

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

**IN RE:** )  
 )  
**PETITION OF TENNESSEE-AMERICAN** )  
**WATER COMPANY TO MODIFY TARIFF,** )  
**CHANGE AND INCREASE CHARGES, FEES,** )  
**AND RATES, AND FOR APPROVAL OF A** )  
**GENERAL RATE INCREASE** )

**DOCKET NO. 24-00032**

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**DIRECT TESTIMONY OF**  
  
**DAVID N. DITTEMORE**

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September 17, 2024

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I. Background

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

**A1.** My name is David N. Dittmore. I am a self-employed consultant working in the utility regulatory sector.

**Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND PROFESSIONAL EXPERIENCE.**

**A2.** I received a Bachelor of Science Degree in Business Administration from the University of Central Missouri in 1982. I am a Certified Public Accountant licensed in Oklahoma (#7562). I was previously employed by the Kansas Corporation Commission (“KCC”) in various capacities, including Managing Auditor, Chief Auditor, and Director of the Utilities Division. I was self-employed as a utility regulatory consultant for approximately four years, primarily representing the KCC staff in regulatory issues. I also participated in proceedings in Georgia and Vermont, evaluating issues involving electricity and telecommunications regulatory matters.

Additionally, during this time frame, I performed a consulting engagement for Kansas Gas Service (“KGS”), my subsequent employer. For eleven years, I served as Manager and subsequently Director of Regulatory Affairs for KGS, the largest natural gas utility in Kansas, serving approximately 625,000 customers. KGS is a division of One Gas, a natural gas utility serving about two million customers in Kansas, Oklahoma, and Texas. I joined the Tennessee Attorney General's Office in September 2017 as a Financial Analyst. In July 2021, I began my consulting practice.

1 I have been a Board Member of the Financial Research Institute (University of Missouri),  
2 a member of the NARUC Subcommittee on Accounting, the Vice-Chair of the Accounting  
3 Committee of the National Association of State of Utility Consumer Advocates  
4 (“NASUCA”), and an active participant in NASUCAs’ Natural Gas and Water Committees.

5 Overall, I have thirty-five years of experience in public utility regulation and have  
6 presented testimony as an expert witness on many occasions. A detailed overview of my  
7 background is attached to my testimony as Appendix 1.

8 **Q3. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

9 **A3.** I am testifying on behalf of the Consumer Advocate Division (“Consumer Advocate”) of  
10 the Office of the Tennessee Attorney General.

11 **Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

12 **A4.** My testimony supports certain adjustments to Operating and Maintenance expenses  
13 (“O&M”), property taxes, state and federal income taxes and an adjustment to  
14 Accumulated Deferred Income Taxes (“ADIT”) related to an adjustment to attrition period  
15 income tax expense. I am supporting the following adjustments to the Company’s  
16 expenses:

Table 1				
Exhibit Reference	Item	Revenue Req. Category	Amount	
Exhibit DND-1	CA - Pro forma Income Statement	N/A	N/A	
Exhibit DND-2	Federal and State Income Tax Expense	Income Tax Exp/ADIT	\$ (3,641,589)	
Exhibit DND-3	Labor, Benefits and Payroll Taxes	Labor Related	\$ (1,200,409)	
Exhibit DND-4	TAWC Direct Charged Incentive Compensation	Labor	\$ (287,613)	
Exhibit DND-5	Allocated Incentive Compensation	Support Services	\$ (802,962)	
Exhibit DND-6	Non-Recurring Legal Charges	Contract Services	\$ (121,869)	
Exhibit DND-7	Purchased Power Costs	Production Costs	\$ (253,309)	
Exhibit DND-8	Purchased Water/Chemical Costs	Production Costs	\$ (190,816)	
Exhibit DND-9	Charitable Costs	Miscellaneous	\$ (108,820)	
Exhibit DND-10	Property Tax Expense	General Taxes	\$ (1,343,890)	
Exhibit DND-11	Costs not benefitting customers	Support Services	\$ (113,209)	
Exhibit DND-12	TAWC Lobbying	Labor	\$ (38,303)	
Exhibit DND-13	To Reflect Impact of State Tax Credit	Income Tax Exp	\$ (210,827)	
Exhibit DND-14	Cash Working Capital	Rate Base	\$ (366,485)	

In addition to sponsoring adjustments to Tennessee American Water Company's ("TAWC" or the "Company") revenue requirement, I will address the following topics:

- I provide historical context regarding the Company's earnings relative to their \$14 million rate increase request.
- I will also address the Consumer Advocate's attrition period Cash Working Capital computation.
- I will sponsor the Consumer Advocate's proposed revenue requirement tax gross-up calculation.
- I will address the Company's proposal to use the Production Costs and Other Pass-Through ("PCOP") rider to recover or refund Pension, and Other Post-Employment Benefit ("OPEB") costs that differ from those included in base rates in this proceeding.

## II. TAWC Historical Earnings

**Q5. CAN YOU PROVIDE SOME HISTORICAL PERSPECTIVE ON THE COMPANY'S EARNINGS?**

**A5.** Yes. The Company submits an annual earnings test calculation within its annual capital rider filing. The rationale for evaluating earnings annually is that the Company should

only be permitted to recover incremental revenue to the extent that it does not generate revenue in excess of that necessary to earn its authorized return on equity.

**Q6. HAVE YOU BEEN INVOLVED IN THE RECENT CAPITAL RIDER FILINGS MADE BY THE COMPANY?**

**A6.** Yes.

**Q7. HAVE YOU REVIEWED THE EARNINGS PROVIDED BY THE COMPANY IN ITS RECENT CAPITAL RIDER FILINGS?**

**A7.** Yes. The table below compares the earnings (excess)/deficiency of the Company's last three capital rider filings with the \$14.1 million revenue increase sought in this proceeding.

Table 2			Source:
Year	Year	Amount	
2025 Forecast	2025	14,173,524	TAWC Schedule FS-1.1
2023 Actual Results	2023	(1,505,302)	Docket: 24-00011; CA Exhibit DND-2, from TAWC Data
2022 Actual Results	2022	(1,175,140)	TAWC Robert Lane Exhibit RCL - Exhibit 1
2021 Actual Results	2021	50,750	TAWC Elaine Chambers Exhibit EKC; page 2 of 4

The point is that the Company achieved a return on equity in 2022 and 2023 above those authorized by the Commission in the Company's last rate case. The Company seeks an increase of 19.7%.<sup>1</sup>

**Q8. DO UTILITIES TYPICALLY FILE A RATE CASE WHEN THEY ARE IN AN EXCESS EARNING SITUATION BASED UPON HISTORICAL DATA SUCH AS TAWC?**

<sup>1</sup> *Petition*, File <TAWC 2024 Rate Case – Revenue Requirement.xlsx>, Tab “Revenue Requirement” (Schedule FS-1.1). The proposed revenue requirement (\$85,855,923) divided by Operating Revenue at Present Rates (\$71,724,922) equals an increase of 19.7%.

1 A8. No.

2 Q9. GIVEN THESE RECENT HISTORICAL EARNINGS, ARE YOU SURPRISED  
3 THAT THE REVENUE REQUIREMENTS SUPPORTED BY THE CONSUMER  
4 ADVOCATE DIFFER SIGNIFICANTLY FROM THOSE SOUGHT BY THE  
5 COMPANY?

6 A9. No. These historical results are not those of a utility needing a significant rate increase,  
7 especially one with access to a robust capital rider surcharge mechanism.<sup>2</sup>

8 Q10. DO YOU HAVE ANY COMMENTS CONCERNING STATEMENTS MADE IN  
9 THE PETITION?

10 A10. Yes. In paragraph 7 of the *Petition*, the following statement is made:

11 “Notably, the Company has experienced \$173 million in rate base growth since  
12 the 2012 rate case.”

13 This statement leaves the reader with the erroneous conclusion that the Company deserves  
14 a rate increase associated with \$173 million of investment it is currently not earning on.  
15 The \$173 million amount is simply the difference between the Company’s proposed rate  
16 base in this case and that rate base adopted in TPUC Docket No. 10-00189. However, the  
17 statement is misleading from the standpoint that the Company is, in addition to its base  
18 rates, earning a return on a capital rider rate base of \$149,037,001. For further context,  
19 please see the table below:

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<sup>2</sup> Company’s Response to Consumer Advocate DR No. 1-110. The Company expects that over \$29 million of its 2025 capital expenditures would have otherwise qualified for capital rider recovery had this base rate case not been filed, whereas an estimated \$5.4 million forecasted to be spent in 2025 would not have qualified for rider recovery. Based upon this response, it can be determined that an estimated 84.5% of capital expenditures during the attrition period are believed to be otherwise eligible for capital rider recovery, absent this base rate filing.

Table 3				
Calculation of Effective TAWC Rate Base - Current Rates				
Line No.	Item	Amount	Amount	Source
1	Proposed Rate Base		305,126,372	Docket 24-00032; Testimony of Robert Lane, Petitioner's Exhibit FS-1
2	Rate Base Per Existing Base Rates	132,015,472		TPUC Order Docket 12-00049 Schedule 1
3	Pus: Rate Base per Existing Capital Rider Rates	149,037,001		Docket 24-00011; Robery Lane Petitioner's Exhibit TAWC 2024 Incremental Capital Rider; Line 6
4	2023 Rate Base Corresponding to Existing Revenue Stream		281,052,473	Line 2 + 3
5	Rate Base Increase Sought in this Filing for 2024/2025 Investments		\$ 24,073,899	Line 1 - 4

The more accurate statement is that the Company seeks a net increase in rate base of \$24 million above that currently adopted by the Commission. In other words, of the cited \$172 million amount, the Company is receiving a revenue stream on \$149 million of its Incremental Capital Rider rate base, leaving the net investment for which it is currently not earning a revenue stream of just over \$24 million.

It is interesting to consider that the current Capital Rider rate base of \$149 million is based on 2023 data. Absent the current base rate filing, the \$149 million in capital expenditures subject to recovery would undoubtedly have increased with the 2024 and 2025 capital rider filings.

### III. Income Statement Adjustments

**Q11. HAVE YOU SUMMARIZED THE ADJUSTMENTS YOU ARE SPONSORING?**

**A11.** Yes. I am sponsoring Exhibit DND-1, which sets forth each of the adjustments I sponsor.

It is important to note that some adjustments are quantified as test period values, while others are quantified as attrition period values. The effective date for each adjustment is identified within the column header.

**Q12. WHY ARE SOME ADJUSTMENTS QUANTIFIED AS OF THE TEST PERIOD, WHILE OTHERS ARE QUANTIFIED AS OF THE ATTRITION PERIOD?**

**A12.** The adjustments sponsored as of the test period (2023) are within the cost categories that Mr. Bradley subsequently adjusts within his Schedules AB-1 and AB-2. Specifically, Mr. Bradley brings test period balances forward to the attrition period by incorporating the inflation factors he sponsors. After considering Mr. Bradley's adjustments, all proposed Consumer Advocate cost categories reflect attrition period balances.

**Q13. WHICH COST CATEGORIES ARE INCORPORATED WITHIN MR. BRADLEY'S INFLATION ADJUSTMENT?**

**A13.** Mr. Bradley adjusts the following TAWC cost categories: Support Services, Contracted Services, Customer Accounting, Uncollectible Expense, Rents, Telecommunications, Miscellaneous and Maintenance Expense.

Of the cost categories identified above, I have quantified adjustments to Support Services (DND-5 and 11), Contracted Services (DND-6), and Miscellaneous Expenses (DND-9) as of the 2023 test period, which Mr. Bradley then applies an inflation factor to arrive at the Consumer Advocate as-adjusted attrition period balances.

**Q14. HAS THE CONSUMER ADVOCATE ACCEPTED THE COMPANY'S METHODOLOGY FOR MOVING FROM THE TEST PERIOD TO THE ATTRITION PERIOD FOR CERTAIN COST CATEGORIES?**

**A14.** Yes. For the cost categories not identified above, such as TAWC Labor, Employee Benefits, Transportation, Other Insurance, and Payroll Taxes, the Consumer Advocate has accepted the Company's methodology for projecting test period costs to the attrition period.

1           However, accepting the methodology from the test period to the attrition period does not  
2           indicate acceptance of the proposed attrition period balances for these cost categories.

3   **Q15. PLEASE PROVIDE AN EXAMPLE OF A COST CATEGORY WHERE THE**  
4           **CONSUMER ADVOCATE IS SPONSORING AN ADJUSTMENT WHILE ALSO**  
5           **ACCEPTING THE METHODOLOGY THE COMPANY HAS USED TO MOVE**  
6           **FROM THE TEST PERIOD TO THE ATTRITION PERIOD.**

7   **A15.** I object to the Company's proposal to include the cost of vacant positions in its attrition  
8           period TAWC labor costs. I am proposing an adjustment to remove these costs, which will  
9           be discussed later in my testimony. Notwithstanding the adjustment to remove those costs,  
10          the Consumer Advocate does not object to the assumed merit increases in its projection of  
11          attrition period costs for active employees. Thus, the Consumer Advocate has accepted the  
12          methodology to move from the test period to the attrition period in this instance while  
13          simultaneously supporting an adjustment to the attrition period costs.

