhibit DND-3 TWS Rebuttal: Rate Base – Historic and Attrition Period

18 Exhibit DND-3.1 TWS Rebuttal: Rate Base Adjustment No. 1

19 Exhibit DND-4 TWS Rebuttal: Revenue Deficiency – Historic and Attrition Period

20 Exhibit DND-5 TWS Rebuttal: Income Statement - Historic and Attrition Period

21 Exhibit DND-6 TWS Rebuttal: Income Taxes – Historic and Attrition Period

22 Exhibit DND-7 TWS Rebuttal: Gross-Up/Retention Factor

Exhibit DND-8 TWS Rebuttal: Capital Structure – Historic and Attrition Period

Q. PLEASE SUMMARIZE YOUR WITNESS DITTEMORE’S POSITIONS IN HIS DIRECT TESTIMONY?

A. Witness Dittemore largely accepts the Company’s filing and proposals but makes two key recommendations: 1) adding tariff language that requires monthly meter read cycles to not exceed 33 days, and 2) remove the federal and state NOL assets within the Company’s ADIT balance for the Historic Period, resulting in a \$10,145 adjustment to the Attrition Period revenues and a \$1.67/month decrease in the proposed monthly fixed charges for water and fire service.

Q. DOES THE COMPANY AGREE TO ADD TARIFF LANGUAGE THAT LIMITS THE METER READ CYCLE LENGTH FOR MONTHLY BILLS?

A. The Company is amenable to adding tariff language that addresses meter read cycle standards. Historically, the Company has utilized a certain range of meter reading cycles that would allow for normal billing, without requiring proration of the tariff rates (i.e., fixed charges and usage/allowance blocks). The Company accepts the limit proposed by witness Dittemore of 33 days to this cycle range, and also proposes a low-end threshold of 25 days. This would effectively treat any monthly billing cycle between 25 and 33 days as a normal billing, and any period below 25 days or above 34 days would prorate the applicable fixed charges and usage blocks accordingly.

Q. WHAT IS THE BASIS FOR WITNESS DITTEMORE’S RECOMMENDED REMOVAL OF THE FEDERAL AND STATE NOL ADIT ASSETS?

1 **A.** Witness Dittmore lays out three criteria for addressing NOL balances in ADIT for
2 ratemaking. He determines that “the TWS book balances were not traceable or verifiable
3 as required on the second point.” He later states that, due to “anomalies” in the NOL
4 data, “I do not have confidence in the accuracy of the NOL component of the Company’s
5 ADIT balance, and I recommend its removal from Rate Base.”

6 **Q. DOES TWS AGREE WITH WITNESS DITTEMORE’S CONCLUSION?**

7 Not entirely. The Company believes it provided sufficient support since filing its
8 application to support the year-to-year movements in the state NOL asset. However,
9 TWS acknowledges its running balance for the State NOL asset has a portion miscoded
10 to its corporate parent company which, if included with its local book balance, would
11 increase the NOL asset and therefore its rate base. Since the Company recognizes its
12 local book balance is incomplete, TWS recommends maintaining the book balance used
13 in its application for ratemaking in this proceeding, foregoing the incremental portion
14 recorded at the parent company.

15 The Company also acknowledges that it has a similar variance on its local books with
16 regard to the federal NOL asset. The support provided in this proceeding has not met the
17 same level of verifiability as that which supports the state NOL asset. Therefore, the
18 Company is amenable to accepting the recommended adjustment removing the federal
19 NOL asset from rate base.

20 **Q. BASED ON THE ABOVE POSITIONS OF THE COMPANY, WHAT IS THE**
21 **RESULTING CHANGE TO THE PROPOSED REVENUE REQUIREMENT AND**
22 **RATE STRUCTURE?**

A. The Company has recalculated the \$10,145 revenue reduction proposed by witness Dittemore and concluded that, by not removing the state NOL asset, the revenue decrease changes to \$8,732. Using witness Dittemore's proposed method of allocating this reduction to the revenue requirement via a decrease in fixed charges, the decrease changes from the proposed \$1.67/month to \$1.42/month, resulting in a new water base charge of \$48.54/month, Multi-Use Connection charge of \$34.35/month, and Fire Only Connection charge of \$70.11/month.

Table 1				
Rate Design Associated with 2023 Excess Earnings				
Line No.				
		Annual	Monthly	Source
1	Revenue Excess	\$ (8,732)	\$ (728)	Exhibit DND-4 TWS Rebuttal
2	Less: Company Proposed Rate Reduction	\$ (578)	\$ (48)	TWS Schedule 1, Exhibit C
3	Net Reduction in Rate Base	\$ (8,154)	\$ (680)	
4	Total 2023 Residential Bills	5,696	474.67	TWS Schedule B-1
5	Total 2023 Fire Service Bills	36	3	TWS Schedule B-1
6	Total Monthly Customers		477.67	
7	Reduction in Monthly Rate		\$ (1.42)	Line 3 / Line 6

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

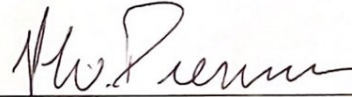
A. Yes, it does. However, I reserve the right to update or amend this testimony upon receipt of additional data or other information that may become available.

STATE OF Illinois)

COUNTY OF COOK)

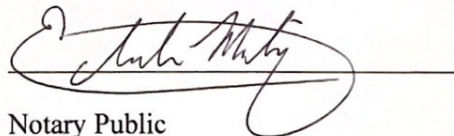
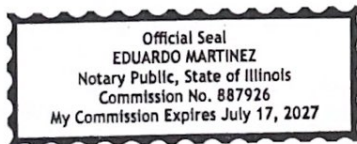
BEFORE ME, the undersigned, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Philip J. Drennan, being by me first duly sworn deposited and said that:

On behalf of Tennessee Water Service, Inc., I am authorized to testify in the above referenced docket and that my testimony and information therein is true and correct to the best of my knowledge, information, and belief.



Philip J. Drennan

Sworn and subscribed before me this 15 day of July, 2024.



Notary Public

My Commission Expires: 07/17/2027

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Exhibit DND-3 TWS Rebuttal

Rate Base and Rate of Return
Consumer Advocate

Line No.	Description	Historic Period Per Books	Historic Period Adjustment	Per TWS Historic Period As Adjusted	Per CA To Remove NOL ADIT	Historic Period As Adjusted	Per TWS Attrition Period Under Present Rates	CA Adj to Remove 12/31/23 NOL Balance	CA Pro-Forma Attrition Period	Proposed Increase/ (Decrease)	Attrition Period Under Proposed Rates
		[A]	[B]	[C]			[E]			[F]	[G]
1	Net Operating Income	148,969	(178)	148,791	(426)	148,365	147,155	4,293	151,449	(432)	151,017
2	Gross Plant In Service	3,204,626	(89,726)	3,114,899		3,114,899	3,204,626		3,204,626		3,204,626
3	Accumulated Depreciation	(504,326)	21,557	(482,769)		(482,769)	(504,326)		(504,326)		(504,326)
4	Net Plant In Service	2,700,300	(68,169)	2,632,130		2,632,130	2,700,300		2,700,300	-	2,700,300
5	Cash Working Capital	30,857	-	30,857		30,857	36,615		36,615		36,615
6	Contributions In Aid of Construction	(647,037)	28,464	(618,573)		(618,573)	(647,037)		(647,037)		(647,037)
7	Accumulated Deferred Income Taxes	(61,104)	10,368	(50,736)	(64,721)	(115,458)	(61,104)	(65,387)	(126,491)		(126,491)
8	Non-Current Asset	8,165	(8,165)	-		-	8,165		8,165		8,165
9	Excess Deferred Taxes	(66,291)	(868)	(67,158)		(67,158)	(64,695)		(64,695)		(64,695)
10	Deferred Charges	321,711	6,974	328,685		328,685	268,981		268,981		268,981
11	Regulatory Liability	(359,183)	(2,730)	(361,913)		(361,913)	(352,889)		(352,889)		(352,889)
12	Total Rate Base	1,927,417	(34,126)	1,893,291		1,828,570	1,888,336	(65,387)	1,822,949	-	1,822,949
13	Return on Rate Base	7.73%		7.86%		8.11%	7.79%		8.31%		8.28%

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Exhibit DND-3.1 TWS Rebuttal

ADIT Adjustment to Remove NOL Asset

Line No.	Item	12/31/22 Balance	12/31/23 Balance	Average	Source
1	Federal NOL Component of ADIT	\$ 64,056	\$ 65,387	\$ 64,721	Response to CA 1-9
2	State NOL Component of ADIT				Remains in Rate Base
3	Average NOL Balance in Test Period Rate Base	\$ 64,056	\$ 65,387	\$ 64,721	
		Attrition Period Adjustment		Historic Base Period Adjustment	

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**Exhibit DND-4 TWS
Rebuttal**