14   **Q16. FOR THE TEST PERIOD ADJUSTMENTS YOU HAVE QUANTIFIED, DO YOU**  
15          **HAVE AN ALTERNATIVE ADJUSTMENT AS OF THE ATTRITION PERIOD IN**  
16          **THE EVENT THE COMMISSION DOES NOT ACCEPT MR. BRADLEY'S**  
17          **ADJUSTMENT TO THE COMPANY'S INFLATION METHODOLOGY?**

18   **A16.** Yes. I identify the alternative value of the attrition period for each test period adjustment I  
19          am sponsoring, discussed below, if the Commission does not accept Mr. Bradley's inflation  
20          adjustment.

1       A. *Income tax expense – State and Federal; Flow Through of Repair Deduction/ADIT*

2       **Q17. PLEASE BEGIN BY EXPLAINING THE ADJUSTMENT YOU ARE PROPOSING**  
3       **TO REDUCE FEDERAL AND STATE INCOME TAX EXPENSE.**

4       A17. My first adjustment reduces attrition period federal income taxes \$2,735,894 and state  
5       excise taxes \$905,695 for a total reduction in income tax expense of \$3,641,589. These  
6       calculations are set forth in Exhibit DND-2. These amounts represent the revenue  
7       requirement impact of the flow-through of the Repair Deduction and can be seen in  
8       Schedule 11, line 27 of the Consumer Advocate's Exhibits. The resulting pro-forma excise  
9       and federal income tax calculations reflect the Consumer Advocate's attrition period pro-  
10      forma balances, including recognition of the Repair Deduction.

11      The adjustment treats the Repair Deduction in the calculation of income taxes as a "flow-  
12      through" item, whereas the Company has normalized this tax deduction. For purposes of  
13      calculating the adjustment, the Company reversed the Repair Deduction by adding it back  
14      to Taxable Income for purposes of calculating its attrition period state and federal income  
15      tax expense. I eliminated the "add back" of the Repair Deduction in calculating the attrition  
16      period Deferred Tax Expense.

17      I will discuss the technical issues surrounding the two methods for treating the Repair  
18      Deduction.

19      **Q18. PLEASE DESCRIBE HOW INCOME TAX EXPENSE IS RECORDED ON THE**  
20      **FINANCIAL RECORDS OF UTILITIES.**

21      A18. Income tax expense recognized for financial reporting purposes is generally computed  
22      based upon revenues and expenses as defined by Generally Accepted Accounting

1 Principles ("GAAP"). Therefore, there is a symmetry between income tax expense defined  
2 by GAAP and the revenue and expenses recorded in financial statements. GAAP generally  
3 requires the adoption of accrual accounting, that is, the recognition of revenues and  
4 expenses when such costs are incurred. This recognition will often differ from the period  
5 in which cash is received ("revenue") or expended ("expenses"). The difference between  
6 income tax expense recorded for financial reporting purposes and actual taxes paid to the  
7 Internal Revenue Service ("IRS") is recorded to a deferred tax liability or asset account, as  
8 appropriate.

9 **Q19. HOW DOES THE CALCULATION OF TAXABLE INCOME FOR THE IRS**  
10 **PURPOSES DIFFER FROM THE AMOUNT CALCULATED ACCORDING TO**  
11 **GAAP FOR FINANCIAL REPORTING PURPOSES?**

12 **A19.** The IRS recognizes revenue and expenses on a cash basis rather than an accrued basis in  
13 determining taxable income. On the other hand, Revenue and expenses recorded pursuant  
14 to GAAP are made on an accrual basis when revenues are earned, but not necessarily when  
15 they are received, and when expenses are incurred, but not necessarily when they are paid.  
16 Another important distinction between book and taxable income involves how depreciation  
17 is recognized on asset values. Typically, the IRS permits accelerated tax depreciation,  
18 where most of an asset's value is deductible as depreciation expense over the early years  
19 of an asset's life, while book depreciation involves the application of a consistent  
20 depreciation rate that does not vary from year to year, referred to as straight-line  
21 depreciation. These differences can be further classified as either temporary or permanent  
22 differences.

23 Temporary book/tax timing differences will eventually result in the same recognized

revenue and expenses for both book and taxable income. The Repair Deduction is such an example of a temporary but long-lived book/tax timing difference. The Repair Deduction is capitalized and depreciated as an asset for book purposes ("GAAP"), while qualifying Repair Deductions are expensed for tax purposes. As the book asset is depreciated over its useful life, this book/tax difference diminishes until eventually, the asset is fully depreciated, and the book/tax timing difference is eliminated.

**Q20. IS THE INCOME TAX EXPENSE INCLUDED IN RATES BASED ON THE AMOUNT OF TAXES EXPECTED TO BE PAID IN THE TEST PERIOD?**

**A20.** No. State utility regulators must compute income tax expense for ratemaking purposes using the book level of depreciation expense.<sup>3</sup> This regulatory treatment is referred to as the "normalization requirement",<sup>4</sup> where the depreciation expense included in the computation of the revenue requirement must be based upon the same depreciation rates used in the computation of Depreciation expense included in the revenue requirement, exclusive of the Cost of Removal factor, if any, included in the approved depreciation rate.<sup>5</sup>

The book level of depreciation expense is generally much lower than accelerated tax

<sup>3</sup> IRS Section 168 requires state utility regulators to calculate income tax expense for rate-making purposes on a normalized basis. If state regulators do not comply with this requirement, the jurisdictional utility is at risk of disallowing the use of accelerated tax depreciation to compute taxable income.

<sup>4</sup> The other methodology where IRS-determined values are used to compute income tax expense for rate making is referred to as the "flow-through" method. In summary, the flow-through method relies on IRS-determined values, while the normalization method relies on GAAP-determined values.

<sup>5</sup> The Cost of Removal is not protected, that is it may also be 'flowed-through' for purposes of computing income tax expense for ratemaking; Internal Revenue Service, Private Letter Ruling, No. 202033002 (Release Date August 14, 2020) at <https://www.irs.gov/pub/irs-wd/202033002.pdf>. I did not propose that the Cost of Removal be flowed-through in this proceeding simply because I could not determine the appropriate amount. Normalizing the cost of removal for income tax purposes is punitive for customers as it not only requires the pre-payment of the cost of removal, but the normalization process increases the deferred tax asset, increasing rate base. So, customers not only pre-fund these costs, but also are required to pay a return on the deferred tax asset resulting from the non-deductibility of the cost of removal accrual embedded within regulated depreciation expense. The deferred tax asset represents the value of the future tax deduction (funded by customers), that the Company will not achieve until the asset is actually removed from service. *Id.*

1 depreciation used to compute taxable income. This disparity results in a higher Income tax  
2 expense level determined for rate-making purposes than the utility owes the IRS.<sup>6</sup> The  
3 difference in income tax expense computations for book and tax purposes is recorded as a  
4 Deferred Tax Expense, which, in theory, reflects an amount of taxes that will be due at  
5 some point in the future. The significance of the book/tax timing difference associated  
6 with the recognition of depreciation, coupled with the IRS requirement to normalize such  
7 differences, results in a value of income tax expense computed for ratemaking purposes  
8 exceeding income taxes paid to the IRS. In short, customers incur an income tax expense  
9 that often far exceeds the utilities' cash payments to the state tax authorities and the IRS.

10 **Q21. ARE THERE TERMS USED TO DESCRIBE THE ADOPTION OF**  
11 **COMPONENTS OF TAXABLE INCOME ACCORDING TO IRS DEFINITIONS**  
12 **AND THOSE COMPUTED ACCORDING TO GAAP WITHIN THE**  
13 **RATEMAKING CALCULATION?**

14 **A21.** Yes. Income tax expense components defined pursuant to the IRS Tax Code are referred  
15 to as "flow-through" items, while components computed according to GAAP are  
16 considered "normalized."

17 **Q22. DO STATE UTILITY REGULATORS HAVE DISCRETION IN USING**  
18 **NORMALIZATION OR THE ALTERNATIVE FLOW-THROUGH METHOD**  
19 **FOR BOOK/TAX TIMING DIFFERENCES OTHER THAN DEPRECIATION?**

20 **A22.** Yes. For all timing differences, other than depreciation, utility regulators have discretion  
21 whether to rely on deductions computed under the tax code or those deductions quantified

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<sup>6</sup> Book depreciation expense is a deduction in the computation of book income subject to tax. Therefore, the lower expense produces a higher level of income and, therefore, a higher level of income tax expense.

1 according to GAAP in determining income tax expense used in the ratemaking formula.

2 **Q23. PLEASE EXPLAIN THE REPAIR DEDUCTION.**

3 **A23.** As discussed above, expenditures that qualify under the IRS Repair Deduction are fully  
4 deductible in the year they are incurred for tax purposes. However, such expenditures  
5 qualify as an asset pursuant to GAAP, thus creating a very significant book/tax timing  
6 difference.

7 **Q24. PLEASE EXPLAIN THE NATURE OF YOUR ADJUSTMENT TO STATE AND**  
8 **FEDERAL INCOME TAX EXPENSE.**

9 **A24.** I recommend the Company's test year income tax expense be computed by adopting the  
10 flow-through methodology for the Repair Deduction. This approach recognizes the  
11 significant tax deductibility of the Repair Deduction in reducing income tax expense the  
12 Company owes to state and federal taxing authorities. Adoption of the flow-through  
13 approach better aligns income tax expense recovered in rates with taxes actually owed by  
14 the Company. Essentially, adopting the flow-through methodology for the Repair  
15 Deduction moves a step closer to matching taxes included in rates with taxes paid to taxing  
16 authorities.

17 **Q25. WHAT IS THE PRACTICAL RESULT OF NORMALIZING THE REPAIR**  
18 **DEDUCTION FOR RATEMAKING PURPOSES RATHER THAN FLOWING IT**  
19 **THROUGH AS AN IMMEDIATE TAX DEDUCTION?**

20 **A25.** Normalizing the repair deduction results in a deferred tax expense recovered from  
21 customers but not otherwise paid to a taxing authority until some point in the future, if ever.  
22 This results in a reduction to the Company's rate base. Practically speaking, this will

1 reduce the Company's revenue requirement by approximately 8% of the amount of the tax  
2 repair deduction, depending upon the Company's overall approved weighted average cost  
3 of capital. The flow through methodology would result in a reduction to income tax  
4 expense by 100% of the tax repair deduction thereby reducing the revenue requirement by  
5 the full amount.

6 **Q26. WILL THE BOOK/TAX TIMING DIFFERENCE ASSOCIATED WITH THE**  
7 **REPAIR DEDUCTION REVERSE FOR ACCOUNTING PURPOSES SUCH THAT**  
8 **THE COMPANY WILL ACTUALLY PAY THE TAXES THAT ARE REFLECTED**  
9 **AS A DEFERRED TAX EXPENSE WHEN THE REPAIR DEDUCTION IS**  
10 **NORMALIZED?**

11 **A26.** Yes, in theory. However, as I will demonstrate below, the ever-increasing level of capital  
12 expenditures incurred by utilities like TAWC ensure significant Repair Deductions and  
13 accelerated tax depreciation (a deduction) on those capital expenditures that create minimal  
14 or negative taxable income.

15 **Q27. HAVE YOU COMPARED AMERICAN WATER COMPANY'S ("AWC")**  
16 **ANNUAL DEFERRED TAX EXPENSE WITH ACTUAL TAX PAYMENTS TO**  
17 **TAXING AUTHORITIES?**

18 **A27.** Yes. The table below compares the amounts recorded as Current Tax Expense on the books  
19 of AWC with those recorded to Deferred Tax Expense. The amounts identified as Current  
20 Tax Expense represent estimated amounts paid to taxing authorities for income tax  
21 expense.

Source: 2017, 2020 and 2023 American Water Company 10k's Filed with the Securities and Exchange Commission				
		Amounts in Millions		
Year		Taxes Paid	Deferred Taxes (Normalized)	
2015		12	312	
2016		16	295	
2017		30	462	
2018		38	195	
2019		12	208	
2020		7	207	
2021		1	230	
2022		335	1/	80
2023		-	208	
Average - Excluding Gain on Sale (2023)		\$ 15	244	
Context				
Tennessee American Water Company Customer Base			87,099	2/
American Water Company Regulated Customer Base:			3,486,000	3/
Tennessee Percentage to total AWC Customer Base			2.50%	
1/	Estimated Tax payments for sale of non-regulated business and New York regulated operations			
	Tennessee American Water Company 2023 Annual			
2/	Report page W-3			
	American Water Company			
3/	2023 10k; page 4			

**Q28. WHAT WAS THE SOURCE OF THE INFORMATION CONTAINED IN THE TABLE ABOVE?**

**A28.** The amounts above were taken from American Water Company's publicly available 10k Annual Reports submitted to the Securities and Exchange Commission ("SEC").

**Q29. WHAT CONCLUSIONS CAN BE DRAWN FROM THE INFORMATION PRESENTED ABOVE?**

**A29.** Other than 2022, American Water Company's income tax payments are not significant given the size of the Company. Further, it needs to be emphasized that TAWC's customer count represents only 2.5% of American Water Company's customer count. Thus, once the minimal size of the Company's Tennessee operations is considered, the applicable tax obligations associated with the Company's Tennessee operations are very small. This contrasts with the amounts charged to Deferred Expense – which equates to a full normalization approach to measuring income tax expense.

**Q30. WHAT ACCOUNTS FOR THE \$355 MILLION TAX PAYMENT REFLECTED IN 2022?**

**A30.** This payment was significant. The notes contained in the 10k indicate such payments related to two material sales completed in 2022, the sale of the Company's New York regulated water operations and the sale of the Company's unregulated warranty operations to a third-party, both of which resulted in significant taxable events. Importantly, however, the payments were unrelated to ongoing normal operations. Therefore, for purposes of this analysis, the \$355 million in tax payments should be disregarded since they are unrelated to ongoing operations.