Revenue Deficiency Calculation

Line No.	Description	CA Test Period As Adjusted		Source
1	Historic/Attrition Period Operating Income:			
2	Total Present Rate Operating Revenues	<u>538,536</u>	615,863	Exhibit DND-5/TWS Exhibit 1; Schedule B
3	<u>Less Deductions:</u>			
4	Operations and Maintenance Expenses	312,666	365,892	Exhibit DND-5/TWS Exhibit 1; Schedule B, total of Maintenance and General Exp.
5	Depreciation and Amortization	30,663	53,199	"
6	Taxes Other than Income	12,646	18,719	"
7	Annual True-Up Rate Adjustment		(8,732)	Line 19
8	Income Taxes	34,196	35,337	Exhibit DND-6; Line 14 + Line 18
9	Total Deductions	<u>390,171</u>	<u>464,415</u>	Sum Lines 4 - 8
10	Historic/Attrition Period Operating Income	<u>148,365</u>	<u>151,449</u>	Line 2 - Line 9
	Excess or Deficiency Calculation:			
11	Rate Base	1,828,570	1,822,949	Exhibit DND-3, Line 12
12	Rate of Return	<u>7.77%</u>	<u>7.77%</u>	Exhibit DND-8
13	Operating Income Requirement	142,080	141,643	Line 11 * Line 12
14	Less: Historic/Attrition Period Operating Income	<u>148,365</u>	<u>151,449</u>	Exhibit DND-5; Line 45
15	Earnings (Excess) or Deficiency	(6,285)	(9,805)	Line 13 - Line 14
16	Revenue Conversion Factor	<u>1.337392</u>	<u>1.337392</u>	Exhibit DND-7, Line 13
17	Gross Revenue (Excess) or Deficiency	(8,406)	(13,114)	Line 15 * Line 16
18	Carrying Charge - Rate of Return / 2	<u>3.89%</u>		Exhibit DND-8
19	Annual True-Up Rate Adjustment	<u>(8,732)</u>		Line 17 * (1+ Line 18)

Exhibit DND-5 TWS Rebuttal

3/ The CA adjustments to TWS data include the Test Period Deficiency, Interest Expense and Taxes

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Exhibit DND-6 TWS Rebuttal

Income Taxes - Historic Base Period and Attrition Period

Line No.	Description	Historic Period			Attrition Period	
		Exhibit DND-5, except where otherwise noted			Exhibit DND-5, except where otherwise noted	
		Per TWC	CA Adjustment	CA Pro-Forma	CA Pro-Forma	CA Pro-Forma
		Historic Period As Adjusted [A]			Attrition Period Under Present Rates [B]	Attrition Period Under Proposed Rates
1	Operating Revenues	\$ 538,536		\$ 538,536	\$ 615,863	\$ 607,131
2						
3	Operating Deductions:					
4	Maintenance expenses	216,024		216,024	269,367	269,367
5	General expenses	96,643		96,643	96,525	96,525
6	Depreciation expense	46,417		46,417	69,488	69,488
7	Annual True-Up Rate Adjustment	-		-	(8,732) 3/	(8,732)
8	TOTI	12,646		12,646	18,719	18,719
9	Amortization of ITC	(49)		(49)	(49)	(49)
10	Amortization of CIAC	(15,705)		(15,705)	(16,240)	(16,240)
11	Interest expense	47,711	(1,631)	46,080 1/	45,938 2/	45,938
12	Total Operating Deductions	403,686		402,055	475,016	475,016
13	State Taxable Income (Line 1 minus Line 12)	134,850		136,481	140,848	132,115
14	State Excise Tax (Line 13 multiplied by 6.5%)	8,765	106	8,871	9,155	8,588
15	Federal Taxable Income (Line 13 minus Line 14)	126,085		127,610	131,693	123,528
16	Federal Income Tax Calculation (Line 17 multiplied by 21%)	26,478		26,798	27,655	25,941
17	EDIT Amortization	(1,473)		(1,473)	(1,473)	(1,473)
18	Total Federal Income Tax (Line 16 plus Line 17)	25,005	320	25,325	26,182	24,468
19	Net Amount (Line 15 minus Line 18)	101,080		102,285	105,510	99,060
20	Add: Interest Expense	47,711		46,080	45,938	45,938
21	Operating Income for Return (Line 19 plus Line 20)	148,791		148,365	151,449	144,998
22	1/ CA Interest Expense - Test Period					
23	CA Pro-Forma Rate Base	1,828,570				
24	Wtd Cost of Debt	2.5200%				
25	Pro-Forma Interest Expense	46,080				
26	2/ CA Interest Expense - Attrition Period					
27	CA Pro-Forma Rate Base	1,822,949				
28	Wtd Cost of Debt	2.5200%				
29	Pro-Forma Interest Expense	45,938				
30	3/ Exhibit DND-4					

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Tax Gross-Up/Retention Factor

Exhibit DND-7 TWS Rebuttal

Consumer Advocate

[E]

Retention Factor:

4	Total revenue	1.000000
5	Forfeited Discounts	(0.014773)
6	Revenue Factor (L12 - L13)	1.014773
7	Bad Debt (L14 * 0.2452%)	0.002488
8	Balance (L14 - L15)	1.012285
9	State excise tax (L16 x 6.5%)	0.065799
10	Balance (L16 - L17)	0.946486
11	Federal income tax (L18 x 21%)	0.198762
12	Retention Ratio (L18 - L19)	0.747724
13	Retention Factor (1 / L20)	1.337392

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Exhibit DND-8 TWS Rebuttal

Capital Structure

Capital Structure Adopted in Docket 23-00046

<u>Line No.</u>	<u>Description</u>	<u>Capitalization Ratio</u> (a)	<u>Embedded Cost</u> (c)	<u>Overall Cost Rate</u> (d)
1	Debt	50.00%	5.04%	2.52%
2	Equity	50.00%	10.50%	5.25%
3	Total	<u>100.00%</u>		<u>7.77%</u>