This table demonstrates some important points that should factor into the Commissions' consideration of this issue. First, in considering whether the Repair Deduction should be incorporated using the flow-through versus Normalization methodology, the Commission need not be concerned that adopting the flow-through methodology will cause a cash shortfall related to funding the Company's income tax obligations. Secondly, adopting the

1 full normalization approach for ratemaking results in a significant level of pre-paid taxes  
2 customers provide. While this ratepayer funding is accounted for as a reduction in rate  
3 base in the ratemaking formula,<sup>7</sup> the question is whether it should be the customers'  
4 responsibility to fund a portion of the Company's capital expenditures or whether that  
5 responsibility should fall on the Company's shareholders. The Company's current ADIT  
6 balance included in this proceeding of \$60,093,004<sup>8</sup> is a proxy for the amount of TAWC  
7 customer's pre-funding of future tax obligations.<sup>9</sup>

8 **Q31. IF TAWC CUSTOMERS RECEIVE THE BENEFIT FROM A RATE BASE**  
9 **REDUCTION DUE TO THE PRE-FUNDING OF INCOME TAXES, WHY**  
10 **SHOULD THE COMMISSION CONSIDER AN ALTERNATIVE INCOME TAX**  
11 **CALCULATION?**

12 **A31.** First, customers will continue to provide tax funding in excess of the Company's tax  
13 obligations if the flow-through approach is adopted for the Repair Deduction. This is  
14 because the normalization approach will continue to be used for book/tax timing  
15 differences associated with Depreciation. My flow-through recommendation is limited to  
16 the Repair Deduction. Accelerated Tax Depreciation, deductible for tax purposes, will  
17 continue to exceed book depreciation. Thus, some portion of tax pre-funding will continue  
18 going forward.

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<sup>7</sup> The offset to deferred tax expense is the recording of a deferred tax liability which is considered a cost-free source of financing in the revenue requirement calculation. *Petition*, Direct Testimony of Dominic J. Degrazia; File <TAWC 2024 Rate Case – RB 1 Rate Base Summary.xlsx>, Tab "RB 1 Rate Base Summary (Petitioner's Exhibit RB-1 – Summary-DD).

<sup>8</sup> *Petition*, File <TAWC 2024 Rate Case – RB 1 Rate Base Summary.xlsx>, Tab "RB 1 Rate Base Summary (Petitioner's Exhibit RB-1 – Summary-DD).

<sup>9</sup> As discussed earlier, the reference to future tax obligations should be considered the theoretical amount of taxes which may be due at some point in the future. If history is any indication, tax deductions on future capital expenditures will likely result in minimal or negative taxable income in future periods.

1 Secondly, the Company, not its customers, has the fundamental obligation to fund capital  
2 expenditures. The Commission should not adopt rate-making accounting conventions that  
3 shift this responsibility to its customer base.<sup>10</sup>

4 Finally, many customers undoubtedly have financial challenges paying their utility (and  
5 other) bills and should not have the burden of pre-funding the Company's tax obligations.<sup>11</sup>

6 **Q32. WHAT HAS BEEN THE COMMISSIONS' TRADITIONAL PRACTICE**  
7 **REGARDING THE FLOW-THROUGH VERSUS NORMALIZATION ISSUE?**

8 **A32.** The Commission has traditionally normalized all book/tax timing differences in the  
9 computation of income tax expense in rates. At the same time, I m not aware of whether  
10 any party has advocated using the flow-through methodology to compute income tax  
11 expense in the ratemaking formula. This is an issue that has not been recently before the  
12 Commission.

13 The Commission acknowledged that the Repair Deduction is not protected for purposes of  
14 amortizing excess ADIT in TPUC Docket No. 18-00039.<sup>12</sup> In this sense the designation  
15 "unprotected" as it relates to ADIT is a recognition that this book/tax timing difference is  
16 not required to be "normalized." Thus for purposes of addressing excess ADIT issues, the  
17 Commission adopted the flow-through methodology for the Repair Deduction.  
18 Furthermore, the Commission has adopted the flow-through methodology in recognizing

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<sup>10</sup> In certain situations, where capital expenditures are made exclusively for one customer or a small group of customers, a customer contribution would be appropriate. The comments above relate to general capital expenditures not exclusive to any customer.

<sup>11</sup> Katie Kelton, *Survey: Half of American cardholders now carry credit card debt, many with no plan to pay it off* (August 5, 2024) at <https://www.bankrate.com/credit-cards/news/credit-card-debt-survey/>. This article states that 50% of Americans are carrying credit card debt. This suggests that for that subset of customers with credit card debt, their personal cost of capital is significantly higher than the benefit they are receiving via a reduction in rate base due to the pre-funding of corporate income taxes that occurs under the comprehensive normalization methodology.

<sup>12</sup> *Final Order Resolving Phase Two Issues*, p. 13, TPUC Docket No. 18-00039 (August 3, 2000).

pension expense using the cash basis rather than an accrual basis for ratemaking purposes.

**Q33. CAN YOU PROVIDE MORE INFORMATION SUPPORTING YOUR STATEMENT THAT THE COMMISSION HAS ACKNOWLEDGED THAT THE REPAIR DEDUCTION IS NOT REQUIRED TO BE NORMALIZED?**

**A33.** Yes. The Commission's order included a determination as to whether the Repair Deduction was "protected" or "unprotected" for purposes of determining the appropriate amortization treatment of excess ADIT.<sup>13</sup> The "unprotected" designation indicates that the Commission has discretion over the amortization period and is consistent with a finding that a flow-through methodology may be adopted. The Commission found:

For purposes of resolving this docket, the Hearing Panel concluded unanimously the Repairs Deduction-Related EADIT<sup>14</sup> should be classified as Unprotected EADIT.<sup>15</sup>

This "flow-through" approach to relieving the excess ADIT balance should also be applied to the regulatory determination of income tax expense for ratemaking purposes.

**Q34. ARE YOU AWARE WHETHER OTHER STATE REGULATORY BODIES HAVE ADOPTED THE FLOW-THROUGH METHOD OF COMPUTING INCOME TAX EXPENSE?**

**A34.** Yes. The Iowa Utilities Commission approved the use of the flow-through methodology for all property-related book/tax timing differences as requested by Black Hills.<sup>16</sup>

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

<sup>14</sup> EADIT refers to Excess Accumulated Deferred Income Taxes.

<sup>15</sup> *Final Order Resolving Phase Two Issues*, p. 13, TPUC Docket No. 18-00039 (August 3, 2000).

<sup>16</sup> *Order Approving Settlement, Approving Compliance Filings, and Granting Confidential Treatment Requests*, p. 7, IUB Docket No. RPU-202-00002 (December 28, 2021). In this proceeding there was no dispute regarding the use of the flow-through methodology for computing income tax expense, instead the amount of the appropriate deduction as an issue, eventually resolved in a stipulated Repair Deduction amount that was adopted by the Commission.

1 **Q35. DOES YOUR ADJUSTMENT USING THE FLOW-THROUGH METHODOLOGY**  
2 **FOR THE REPAIR DEDUCTION IMPACT THE BALANCE OF ADIT?**

3 **A35.** Yes. Applying the flow-through methodology to the Repair Deduction reduces Deferred  
4 Tax Expense. The offsetting entry to the reduction in Deferred Tax Expense is a reduction  
5 to the ADIT, which is an offset to rate base. Therefore, adopting the flow-through  
6 methodology requires a corresponding adjustment to increase rate base. The adjustment I  
7 am sponsoring to reflect the ADIT implications of adopting the flow-through methodology  
8 for the Repair Deduction increases rate base \$3,167,952 and is set forth in Exhibit DND-  
9 2.

10 **Q36. WILL THE ADOPTION OF THIS ADJUSTMENT RESULT IN A PROSPECTIVE**  
11 **CHANGE IN THE MANNER IN WHICH THE COMPANY RECORDS INCOME**  
12 **TAX EXPENSE AND ADIT ON ITS REGULATORY SET OF BOOKS?**

13 **A36.** Yes. Adopting this adjustment will result in a change in how the Company treats the Repair  
14 Deduction going forward. In the future, the Repair Deduction will be treated as a flow-  
15 through for items in the recording of income tax expense on the books maintained by  
16 TAWC and reported to the Commission. There will be no change in the cumulative  
17 book/tax timing difference associated with the Repair Deduction before the date new base  
18 rates become effective in this case. However, that timing difference will not grow going  
19 forward since these costs are no longer normalized for ratemaking purposes. When new  
20 base rates become effective, the timing differences at this transition date will decrease  
21 annually as book depreciation is recorded on those previously normalized Repair  
22 Deductions.

23 *B. Labor Associated with Vacant Positions*

1 **Q37. NOW TURN TO THE LABOR ADJUSTMENT AND EXPLAIN HOW THE**  
2 **COMPANY DEVELOPED ITS ATTRITION PERIOD CLAIM FOR ITS LABOR**  
3 **EXPENSE.**

4 **A37.** The Company has developed a budgeted labor forecast through the attrition period,  
5 inclusive of active and vacant employment positions, and applied forecasted increases in  
6 wage rates, group insurance, other benefit costs, and payroll taxes. This results in an  
7 attrition period adjustment that increases labor and related costs by \$1,242,192.

8 **Q38. PLEASE DESCRIBE THE ADJUSTMENT YOU ARE SPONSORING TO THE**  
9 **COMPANY'S ATTRITION PERIOD LABOR COSTS.**

10 **A38.** I have eliminated the attrition period costs associated with vacant positions from the  
11 Company's calculations based upon employee vacancies as of April 20, 2024, as identified  
12 in Confidential Response to Consumer Advocate DR No. 2-5. Eliminating the labor, group  
13 insurance, benefits, and payroll taxes associated with vacancies reduce attrition period  
14 O&M costs by \$1,200,409. This adjustment is reflected in Exhibit DND-3 and includes  
15 the removal of incentive compensation costs associated with the vacant positions.

16 **Q39. HOW MANY VACANT POSITIONS WERE REMOVED IN YOUR**  
17 **ADJUSTMENT?**

18 **A39.** There were sixteen vacancies identified in the Confidential Response to Consumer  
19 Advocate DR No. 2-5.

20 **Q40. WHY SHOULD THE COSTS ASSOCIATED WITH VACANT POSITIONS BE**  
21 **REMOVED FROM THE REVENUE REQUIREMENT?**

1 **A40.** The Company consistently has employee vacancies. Accepting the Company's assumption  
2 that it will be fully staffed on an ongoing basis is not reasonable and is not consistent with  
3 its actual historical results. The Company's assumption that all vacant positions will be  
4 filled and will remain filled in the attrition period is unrealistic.

5 The month-end number of open TAWC positions for the period January 2021 through June  
6 2024 was identified in Response to City of Chattanooga's DR No. 2-18.<sup>17</sup> As indicated in  
7 the Response, the Company consistently has vacancies.

8 **Q41. WHAT ARE THE PRACTICAL IMPLICATIONS OF INCLUDING THE COSTS**  
9 **OF BUDGETED POSITIONS IN THE REVENUE REQUIREMENT THAT ARE**  
10 **NOT FILLED?**

11 **A41.** The costs of vacant positions represent an additional operating margin for the Company,  
12 and customers would pay TAWC for costs the utility does not actually incur in the attrition  
13 period.

14 **Q42. DOES THE COMPANY HAVE A FINANCIAL INCENTIVE TO MAXIMIZE THE**  
15 **HEADCOUNT INCLUDED IN ITS REVENUE REQUIREMENT PROPOSALS?**

16 **A42.** Yes. The Company will generate additional margins if it obtains cost recovery for positions  
17 that are not subsequently filled.

18 **Q43. ARE THE ACTIVE POSITIONS IDENTIFIED IN CONFIDENTIAL RESPONSE**  
19 **TO CONSUMER ADVOCATE DR NO. 2-5 AN ACCURATE REPRESENTATION**  
20 **OF THE NUMBER OF TAWC EMPLOYEES?**

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<sup>17</sup> In the response to the City of Chattanooga's request, the Company claimed 10 open positions as of April 2024, while the response to Consumer Advocate DR No. 2-05 identified 16 vacancies within the labor detail.

1 **A43.** Not entirely. In addition to the TAWC-designated employees, there are also employees  
2 designated as employees whose time is charged 100% to TAWC. The Response to  
3 Consumer Advocate DR No. 2-59 identifies four AWSC employees who charge 100% of  
4 their time to TAWC and another who charges 85% of their time to TAWC. For all practical  
5 purposes, TAWC has five more employees than what is reflected in the Confidential  
6 Response to Consumer Advocate DR No 2-5. Two of these employees were re-designated  
7 as AWSC employees in 2024. Thus, comparing current TAWC employee counts with  
8 historic levels can be misleading because some employees are essentially TAWC  
9 employees, but are not counted as such.

10 *C. Direct Charged Incentive Compensation*

11 **Q44. PLEASE IDENTIFY THE TYPES AND AMOUNTS OF INCENTIVE**  
12 **COMPENSATION AVAILABLE TO EMPLOYEES.**

13 **A44.** The Company offers short-term incentive compensation, referred to as the Annual  
14 Performance Plan (“APP”) to all employees. The Company also offers upper-management  
15 and executive employees a long-term incentive plan (“LTPP”). In total the Company seeks  
16 recovery of \$439,290<sup>18</sup> of TAWC direct-charge APP costs and \$105,679 in direct-charged  
17 LTPP costs. The Company also seeks recovery of \$621,676 in allocated APP costs and  
18 \$475,824 in allocated LTPP costs.

19 **Q45. WHAT CRITERIA HAS THE COMPANY ADOPTED TO DETERMINE THE**  
20 **AMOUNT OF APP THAT SHOULD BE GRANTED?**

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<sup>18</sup>

Accounts 50171000 and 50171100, Link out tab, Petitioner’s Exhibit EXP-5.

1 **A45.** The APP compensation distribution criteria was provided in the Company's Response to  
2 Consumer Advocate DR No. 1-21. The largest single criteria is premised upon achieving  
3 a target level of earnings per share (50% weighting). Other criteria include at least a top  
4 50% score for customer satisfaction (15% weighting), two different employee safety  
5 metrics (15% total weighting), two different environmental criteria (15% total weighting),  
6 and finally, two different diversity, equity, and inclusion metrics (5% total weighting).

7 **Q46. PROVIDE SOME BACKGROUND INFORMATION ON THE COMPANY'S LTPP**  
8 **PROGRAM.**

9 **A46.**

[REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]<sup>19</sup>

14 **Q47. WHAT CRITERIA SHOULD BE USED BY THE COMMISSION IN**  
15 **DETERMINING WHAT LEVEL OF INCENTIVE COMPENSATION, IF ANY,**  
16 **SHOULD BE RECOVERED IN RATES?**

17 **A47.** The Commission should only allow recovery of incentive compensation costs to the extent  
18 that the overall compensation level is reasonable, and the criteria used to determine the  
19 amount of such compensation issued to employees provides direct customer benefits.

20 **Q48. HAS THE COMMISSION ADDRESSED THE RECOVERABILITY OF**  
21 **INCENTIVE COMPENSATION IN PRIOR PROCEEDINGS?**

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<sup>19</sup> For more information refer to the Company's Confidential Response to Consumer Advocate DR No. 1-25.

1 **A48.** Yes. The Commission removed 50% of Chattanooga Gas Company's short-term incentive  
2 compensation and 100% of its long-term incentive compensation from its revenue  
3 requirement in TPUC Docket No. 18-00017 in an order issued on January 11, 2019, based  
4 upon a finding that such treatment was consistent with Commission precedent.<sup>20</sup>

5 **Q49. HAVE YOU EVALUATED THE EXTENT TO WHICH CUSTOMERS BENEFIT**  
6 **FROM THE CRITERIA ADOPTED BY THE COMPANY'S UNDERLYING APP**  
7 **AND LTPP AWARDS?**

8 **A49.** Yes.

9 **Q50. WHAT ARE YOUR CONCLUSIONS?**

10 **A50.** The APP metrics include a 50% weighting of the earnings per share of AWS. This metric  
11 primarily benefits the Company's shareholders and is the type of metric that was excluded  
12 from rate recovery in TPUC Docket No. 18-00017. Further, an additional 5% of APP is  
13 dependent upon meeting thresholds for women and ethnic representation in the workforce.  
14 While this may be an appropriate corporate goal to strive for, the objective is not required  
15 in the provision of utility service, and costs associated with this metric should not be  
16 recovered from the Company's customers. Therefore, I recommend that 55% of the TAWC  
17 direct APP costs be removed from the revenue requirement.

18 Stock awards comprise the long-term incentive costs requested in this proceeding. [REDACTED]

19 [REDACTED] with a three-year vesting

20 window, referenced as the RSU's. Performance Stock Units represent the other [REDACTED]

21 [REDACTED]

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<sup>20</sup>

Order, p. 34, TPUC Docket No. 18-00017 (January 11, 2019).

1 [REDACTED]

2 [REDACTED].<sup>21</sup> The criteria established for the  
3 payment of the collective RSU's and PSU's awards clearly benefit shareholders and  
4 consistent with past Commission practice, these costs should be removed from the revenue  
5 requirement.

6 **Q51. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S**  
7 **PROPOSAL TO RECOVER APP COSTS?**

8 **A51.** I recommend the disallowance of 55% of the Company's APP costs based upon the sum of  
9 the earnings per share criteria and the diverse employment criteria. The result is  
10 eliminating \$200,307 of TAWC directly charged O&M costs as set forth in Exhibit DND-  
11 4 in the attrition period. This adjustment is net of \$75,095 in incentive costs removed from  
12 the attrition period associated with vacant positions, discussed earlier and as outlined in  
13 Exhibit DND-3.<sup>22</sup> If the labor adjustment I am supporting is not accepted, the APP  
14 adjustment in Exhibit DND-4 should be adjusted accordingly.

15 **Q52. WHAT IS YOUR RECOMMENDATION REGARDING THE RECOVERY OF**  
16 **LTPP COSTS?**

17 **A52.** I recommend an adjustment to eliminate \$87,306 from the attrition period associated with  
18 TAWC LTPP costs, also outlined in Exhibit DND-4. The purpose of these costs is to  
19 [REDACTED], both

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<sup>21</sup> The publicly available description of the PSU awards may be found on page 108 of American Water Company's 2023 10K filing with the Securities and Exchange Commission; "Distribution of performance shares is contingent upon the achievement of one or more internal performance measures and, separately, a relative total shareholder return performance measure, over the Performance Period." Available at [999ef431-4b40-47bf-ba68-3f8c93247bf1.pdf](https://www.sec.gov/edgar/data/1000000/000100000023000000/awc2310k.htm#3f8c93247bf1.pdf) (SECURED) (d18rn0p25nwr6d.cloudfront.net).

<sup>22</sup> The 75,095 is the sum of the APP Union (line 6), Non-Union Hourly (line 11) and Non-Union Salaried (line 15) shown in Exhibit DND-3.

of which are benefits exclusive to shareholders. I have removed these costs in Exhibit DND-4, consistent with the treatment provided by the Commission in other dockets and the fact that they do not benefit TAWC customers. The \$87,306 attrition period adjustment to remove TAWC LTPP costs is net of \$18,373 of attrition period LTPP costs removed in Exhibit DND-3.

*D. Allocated Incentive Compensation*

**Q53. HAS THE COMPANY INCLUDED A REQUEST FOR RECOVERY OF INCENTIVE COMPENSATION COSTS ALLOCATED TO TAWC FROM ITS AFFILIATE SERVICE COMPANY AWSC?**

**A53.** Yes. The test period allocated APP costs sought to be recovered totaled \$621,676<sup>23</sup> while LTPP costs were \$ 475,824.<sup>24</sup>

**Q54. DID YOU APPLY THE SAME RATIONALE TO QUANTIFY THE ADJUSTMENT TO ALLOCATED INCENTIVE COMPENSATION THAT YOU USED IN DETERMINING THE AMOUNT OF TAWC DIRECT INCENTIVE COSTS ELIGIBLE FOR RECOVERY DISCUSSED ABOVE?**

**A54.** Yes.

**Q55. WHAT ADJUSTMENT ARE YOU SUPPORTING FOR THE REDUCTION OF O&M COSTS ASSOCIATED WITH ALLOCATED INCENTIVE COMPENSATION?**

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<sup>23</sup> Company's Response to Consumer Advocate DR No. 1-90 – Corrected (Certain portions of the file are identified as confidential).

<sup>24</sup> Company's Response to Consumer Advocate DR No. 1-24.

1   **A55.** I recommend the removal of \$334,692 in APP costs and \$468,271 in LTPP costs, as  
2       reflected on Exhibit DND-5, for a total reduction to O&M costs of \$802,962, with all  
3       amounts stated on a test period basis. These balances are net of adjustments to the Business  
4       Development and External Affairs functions I will discuss later in my testimony. The  
5       netting of these other adjustments is necessary to avoid a duplication of the removal of  
6       allocated APP and LTPP costs.

7       The rationale for removing these costs is identical to that discussed above regarding the  
8       exclusion of TAWC direct-charged incentive compensation costs. After the adjustment, the  
9       portion of the allocated APP costs remaining in O&M reflects the 45% of APP costs related  
10      to customer benefits. I have removed 100% of the allocated LTPP costs for the  
11      abovementioned reasons.

12      The corresponding attrition period adjustment is \$933,864 as set forth in Exhibit DND-5,  
13      presented in the event the Commission does not adopt the inflation adjustment for Support  
14      Services sponsored by Mr. Bradley.

15   **Q56. WHY IS THE ADJUSTMENT TO TAWC DIRECT-CHARGED INCENTIVE**  
16       **COMPENSATION QUANTIFIED AS OF THE ATTRITION PERIOD, BUT THE**  
17       **ADJUSTMENT TO THE ALLOCATED INCENTIVE COMPENSATION COSTS**  
18       **STATED ON THE TEST PERIOD BASIS?**

19   **A56.** Mr. Bradley is proposing an inflation adjustment to the Support Services category, which  
20       includes incentive compensation allocated to TAWC. Thus, his adjustment reconciles the  
21       attrition period costs with the test period costs, resulting in the need for the incentive  
22       compensation adjustment to be stated as the test period. The Consumer Advocate is not  
23       proposing a similar adjustment to TAWC direct labor charges, thus, the adjustment I'm

supporting to TAWC direct incentive compensation costs is based upon attrition period amounts.

*E. Non-Recurring Charges*

**Q57. NOW TURN TO YOUR ADJUSTMENT TO REMOVE NON-RECURRING COSTS FROM THE TEST PERIOD.**

**A57.** I recommend removing legal costs associated with TPUC Docket No. 19-00103 incurred in the test period from O&M costs. These costs should not be recurring, and if they are recurring, they should not be borne by the Company's customers. The test period adjustment of \$121,869 was based upon information provided in Consumer Advocate DR No. 1-74 and is outlined in Exhibit DND-6. The alternative attrition period adjustment is \$128,139.

**Q58. WHY DO YOU BELIEVE THAT SUCH COSTS ARE NON-RECURRING, OR IF THEY ARE RECURRING, WHY SHOULD THEY NOT BE RECOVERED FROM CUSTOMERS?**

**A58.** The parties to TPUC Docket No. 19-00103 spent considerable time resolving outstanding issues over the past several years.<sup>25</sup> Recently, a resolution was reached among the parties, which provided a framework for the rider calculation moving forward.<sup>26</sup> Therefore, this significant cost should not be considered an ongoing charge.

The Company should have updated its capital rider tariff within this proceeding to accommodate the implications of this filing on the capital rider, but it chose not to do so.

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<sup>25</sup> Notwithstanding the amount of time spent over the years, it is quite surprising that the Company incurred \$121 thousand in legal costs in 2023 alone associated with this Docket.

<sup>26</sup> *Order Approving Stipulation and Settlement Agreement*, TPUC Docket No. 19-00103 (January 31, 2024).

1 Legal costs incurred in the future resulting the need to revise the company's capital rider  
2 tariff should not be incurred by customers. The Commission should find that legal costs  
3 associated with issues raised in TPUC Docket No. 19-00103 are either non-recurring or not  
4 the type of costs that should continue to be recovered from customers.

5 *F. Excess Purchased Power Costs*

6 **Q59. NOW TURN TO YOUR ADJUSTMENT TO ELIMINATE EXCESS PURCHASED**  
7 **POWER COSTS. PLEASE IDENTIFY THIS ADJUSTMENT AND EXPLAIN WHY**  
8 **IT IS NECESSARY.**

9 **A59.** I recommend eliminating \$253,309 of attrition period Purchased Power costs to properly  
10 implement the Commission's 15% non-revenue water ("NRW") limitation factor as set  
11 forth on Exhibit DND-7. This adjustment is necessary to remove those costs that result  
12 from excess unaccounted-for water within the Company's system.

13 **Q60. WHAT IS THE NON-REVENUE WATER LIMITATION FACTOR?**

14 **A60.** The NRW limiter is the percentage of actual water system sales to water system delivery  
15 (water loss) compared to the established water loss limitation factor of 15%.

16 The Commission has a long-standing precedence of allowing up to a 15% non-revenue  
17 water factor. Further, the Company acknowledged the 15% NRW limitation in TPUC  
18 Docket No. 24-00002.<sup>27</sup>

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<sup>27</sup>

Direct Testimony of Robert Lane at 10:7-12, TPUC Docket No. 24-00002 (January 16, 2024).

1 **Q61. HOW DO YOU RESPOND TO THE COMPANY'S RESPONSE TO CONSUMER**  
2 **ADVOCATE DR NO. 3-13 IN WHICH IT MAKES A DISTINCTION BETWEEN**  
3 **NRW AND LOST AND UNACCOUNTED-FOR WATER?**

4 **A61.** The Company points out the distinction between these two terms in its response and argues  
5 that the Commission has not established a 15% NRW factor, but rather this standard was  
6 instead, a lost and unaccounted for water threshold. While I agree the Commission used  
7 the phrase lost and unaccounted for water in its findings in TRA Docket No. 10-00189,  
8 there is no indication that it made a distinction in the ratio calculation from the standard  
9 NRW determination made in PCOP filings. Because NRW is not metered, it is not possible  
10 to definitively make a numeric distinction between lost water and NRW. This 15% lost  
11 and unaccounted for water percentage was approved in TRA Docket No. 10-00189.<sup>28</sup>

12 **Q62. IS YOUR ADJUSTMENT CALCULATED CONSISTENTLY WITH HOW SUCH**  
13 **COSTS ARE DETERMINED IN A PCOP FILING?**

14 **A62.** Yes.

15 **Q63. GIVEN THE COMPANY'S CURRENT PCOP RIDER, WHICH ADDRESSES**  
16 **ANNUAL PRODUCTION COSTS, WHY IS THIS ADJUSTMENT NECESSARY?**

17 **A63.** The PCOP rider uses the Purchased Power and Chemical costs established in its last rate  
18 case as the benchmark to determine incremental or decremental costs to recover from or  
19 return to customers. If Purchased Power and Chemical costs are overstated within the  
20 revenue requirement, these balances will not self-correct in subsequent PCOP filings. If  
21 this adjustment is not accepted TAWC customers will be saddled with incurring costs

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<sup>28</sup>

*Final Order*, pp. 65-67, TRA Docket No. 10-00189, (April 27, 2012).

1 associated with an effective NRW percentage of 23.27% in base rates and that will not  
2 change as a result of future PCOP filings.

3 **Q64. PLEASE EXPLAIN HOW THE ADJUSTMENT WAS CALCULATED.**

4 **A64.** The Company's NRW limiting factor for the test period was 23.27%, based upon  
5 information provided in Minimum Filing Guidelines # 22. Comparing this NRW rate with  
6 the allowable 15% NWR limitation results in a net recoverable factor of 91.73% as set out  
7 in Exhibit DND-7. When applied to the attrition period Purchased Power costs contained  
8 in TAWC Exhibit 2.2, the resulting attrition period adjustment is \$253,309.

9 **Q65. DID THE COMPANY ADJUST ITS ATTRITION PERIOD PRODUCTION COSTS**  
10 **TO INCORPORATE ITS EXCESS WATER LOSS?**

11 **A65.** No.

12 *G. Excess Chemicals*

13 **Q66. PLEASE TURN TO YOUR ADJUSTMENT TO CHEMICAL COSTS AND**  
14 **EXPLAIN THIS ADJUSTMENT.**

15 **A66.** The purpose of this adjustment is identical to that of the adjustment to Purchased Power,  
16 to eliminate costs over the NRW factor applied in PCOP filings. The reduction in attrition  
17 period costs is \$190,816, as reflected in Exhibit DND-8. The 91.73%

18 *H. Elimination of Charitable Costs*

19 **Q67. PLEASE TURN TO THE ADJUSTMENT SET OUT IN EXHIBIT DND-9.**  
20 **DESCRIBE THE NATURE OF THE ADJUSTMENT AND WHY IT IS**  
21 **NECESSARY.**

1   **A67.** The adjustment set out in Exhibit DND-9 removes \$108,820 in test period Community  
2       Partnership costs. These costs benefit the community and generate goodwill for the  
3       Company but are unrelated to water service provision and should not be built into base  
4       rates. The attrition period version of this adjustment is \$122,340, derived from account  
5       52514700 within the Link Out tab of the Company's Miscellaneous Expense file.

6   **Q68. PROVIDE AN EXAMPLE OF THE COMMUNITY PARTNERSHIP COSTS YOU**  
7       **BELIEVE SHOULD BE EXCLUDED FROM THE REVENUE REQUIREMENT.**

8   **A68.** A general description of these costs may be found in Mr. Evitts testimony.<sup>29</sup> The Response  
9       to Consumer Advocate DR No. 1-40 describes specific community partnership activities.  
10      These activities include environmental grants, elementary school science Olympiad  
11      sponsorship, support for scholarship and academic programs, and grants to fifteen fire  
12      departments.

13   **Q69. DO YOU BELIEVE IT APPROPRIATE FOR THE COMPANY TO RECEIVE**  
14       **REIMBURSEMENT FROM A THIRD PARTY – ITS CUSTOMERS – FOR**  
15       **CHARITABLE AND CIVIC ENDEAVORS?**

16   **A69.** No. Customers may make charitable and civic contributions they may do so from their  
17       own personal funds and should not be forced to do so through their water utility bills.  
18       Attempting to recover such costs from customers, while simultaneously benefitting in the  
19       goodwill from such contributions is inappropriate. I recommend that going forward the  
20       Commission direct the Company to record such costs to a non-operating expense account.  
21       Further, the internal labor associated with the oversight and participation in such activities

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<sup>29</sup>       *Petition*, Direct Testimony of Grant Allen Evitts at 23:5 – 25:15.

1 should also be recorded as non-operating labor and excluded from any subsequent  
2 proposed revenue requirement.

3 *I. Out of Test Period Property Taxes*

4 **Q70. CONTINUE WITH AN EXPLANATION OF THE ADJUSTMENT YOU ARE**  
5 **SPONSORING TO THE COMPANY'S PROPERTY TAX EXPENSE. PLEASE**  
6 **BEGIN BY PROVIDING SOME BACKGROUND ON THE COMPANY'S**  
7 **CALCULATED ATTRITION PERIOD ADJUSTMENT.**

8 **A70.** The Company is sponsoring an adjustment to increase pro forma property tax expense  
9 \$2,307,274 driven by a significant increase in the equalized assessment percentage. The  
10 Company's attrition period property tax expense is derived from applying the estimated  
11 assessed valuation to the equalized assessment percentage, and the product of those two  
12 factors is then applied to the property tax rate to arrive at the property taxes for the attrition  
13 period.

14 **Q71. WHAT ISSUE DO YOU HAVE WITH THEIR COMPUTATION?**

15 **A.71** The appraisal increase driving the significant increase in the attrition period property tax  
16 increase will not be reflected as an expense on the books of TAWC until 2026, outside the  
17 forecasted attrition period. I have eliminated the higher assessment rate, resulting in a  
18 decrease in the Company's attrition period property tax of \$1,343,890 as reflected in  
19 Exhibit DND-10. I wish to emphasize that despite the large reduction in O&M costs in the  
20 attrition period, the property tax increase I am sponsoring in the attrition period is  
21 approximately \$950,000 higher than the test period property tax reflected in Company  
22 Exhibit 22A.2.

1 **Q72. WHAT IS THE BASIS FOR YOUR CONCLUSION THAT THE ASSESSMENT**  
2 **WILL NOT IMPACT ATTRITION PERIOD COSTS?**

3 **A72.** Property tax recorded in a given year is based upon the plant in service as of the prior  
4 year.<sup>30</sup> More importantly, the revised assessment will not be applicable until 2025,  
5 reflected in 2026 property tax expense.<sup>31</sup> The Commission should not apply a 2026  
6 forecasted expense within the 2025 attrition period. Accepting this Company's proposal  
7 would require customers to pay higher rates in 2025, while the Company would not incur  
8 the cost until 2026.

9 *J. Elimination of Costs not Benefitting Customers*

10 **Q73. NOW TURN TO EXHIBIT DND-11, AND PLEASE SUMMARIZE THE NATURE**  
11 **OF THE ADJUSTMENT YOU ARE SUPPORTING.**

12 **A73.** I'm proposing to eliminate Support Service costs totaling \$113,209 in the test period  
13 allocated from AWSC, that either do not provide benefits to customers or are related to a  
14 reasonable apportionment of lobbying charges. The adjustment is split into four different  
15 categories:

- 16 • Elimination of 100% of corporate business development costs.
- 17 • Eliminate 20% of the External Affairs and Public Policy Department costs  
18 allocated to TAWC. Eliminate 50% of the costs allocated to TAWC associated  
19 with the Chief Inclusion, Diversity and Equity (ID&E) Officer and VP Talent  
20 Acquisition
- 21 • Eliminate 100% of other ID&E costs from O&M.

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<sup>30</sup> Company's Response to Consumer Advocate DR No. 1-11 (a).

<sup>31</sup> Company's Response to Consumer Advocate DR No. 1-82, Attachment <DR-1-82 attachment.pdf>.

1 **Q74. PLEASE DISCUSS THESE INDIVIDUALLY BY FIRST ADDRESSING YOUR**  
2 **PROPOSAL TO ELIMINATE ALLOCATED BUSINESS DEVELOPMENT COSTS**  
3 **FROM THE TEST PERIOD.**

4 **A74.** The Company has failed to forecast any benefits associated with the Business Development  
5 function during the attrition period. In summary, the Company has included the forecasted  
6 costs of the Business Development function, but this discretionary expense is not offset by  
7 any implied growth in the system that would provide cost benefits for customers. This  
8 asymmetrical approach should be rejected by the Commission, and the \$72,052 in  
9 departmental costs for Business Development should be eliminated from O&M.

10 **Q75. IS THE GROWTH IN THE CUSTOMER BASE A PRIORITY FOR THE**  
11 **COMPANY?**

12 **A75.** Yes. Appendix 2 is an excerpt of the Company's most recent investor presentation dated  
13 August 1, 2024. On page 7 of the slide deck, the Company identifies that regulated  
14 acquisitions, targeted to increase customer counts by 2%, are one of the drivers in achieving  
15 a long-term earnings per share growth rate of 7-9%. It is clear that Business Development  
16 plays a key role in the Company's growth objectives. However, despite this, the Company  
17 has requested the forecasted costs associated with this department while retaining all  
18 forecasted benefits in the form of economies of scale associated with a growing  
19 organization. The Commission should reject the one-sided ratemaking approach and  
20 disallow Business Development departmental costs from the attrition period. This  
21 component of the adjustment reduces test period costs \$72,052.

1   **Q76. NEXT, TURN TO YOUR PROPOSAL TO ELIMINATE A PORTION OF THE**  
2       **ALLOCATED COSTS OF THE EXTERNAL AFFAIRS AND PUBLIC POLICY**  
3       **GROUP.**

4   **A76.** I reviewed the job descriptions of all employees whose time is charged to the AWSC  
5       External Affairs and Public Policy Department, provided in response to Consumer  
6       Advocate DR No. 3-12. These descriptions indicate that a significant portion of the  
7       responsibilities are related to shaping public opinion and overseeing the Company's  
8       lobbying efforts. Out of seventeen positions, seven include responsibilities related to tasks  
9       that do not benefit customers. I have summarized the portions of the job descriptions  
10      supporting this conclusion, which are attached as Appendix 3.

11      For purposes of setting rates, lobbying should be more broadly defined to include the  
12      indirect costs associated with influencing public opinion and policy. Lobbying should not  
13      be defined as simply those costs paid to hired registered lobbyists but instead include all  
14      the indirect costs, including time spent meeting internally to discuss corporate legislative  
15      objectives, developing a strategy, communication with third-party lobbying contractors,  
16      and meeting with government officials, both formally and informally. Identifying lobbying  
17      costs should be based upon a fully distributed cost approach similar to how overhead costs  
18      are capitalized to construction projects. In that context, internal labor costs associated with  
19      the design and planning of construction projects are charged to the asset. Construction  
20      costs are not limited to the labor directly involved in the physical installation of the asset.  
21      In this same fashion, customers should not incur direct or indirect lobbying costs, which  
22      should be considered in a fully distributed cost view, rather than a narrower incremental  
23      cost approach.

1 **Q77. HAS THE COMPANY CHARGED ANY INTERNAL LABOR TO LOBBYING,**  
2 **THUS REMOVING IT FROM THE REVENUE REQUIREMENT?**

3 **A77.** Yes. In Response to Consumer Advocate DR No. 1-72, the Company indicated it had  
4 charged \$4,357 to lobbying, presumably removing it from the revenue requirement.

5 **Q78. DO YOU BELIEVE THIS IS AN ACCURATE MEASUREMENT OF COSTS THAT**  
6 **SHOULD BE ASSIGNED TO THE LOBBYING FUNCTION?**

7 **A78.** No. In light of the significant references to lobbying and relate efforts contained in the job  
8 descriptions provided in the Confidential Response to Consumer Advocate DR No. 3-12, I  
9 do not believe this level of identified lobbying costs is reasonable.

10 **Q79. HOW DID YOU CALCULATE THE ADJUSTMENT TO REMOVE A PORTION**  
11 **OF EXTERNAL AFFAIRS AND PUBLIC POLICY COSTS?**

12 **A79.** I have taken a conservative approach and assumed that twenty percent of the activity of the  
13 department is associated with lobbying activities that should be removed from the test  
14 period O&M costs. This is admittedly a subjective approach, however, the Company does  
15 not have an incentive to provide a true measurement of these costs, so regulators are left  
16 with making a subjective estimate of these internal costs. I have not attempted to attribute  
17 any costs of office space to this adjustment. The twenty percent exclusion is likely too  
18 small given the importance of public policy on the ability of the Company to meet its  
19 aggressive financial targets. The twenty percent exclusion of these departmental costs  
20 charged to lobbying results in a test period O&M cost reduction of \$29,705.

1 **Q80. NOW TURN TO THE THIRD COMPONENT OF YOUR ADJUSTMENT**  
2 **RELATED TO THE COSTS ASSOCIATED WITH THE INCLUSION DIVERSITY**  
3 **AND EQUITY (“ID&E”) OFFICER.**

4 **A80.** I recommend removing 50% of the costs associated with this position, resulting in an  
5 adjustment of \$3,458, as reflected in Exhibit DND-11. The ID&E focus reflects a corporate  
6 goal, but not one that is essential in the provision of monopoly water service. The partial  
7 exclusion reflects that the position was modified in 2024 to a dual role as both an ID&E  
8 officer and the VP of Talent Acquisition. Information for this adjustment was provided in  
9 Response to Consumer Advocate DR No. 3-4.

10 **Q.81 TURN TO THE LAST COMPONENT OF THIS ADJUSTMENT AND EXPLAIN**  
11 **WHY IT IS NECESSARY.**

12 **A81.** The Response to Consumer Advocate DR No. 3-4 identifies two additional positions  
13 associated with AWSC’s ID&E function. I am recommending the removal of these costs  
14 totaling \$7,968, as they are not necessary in the provision of jurisdictional water service.

15 **Q82. WHAT IS THE ATTRITION PERIOD TOTAL OF THE ADJUSTMENT**  
16 **SPONSORED IN EXHIBIT DND-11?**

17 **A82.** In the event the Commission rejects the inflation adjustment sponsored by Mr. Bradley, the  
18 appropriate attrition period adjustment for the items discussed above is \$121,493 as set out  
19 in Exhibit DND-11.

20 *K. Eliminate TAWC Lobbying*

21 **Q83. BEGIN BY EXPLAINING THE ADJUSTMENT YOU ARE SPONSORING TO**  
22 **REMOVE TAWC LOBBYING COSTS.**

1 A83. The Company provided certain job descriptions on a confidential basis in Response to  
2 Consumer Advocate DR No. 2-13. The job description of the Manager of External Affairs

3 [REDACTED]  
4 [REDACTED]

5 While the assignment of lobbying is necessarily subjective, some assignment to the  
6 lobbying function must be made to ensure customers do not incur lobbying costs. [REDACTED]

7 [REDACTED], resulting in the removal of  
8 \$38,303 in attrition period costs as outlined in Exhibit DND-12.

9 L. To Recognize Omitted Credits on State Excise Tax Calculation

10 Q84. PLEASE EXPLAIN THE ADDITIONAL ADJUSTMENT YOU ARE PROPOSING  
11 TO STATE EXCISE TAXES.

12 A84. A review of the state excise tax return provided in the Minimum Filing Guidelines, question  
13 47, attachment 6 indicates the Company has access to the “Industrial Machinery and  
14 Research and Development Tax Credit.” However, such credit was omitted from the  
15 Company’s attrition period excise tax calculation. The Company has acknowledged the  
16 omission in Response to Consumer Advocate DR No. 2-10 and has indicated the attrition  
17 period adjustment should be \$210,827. This adjustment is identified in Exhibit DND-13  
18 and reflected in the Consumer Advocate attrition period tax calculation referenced as  
19 Schedule 11.

20 IV. Cash Working Capital

21 Q85. WHAT CASH WORKING CAPITAL (“CWC”) BALANCE ARE YOU  
22 SUPPORTING IN THIS PROCEEDING?

1 **A85.** I am supporting a CWC balance of (\$366,485) as reflected on Schedule 5 of the Consumer  
2 Advocate Exhibits. This compares with \$4,503,000 supported by the Company.<sup>32</sup> My  
3 adjustment to Cash Working capital reflects the elimination of certain non-cash elements  
4 of the calculation supported by the Company, the modification of the revenue lag, the  
5 modification of the Support Service Expense lead, and the incorporation of the effects of  
6 Consumer Advocate's revenue requirement components into the calculation, which I will  
7 discuss later in this section of testimony.

8 **Q86. PLEASE PROVIDE AN OVERVIEW OF CWC, HOW IT IS DETERMINED AND**  
9 **HOW IT IMPACTS THE DETERMINATION OF A UTILITIES REVENUE**  
10 **REQUIREMENT.**

11 **A86.** CWC is a measurement of the amount of cash a company requires to have on hand to fund  
12 day-to-day operations. The most precise method of determining CWC is through the use  
13 of a lead-lag study, such as the one presented by TAWC witness Harold Walker III. A CWC  
14 study measures the timing between when revenue is earned and when it is received, when  
15 cash expenses are incurred and when they are paid. These measurements are netted to  
16 determine the amount of funding required for the provision of utility services. This level  
17 of funding, or investment, is appropriately included as a component of the rate base. The  
18 level of CWC in Rate Base may be positive or negative depending upon the outcome of  
19 the study.

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<sup>32</sup> *Petition*, File <TAWC 2024 Rate Case – Cash Working Capital Exhibit.xlsx>, Tab “Working Capital – Pro Forma” (Petitioner’s Exhibit RB-4-Cash Working Capital-DD).

1 **Q87. BEGIN THE DISCUSSION OF YOUR ADJUSTMENTS TO CWC BY**  
2 **IDENTIFYING THOSE ELEMENTS OF THE CALCULATION THAT YOU HAVE**  
3 **REMOVED.**

4 **A87.** The Company has included Deferred Taxes, Depreciation/Amortization, and Net Income  
5 as components of expenses subject to the calculation of lead-lag. The company has applied  
6 zero days of lag to them within the calculation, but that does not completely remove the  
7 impact of these items from the calculation. These amounts are incorporated within the total  
8 balances, which are then subject to computing a daily average. The Commission has  
9 previously indicated that non-cash items should be removed altogether from the CWC  
10 calculation.<sup>33</sup> The Company's inclusion of these items is an attempt to modify a CWC  
11 calculation to provide some measurement of regulatory lag instead. However, measuring  
12 regulatory lag is not the goal of a lead-lag study, which instead is intended to measure the  
13 amount of cash required (or provided by customers) in the provision of utility service.

14 The non-cash expenses are outside the scope of a cash working capital analysis. As implied  
15 by its name, the goal is to measure the company's cash needs (if any). There is no outflow  
16 of cash related to depreciation expense nor the net income the company generates.

17 **Q88. NEXT DESCRIBE THE MODIFICATIONS YOU ARE SUPPORTING TO ADJUST**  
18 **LEAD/LAG COMPONENTS WITHIN THE CALCULATION.**

19 **A88.** The Consumer Advocate requested that the Company reconcile revenues per its pro-forma  
20 test period with the revenues used within its cash working capital calculation in its DR No.  
21 1-51. In its response, the Company acknowledged an error in the revenue value used in

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<sup>33</sup> Order, pp. 47-49, TPUC Docket No. 18-00017, (January 11, 2019).

1 the calculation. Correcting this issue results in modifying the overall revenue lag from  
2 44.9 days to 44.46 days. While this change may seem slight, it is material to the CWC  
3 calculation. The support for this modification is shown on Exhibit DND-14

4 The second adjustment to the lead/lag component is to modify the Support Service lag days  
5 of negative (5) days of the Company to instead use the lag for Salaries and Wages of 10.5  
6 days. The negative five days used implies that TAWC is paying for affiliate charges before  
7 such charges are actually incurred. This is not the type of payment structure that would  
8 occur between two unaffiliated entities, nor should customers be expected to prepay for  
9 affiliate charges. These corporate services charges incur a large measure of labor charges,  
10 so I have imputed the lag associated with TAWC labor as the appropriate lead time  
11 associated with affiliate support services.

12 Finally, I have incorporated the Consumer Advocate-supported attrition period O&M costs  
13 into the calculation to arrive at the CWC value of (\$366,485). The negative value reflects  
14 that customers are providing excess funds necessary to finance TAWC daily operations.

15 V. Modification of the Revenue Conversion Factor

16 **Q89. ARE YOU RECOMMENDING THE ELIMINATION OF TWO COMPONENTS**  
17 **TO THE COMPANY'S REVENUE CONVERSION FACTOR?**

18 **A89.** Yes. I am recommending that the Company's inclusion of the TRA utility fee factor and  
19 Gross Income (Receipts) factor be eliminated within the gross-up calculation.<sup>34</sup> The TRA  
20 (TPUC) fee will not increase or decrease until 2026 associated with this rate change, and

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<sup>34</sup> Mr. Novak is supporting modifications to the Bad Debt Ratio and inclusion of the forfeited discounts factor.

1 thus, it should not be considered within the context of the 2025 attrition period results under  
2 consideration in this proceeding.

3 Secondly, the Company's most recent Gross Receipts Tax Return was supplied in response  
4 to Minimum Filing Guideline Question 47, Attachment 1. A review of this filing indicates  
5 that the Excise Tax and Franchise Tax payments are direct credits to the amount of Gross  
6 Receipts tax due. As a result it would be inappropriate to include both factors in the gross-  
7 up calculation. I have eliminated the Gross Receipts gross-up factor consistent with the  
8 Commission determined the factor in TPUC Docket No. 18-00017.<sup>35</sup>

9 **VI. Modification to the PCOP Rider**

10 **Q90. PROVIDE AN OVERVIEW OF THE COMPANY'S PROPOSAL TO EXPAND THE**  
11 **PCOP RIDER.**

12 **A90.** The Company seeks to expand its PCOP rider to include the incremental (or decremental)  
13 costs associated with its Pension and OPEB costs and recovery of its Regulatory Costs.<sup>36</sup>  
14 Mr. Novak is addressing the recovery of the Company's regulatory costs. I will focus on  
15 addressing the Company's proposal to include pension and OPEB cost variations within  
16 the PCOP rider, compared with those recovered in this base rate proceeding.

17 **Q91. PLEASE RESPOND TO THE COMPANY'S PROPOSAL.**

18 **A91.** First, the Company could request the adoption of an Annual Review Mechanism ("ARM")  
19 pursuant to Tenn. Code Ann. Section 65-5-103(d)(6), which would address the annual  
20 volatility of all TAWC costs. I do not believe the Commission should authorize a new,

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<sup>35</sup> Order, p. 103 TPUC Docket No. 18-00017 (January 11, 2019).

<sup>36</sup> Petition, Direct Testimony of Robert Lane at 20-24.

1 duplicative mechanism to one it already has available. The Commission should avoid the  
2 expansion of piecemeal regulation, which allows the utility to determine which  
3 components can be updated annually and which cannot.

4 Secondly, the Company's proposal would eliminate its risk of under-earning resulting from  
5 volatility in pension and OPEB costs. However, there has been no offsetting reduction in  
6 its proposed ROE to reflect this risk reduction, so the Company's proposal is one-sided. It  
7 is apparent from the Company's testimony that it would enjoy a reduction in the inherent  
8 risk from achieving its authorized return on equity.<sup>37</sup> However, the company has ignored  
9 this obvious outcome in the requested return on equity.

10 Thirdly, while there are many factors influencing the annual Pension and OPEB costs,  
11 many of which are outside the Company's control, the Company has the discretion to make  
12 changes to these employee benefit plans, and in fact has made plan changes in the past few  
13 years.<sup>38</sup>

14 For these reasons, I recommend that the Commission reject the expansion of the existing  
15 PCOP mechanism.

16 **Q92. DOES THIS CONCLUDE YOUR TESTIMONY?**

17 **A92.** Yes, but I reserve the right to modify my testimony if additional information becomes  
18 available.

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<sup>37</sup>

*Id.*

<sup>38</sup>

Company's Responses to Consumer Advocate DR Nos. 1-31 and 1-32.

IN THE TENNESSEE PUBLIC UTILITY COMMISSION  
AT NASHVILLE, TENNESSEE

IN RE:

PETITION OF TENNESSEE-  
AMERICAN WATER COMPANY TO  
MODIFY TARIFF, CHANGE AND  
INCREASE CHARGES, FEES, AND  
RATES, AND FOR APPROVAL OF A  
GENERAL RATE INCREASE

DOCKET NO. 24-00032

AFFIDAVIT

I, David N. Dittemore, 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.

David N. Dittemore  
DAVID N. DITTEMORE

Sworn to and subscribed before me

This 9<sup>th</sup> day of September, 2024.

Terra Allen

NOTARY PUBLIC



My Commission Expires: 1/31/2027

## David Dittamore

### Experience

#### **Areas of Specialization**

Approximately thirty-years experience in evaluating and preparing regulatory analysis, including revenue requirements, mergers and acquisitions, utility accounting and finance issues and public policy aspects of utility regulation. Presented testimony on behalf of my employers and clients in natural gas, electric, telecommunication and transportation matters covering a variety of issues.

Self-Employed; **Consultant July 1 - Current**; Responsible for providing evaluation of utility ratemaking issues on behalf of clients. Prepare analysis and expert witness testimony.

Tennessee Attorney General's Office; **Financial Analyst September, 2017 – June 2021**; Responsible for evaluation of utility proposals on behalf of the Attorney General's office including water, wastewater and natural gas utility filings. Prepare analysis and expert witness testimony documenting findings and recommendations.

Kansas Gas Service; **Director Regulatory Affairs 2014 - 2017; Manager Regulatory Affairs, 2007 - 2014**

Responsible for directing the regulatory activity of Kansas Gas Service (KOS), a division of ONE Gas, serving approximately 625,000 customers throughout central and eastern Kansas. In this capacity I have formulated strategic regulatory objectives for KOS, formulated strategic legislative options for KOS and led a Kansas inter-utility task force to discuss those options, participated in ONE Gas financial planning meetings, hired and trained new employees and provided recommendations on operational procedures designed to reduce regulatory risk. Responsible for the overall management and processing of base rate cases (2012 and 2016). I also played an active role, including leading negotiations on behalf of ONE Gas in its Separation application from its former parent, ONEOK, before the Kansas Corporation Commission. I have monitored regulatory earnings, and continually determine potential ratemaking outcomes in the event of a rate case filing. I ensure that all required regulatory filings, including surcharges are submitted on a timely and accurate basis, I also am responsible for monitoring all electric utility rate filings to evaluate competitive impacts from rate design proposals.

Strategic Regulatory Solutions; 2003 -2007

**Principal**; Serving clients regarding revenue requirement and regulatory policy issues in the natural gas, electric and telecommunication sectors

Williams Energy Marketing and Trading; 2000-2003

**Manager Regulatory Affairs**; Monitored and researched a variety of state and federal electric regulatory issues. Participated in due diligence efforts in targeting investor owned electric utilities for full requirement power contracts. Researched key state and federal rules to identify potential advantages/disadvantages of entering a given market.

MCI WorldCom; 1999 - 2000

**Manager, Wholesale Billing Resolution;** Manage a group of professionals responsible for resolving Wholesale Billing Disputes greater than \$50K. During my tenure, completed disputes increased by over 100%, rising to \$150M per year.

Kansas Corporation Commission; 1984- 1999

**Utilities Division Director** - 1997 - 1999; Responsible for managing employees with the goal of providing timely, quality recommendations to the Commission covering all aspects of natural gas, telecommunications and electric utility regulation; respond to legislative inquiries as requested; sponsor expert witness testimony before the Commission on selected key regulatory issues; provide testimony before the Kansas legislature on behalf of the KCC regarding proposed utility legislation; manage a budget in excess of \$2 Million; recruit professional staff; monitor trends, current issues and new legislation in all three major industries; address personnel issues as necessary to ensure that the goals of the agency are being met; negotiate and reach agreement where possible with utility personnel on major issues pending before the Commission including mergers and acquisitions; consult with attorneys on a daily basis to ensure that Utilities Division objectives are being met.

**Asst. Division Director** - 1996 - 1997; Perform duties as assigned by Division Director.

**Chief of Accounting** 1990 - 1995; Responsible for the direct supervision of 9 employees within the accounting section; areas of responsibility included providing expert witness testimony on a variety of revenue requirement topics; hired and provided hands-on training for new employees; coordinated and managed consulting contracts on major staff projects such as merger requests and rate increase proposals;

**Managing Regulatory Auditor, Senior Auditor, Regulatory Auditor** 1984 - 1990; Performed audits and analysis as directed; provided expert witness testimony on numerous occasions before the KCC; trained and directed less experienced auditors on-site during regulatory reviews.

Amoco Production Company 1982 - 1984

**Accountant** Responsible for revenue reporting and royalty payments for natural gas liquids at several large processing plants.

### **Education**

- B.S.B.A. (Accounting) Central Missouri State University
- Passed CPA exam; (Oklahoma certificate # 7562) - Not a license to practice



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# 2024 Second Quarter Earnings Conference Call

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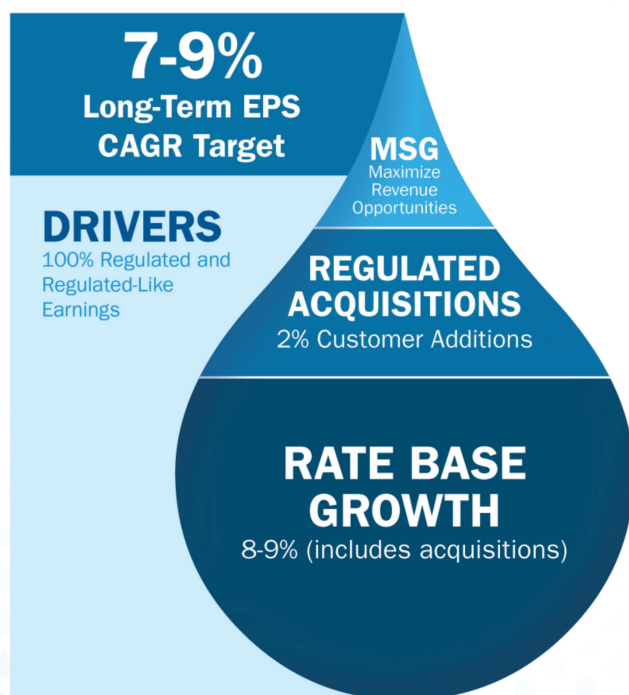
August 1, 2024

# Long-Term Targets Affirmed

*Strong and Sustainable Growth Outlook for the Future*



## EPS GROWTH OUTLOOK



## LONG-TERM FINANCIAL TARGETS

### Drivers of Sustainable Shareholder Return

EPS Growth  
**7-9%**

Dividend Per Share Growth  
**7-9%**

Customer Affordability  
**+**

ESG Leadership  
**+**

### Additional Supportive Targets

Dividend Payout Ratio  
**55-60%**

Debt to Capital  
**<60%**

## Appendix 3

### Supporting Adjustment DND-11

**Source: Excerpts from response to Consumer Advocate3 – 12 – Job Descriptions**

**Director Communication and External Affairs** – Job duties include responsibility for external affairs, community relations, and government affairs.

**Director National Regulatory Affairs** – Responsible for identifying opportunities for thought leadership at a national level; NARUC, MACRUC, MARC, SEARUC, FRI, NASUCA. Responsible for managing any external lobbyists/consultants specific to regulatory affairs support. Build coalitions with trade associations to accomplish regulatory strategy objectives. Develop white papers and coordinates the company's response to national regulatory/government policy initiatives with the External Communications team. Developing relationships with key external regulatory policymakers and corresponding staff. Coordinates the utilization by various lines of business within the company for each of the memberships and works with membership staff to drive company agenda and reputation.

**Government and Regulatory Affairs Specialist** – This role will interpret, review and monitor legislation and administrative regulations affecting the company in coordination with state government affairs leadership, senior management, corporate regulatory, and legal departments. Work with Government Affairs staff on strategizing, designing and implementing advocacy efforts in support of key projects and initiatives. Establish and maintain relationships with key government officials.

**Manager Corporate and Foundation Relations** – Responsible for American Water Charitable Foundation giving programs

**Sr Manager External Communications** – Provides counsel on matters affecting policy, politics, and key relationships; Works with the state president and team to effectively communicate and build relationships with elected officials and key stakeholders and will also monitor and measure communication plan outcomes and drive for continuous improvement in customer and overall stakeholder (legislative/regulatory/media) engagement.

**Senior Vice President Communications and External Affairs** – Responsibility for the internal and external communication strategy that engages current and potential customers, public officials, investors, shareholders and employees. Manage and oversee contracted vendors in the area of external affairs. Manage the Company's national memberships to ensure maximum benefits. The

role will ensure that the interest of American Water and its leadership (both Corporate and State/Division leadership) are appropriately represented as part of interactions with the Administration, Congress, and all relative federal departments (EPA). One of the key primary roles will be to directly engage and help ensure a clear policy direction for our external industry association, the National Association of Water Companies (NAWC). This role will be responsible for managing and leading policy initiatives in conjunction with NAWC.

**Vice President National Gov't and Regulatory Affairs** – One of the key primary roles will be to directly engage and help ensure a clear policy direction for our external industry association, the National Association of Water Companies (NAWC). This role will be responsible for managing and leading policy initiatives in conjunction with NAWC. Coordinate with all corporate functions including State Presidents, to implement federal policies that support overall company growth goals. Ensure the company is fully utilizing its National Memberships to implement its business objectives.

Table 1

				Revenue Req.	
Exhibit Reference		Item		Category	Amount
Exhibit DND-1		CA - Pro forma Income Statement		N/A	N/A
Exhibit DND-2		Federal and State Income Tax Expense		Income Tax Exp/ADIT	\$ (3,641,589)
Exhibit DND-3		Labor, Benefits and Payroll Taxes		Labor Related	\$ (1,200,409)
Exhibit DND-4		TAWC Direct Charged Incentive Compensation		Labor	\$ (287,613)
Exhibit DND-5		Allocated Incentive Compensation		Support Services	\$ (802,962)
Exhibit DND-6		Non-Recurring Legal Charges		Contract Services	\$ (121,869)
Exhibit DND-7		Purchased Power Costs		Production Costs	\$ (253,309)
Exhibit DND-8		Purchased Water/Chemical Costs		Production Costs	\$ (190,816)
Exhibit DND-9		Charitable Costs		Miscellaneous	\$ (108,820)
Exhibit DND-10		Property Tax Expense		General Taxes	\$ (1,343,890)
Exhibit DND-11		Costs not benefitting customers		Support Services	\$ (113,209)
Exhibit DND-12		TAWC Lobbying		Labor	\$ (38,303)
Exhibit DND-13		To Reflect Impact of State Tax Credit		Income Tax Exp	\$ (210,827)
Exhibit DND-14		Cash Working Capital		Rate Base	\$ (366,485)

**Tennessee American Water Company**  
**Docket No. 24-00032**  
**Consumer Advocate**

Exhibit DND-1

## CA Income Statement Adjustments

	2025 *	2025 *	2025 *	2023	2023	2025	2025	2023	2025	2023	2023	2025
	Flow-Through	Remove Labor Cc	To Eliminate a	To Eliminate	To Eliminate	To Normalize Purchased	To Normalize	Elimination of	Normalize	Eliminate AWSC	Eliminate TAWC	Recognize
	Repair	Associated with	TAWC Direct	AWSC Allocated	Non-Recurring	Purchased Power	Chemical	Charitable Exp	Property Tax	Below the Line	Lobbying Costs	omitted state
	Deduction	Vacancies	Compensation	Compensation	Legal Costs	Costs for Non-	Costs for Non-Revenue	Community	Expense	Items	Costs	tax credit
<b>Description</b>	Exhibit DND-2	Exhibit DND-3	Exhibit DND-4	Exhibit DND-5	Exhibit DND-6	Exhibit DND-7	Exhibit DND-8	Exhibit DND-9	Exhibit DND-10	Exhibit DND-11	Exhibit DND-12	Exhibit DND-13
<b>Operating Revenues</b>												
<b>Operating Expense</b>												
<b>Operation and Maintenance:</b>												
Purchased Water												
Purchased Power						(253,309)						
Chemicals							(190,816)					
Waste Disposal												
Labor		\$ (908,022)	\$ (287,613)								(26,804)	
Group Insurance		(151,376)									(6,551)	
Other Benefits		(\$78,002)									(2,629)	
Support Services				(802,962)						(113,209)		
Contracted Services					\$ (121,869)							
Pensions												
Regulatory Expense												
Insurance Other Than Group												
Customer Accounting												
Uncollectibles												
Rents												
Telecommunications												
Transportation												
Miscellaneous								(108,820)				
Maintenance Expense												
<b>Total Operation and Maintenance Expense (Total)</b>	<b>\$ -</b>	<b>\$ (1,137,400)</b>	<b>\$ (287,613)</b>	<b>\$ (802,962)</b>	<b>\$ (121,869)</b>	<b>\$ (253,309)</b>	<b>\$ (190,816)</b>	<b>\$ (108,820)</b>	<b>\$ -</b>	<b>\$ (113,209)</b>	<b>\$ (35,984)</b>	
<b>Depreciation Expense</b>												
<b>Amortization</b>												
<b>General Taxes</b>		(63,009)										
<b>State Income Taxes</b>	(905,695)								(1,343,890)		(2,319)	(210,827)
<b>Federal Income Taxes</b>	(2,735,894)											
<b>Total Operating Expenses (Line 27 + Lines 30-34)</b>	<b>\$ (3,641,589)</b>	<b>\$ (1,200,409)</b>	<b>\$ (287,613)</b>	<b>\$ (802,962)</b>	<b>\$ (121,869)</b>	<b>\$ (253,309)</b>	<b>\$ (190,816)</b>	<b>\$ (108,820)</b>	<b>\$ (1,343,890)</b>	<b>\$ (113,209)</b>	<b>\$ (38,303)</b>	<b>\$ (210,827)</b>
<b>Utility Operating Income (Line 1 less Line 36):</b>	<b>\$ 3,641,589</b>	<b>\$ 1,200,409</b>	<b>\$ 287,613</b>	<b>\$ 802,962</b>	<b>\$ 121,869</b>	<b>\$ 253,309</b>	<b>\$ 190,816</b>	<b>\$ 108,820</b>	<b>\$ 1,343,890</b>	<b>\$ 113,209</b>	<b>\$ 38,303</b>	<b>\$ 210,827</b>

**Tennessee American Water Company**  
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Exh DND-2

**Calculation of Income Tax Expense and ADIT Implications of Flow-Through of Repair  
Deduction**

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>	<u>Source</u>
1	Repair Deduction	\$ (13,933,763)	TAWC Deferred Tax File;Book-Tax Dff Tab; "Repairs"
2	State Income Tax Effect	<u>6.50%</u>	
3	Reduction in State Tax Expense/Reduction in ADIT - State	\$ (905,695)	Line 1 * Line 2
4	Reduction in Net Income Subject to Federal Tax	\$ (13,028,068)	Line 1 - Line 3
5	Federal Tax Rate	<u>21%</u>	
6	Reduction in Federal Tax/Reduction in ADIT - Federal	<u>\$ (2,735,894)</u>	Line 4 * Line 5
7	Reduction in Income Tax Expense/Reduction in ADIT	<u><u>\$ (3,641,589)</u></u>	Line 3 + Line 6

# Public Version

Tennessee American Water Company  
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Exhibit DND-3

## Calculation of Pro-Forma Labor

Source for CA Proforma: CA Response 2-5 Confidential Attachment				TAWC Pro-Forma Labor		
Line No	Item	Tab	Excel Cell Source	CA Pro Forma Exp (Col. A)	TAWC Pro-Forma (Col. B)	Adjustment (Col C)
1	<b>Salaries &amp; Wages</b>					
2	<b>Union</b>					
3	Base Wages	Union	Sum: AW 6:71	\$3,082,171	\$3,335,856	(\$253,685)
4	Shift Premiums	Union	Sum: AX 6:71	\$3,961	3,961	\$0
5	Overtime	Union	Sum: AY 6:71	\$358,302	372,703	(\$14,401)
6	Annual Performance Plan	Union	Sum: AZ 6:71	\$92,477	100,088	(\$7,611)
7	<b>Subtotal: Union Salaries &amp; Wages</b>			<u>\$3,536,911</u>	<u>\$3,812,608</u>	<u>(\$275,697)</u>
8	<b>Non-Union Hourly</b>					
9	Base Wages	NU Hourly	Sum AU 6:19	\$825,110	\$964,723	(\$139,613)
10	Overtime	NU Hourly	Sum AV 6:19	\$52,990	57,614	(\$4,624)
11	Annual Performance Plan	NU Hourly	Sum AW 6:19	\$61,503	71,276	(\$9,773)
12	<b>Subtotal: Non-Union Hourly Salaries &amp; Wages</b>			<u>\$939,603</u>	<u>\$1,093,613</u>	<u>(\$154,010)</u>
13	<b>Non-Union Salaried</b>					
14	Base Wages	NU Stry	Sum: AT 6: 26	\$1,279,797	\$1,654,752	(\$374,955)
15	Annual Performance Plan	NU Stry	Sum: AU 6: 26	210,215	267,926	(\$57,711)
16	Long Term Performance Plan	NU Stry	Sum: AV 6: 26	87,306	105,679	(\$18,373)
17	<b>Subtotal: Non-Union Salaried Salaries &amp; Wages</b>			<u>\$1,577,318</u>	<u>\$2,028,357</u>	<u>(\$451,039)</u>
18	Plus: Recognition of Severance Costs			-	27,276	(27,276)
19	<b>Total Expensed Salaries &amp; Wages Pro Forma</b>		Lines 7 + 12 + 17	<u><u>\$6,053,832</u></u>	<u><u>\$6,961,854</u></u>	<u><u>1/ (\$908,022)</u></u>
20	<b>Payroll Taxes</b>					
21	<b>Union</b>			<b>Pro Forma Exp</b>	<b>Pro Forma Exp</b>	<b>Adjustment</b>
22	FICA	Union	Sum: BC 6: 71 + Sum BD 6: 71	\$270,562	\$291,651	(\$21,089)
23	SUTA	Union	Sum BE 6:71	532	571	(\$39)
24	FUTA	Union	Sum BF 6:71	1,805	1,944	(\$139)
25	<b>Subtotal: Union Payroll Taxes</b>		Lines 22+23+24	<u>\$272,899</u>	<u>\$294,166</u>	<u>(\$21,267)</u>
26	<b>Non-Union Hourly</b>			<b>Pro Forma Exp</b>	<b>Pro Forma Exp</b>	
27	FICA	NU Hourly	Sum: AZ 6: 19 + Sum BA 6: 19	\$71,878	\$83,660	(\$11,782)
28	SUTA	NU Hourly	Sum: BB 6:19	141	168	(\$27)
29	FUTA	NU Hourly	Sum: BC 6:19	483	575	(\$92)
30	<b>Subtotal: Non Union Hourly Payroll Taxes</b>		Lines 27+28+29	<u>\$72,502</u>	<u>\$84,403</u>	<u>(\$11,901)</u>
31	<b>Non-Union Salaried</b>			<b>Pro Forma Exp</b>	<b>Pro Forma Exp</b>	
32	FICA	NU Stry	Sum: AY 6: 26 + AZ 6: 26	\$107,424	\$137,089	(\$29,665)
33	SUTA	NU Stry	Sum: BA 6:26	139	178	(\$39)
34	FUTA	NU Stry	Sum: BB 6:26	477	614	(\$137)
35	<b>Subtotal: Non Union Salaried Payroll Taxes</b>		Lines 32+33+34	<u>\$108,040</u>	<u>\$137,881</u>	<u>(\$29,841)</u>
36	FICA		Lines 22+27+32	<u>\$449,864</u>	<u>\$512,400</u>	<u>(\$62,536)</u>
37	SUTA		Lines 23+28+33	<u>812</u>	<u>917</u>	<u>(\$105)</u>
38	FUTA		Lines 24+29+34	<u>2,765</u>	<u>3,133</u>	<u>(\$368)</u>
39	<b>Total Expensed Payroll Taxes Pro Forma</b>		Lines 36+37+38	<u><u>\$453,441</u></u>	<u><u>\$516,450</u></u>	<u><u>2/ (\$63,009)</u></u>
40	<b>Group Insurance</b>			<b>Pro Forma Exp</b>	<b>Pro Forma Exp</b>	
41	Union	Union	Sum: BU 6:71	\$854,495	\$919,163	(\$64,668)
42	Non-Union Hourly	NU Hourly	Sum: BQ 6:19	101,255	119,916	(\$18,661)
43	Non-Union Salaried	NU Stry	Sum: BP 6:26	222,834	290,881	(\$68,047)
44	Subtotal Expensed Group Insurance			<u>\$1,178,584</u>	<u>\$1,329,960</u>	<u>(\$151,376)</u>
45	Less: Attrition Period OPEB Costs			<u>(\$848,277)</u>	<u>(\$848,277)</u>	<u>\$0</u>
	Plus: Attrition Period H.S.A. costs included in TAWC Pro forma			<u>\$9,780</u>	<u>\$9,780</u>	<u>\$0</u>
46	<b>Total Group Insurance - Attrition Period</b>			<u><u>\$340,087</u></u>	<u><u>\$481,683</u></u>	<u><u>3/ (\$151,376)</u></u>
45	<b>401(k)</b>			<b>Pro Forma Exp</b>	<b>Pro Forma Exp</b>	
46	Union	Union	Sum BI 6:71	\$100,222	\$109,366	(\$9,144)
47	Non-Union Hourly	NU Hourly	Sum BF 6:19	27,874	32,822	(\$4,948)
48	Non-Union Salaried	NU Stry	Sum BE 6:26	49,183	63,082	(\$13,899)
49	<b>Total Expensed 401(k) Pro Forma</b>			<u><u>\$177,279</u></u>	<u><u>\$205,270</u></u>	<u><u>4/ (\$27,991)</u></u>
50	<b>DCP</b>			<b>Pro Forma Exp</b>	<b>Pro Forma Exp</b>	
51	Union	Union	Sum: BJ 6:71	\$150,382	\$166,753	(\$16,371)
52	Non-Union Hourly	NU Hourly	Sum BG 6:19	43,318	50,648	(\$7,330)
53	Non-Union Salaried	NU Stry	Sum BF: 6:26	54,481	73,566	(\$19,085)
54	<b>Total Expensed DCP Pro Forma</b>			<u><u>\$248,181</u></u>	<u><u>\$290,967</u></u>	<u><u>5/ (\$42,786)</u></u>
55	<b>Retiree Medical (VEBA)</b>			<b>Pro Forma Exp</b>	<b>Pro Forma Exp</b>	
56	Union	Union	Sum BK 6:71	\$18,430	\$20,983	(\$2,553)
57	<b>Total Expensed Retiree Medical Pro Forma</b>			<u><u>\$18,430</u></u>	<u><u>\$20,983</u></u>	<u><u>6/ (\$2,553)</u></u>
58	<b>ESPP</b>					
59	Union	Union	Sum BL 6:71	\$1,755	\$4,091	(\$2,336)
60	Non-Union Hourly	NU Hourly	Sum BH 6:19	2,084	2,960	(\$876)
61	Non-Union Salaried	NU Stry	Sum BG 6:26	10,148	11,608	(\$1,460)
62	<b>Total Expensed ESPP Pro Forma</b>			<u><u>\$13,987</u></u>	<u><u>\$18,659</u></u>	<u><u>7/ (\$4,672)</u></u>
Lines 19+25+30+35+39+46+49+54 +57+62				\$7,305,237	\$9,012,316	(\$1,200,409)
Total Less Payroll Taxes				\$6,851,796		

Reference to TAWC Proforma Amounts  
1/ TAWC Exhibit 5  
2/ TAWC Exhibit 22B  
3/ TAWC Exhibit 6  
4/ TAWC Exhibit 7 A  
5/ TAWC Exhibit 7 B  
6/ TAWC Exhibit 7 D  
7/ TAWCExhibit 7 C  
Note: TAWC Exhibit 7 Contains other Employee Benefits, but is not affected by employee vacancies and thus is not referenced in this Exhibit.

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Exhibit DND-4

Adjustment to Remove TAWC Direct Incentive Compensation  
2025 Values

Line No.	Item	Short Term Incentive (APP)		Long-Term Incentive Compensation
1	TAWC Direct			
2	Union	\$	92,477 1/	\$ -
3	Non-Union Hourly		61,503 1/	-
4	Exempt		210,215 1/	87,306
5	Subtotal	\$	364,195	\$ 87,306
6	Exclusion Percentage		55%	100%
7	Reduction to O&M Expenses	\$	(200,307)	\$ (87,306)
8	Total Reduction to O&M	\$	(287,613)	
9	<b>CA 1-21; Analysis of APP Goals - 2024</b>		<b>Recoverable</b>	<b>Non-Recoverable</b>
10	Growth - Earnings Per Share			50.00%
11	Customer Satisfaction		15.00%	
12	Safety - OSHA Injury Rate		5.00%	
13	Safety - DART Rate		10.00%	
14	Environmental Leadership - Drinking Water Compliance		5.00%	
15	Environmental Leadership - Drinking Water Quality		10.00%	
16	People - Women Representation			2.50%
17	People - Ethnic and Racial Diversity			2.50%
18	Total		45.00%	55.00%

1/ Exhibit DND-3

Tennessee American Water Company  
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Exhibit DND-5

## Adjustment to Remove Allocated Incentive Compensation

## Support Services

Line No.		Short Term Incentive (APP)		Long-Term Incentive Compensation	
1	2023 Values				
2	AWSC Allocated	621,676	1/	479,718	1/
3	Less: Incentive Compensation portion of Business Development Exclusion in Ex DND-11	(10,140)	1/	(7,508)	1/
4	Less: Incentive Compensation Portion of External Affairs Exclusion in Ex DND-11 @ 20%	15,028	1/		
5	% External Affairs Exclusion	20%			
		(3,006)			
6	Less: External Affairs Exclusion in Ex DND-xx @ 20%	19,697	1/		
7	% External Affairs Exclusion	20%			
				\$ (3,939)	
8	Subtotal	608,530		468,271	
9	Exclusion Percentage	55%		100%	
10	Reduction to O&M Expenses	(334,692)		(468,271)	
11	Total Reduction to O&M	(802,962)			
12	2025 Values				
13	AWSC Allocated	668,657	1/	586,192	1/ 2/
14	Less: Incentive Compensation portion of Business Development Exclusion in Ex DND-11	(10,907)	1/	(8,075)	1/
15	Less: Incentive Compensation Portion of External Affairs Exclusion in Ex DND-11 @ 20%	16,165	1/		
16	% External Affairs Exclusion	20%			
		(3,233)			
17	Less: External Affairs Exclusion in Ex DND-xx @ 20%	21,186	1/		
18	% External Affairs Exclusion	20%			
				(4,237)	
19	Unadjusted subtotal Incentive Costs	654,517		573,880	
20	Exclusion Percentage	55%		100%	
21	Reduction in O&M	\$ (359,984)		\$ (573,880)	
22	Total Reduction to O&M	(933,864)			

1/ Confidential Response to CA 1-90 Corrected; pivot table-GL Account tab; Adjustments Data Tab; confirmed with council the information above is not confidential

2/ Revised LTPP per response to CA 3-18

**Tennessee American Water Company  
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Exhibit DND-6

**Elimination of Non-Recurring Legal Costs  
Legal Billings Associated with Docket No. 19-00103**

**Contracted Services**

**Source: Response to Consumer Advocate Request 1-74**

<b>Line No.</b>	<b>Firm</b>	<b>2023 Billing Period</b>	<b>Amount</b>
1	Butler Snow	January	14,764
2	Butler Snow	February	8,813
3	Butler Snow	March	6,619
4	Butler Snow	April	10,764
5	Butler Snow	May	24,804
6	Butler Snow	June	17,209
7	Butler Snow	July	9,568
8	Butler Snow	August	10,608
9	Butler Snow	September	9,100
10	Butler Snow	October	2,496
11	Butler Snow	November	3,172
12	Butler Snow	December	3,952
13	Total Legal Costs - 19-00103	Total	\$ 121,869
14	Adjustment to O&M to eliminate non-recurring legal costs		<u>\$ (121,869)</u>
15	Application of 2024 Inflation Factor	2.54% 1/	\$ 124,964
16	Application of 2025 Inflation Factor	2.54% 1/	<u>\$ 128,139</u>
17	Attrition Period Adjustment		<u>\$ 128,139</u>
18	1/ TAWC Response 1-82		

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Exhibit DND-7

**To Recalculate Purchased Power Expense Relying upon Non-Water Revenue Factor**

<b>Line No.</b>	<b>Item</b>	<b>Amount</b>	<b>Source</b>
1	2025 TAWC Purchased Power Costs	\$ 3,062,540	TAWC Exp-2.2
2	Recoverable Costs	91.7%	Line 18
3	2025 Attrition Period Pro-Forma Costs	\$ 2,809,231	Line 5 * Line 6
4	Reduction in pro-forma purchased power costs	\$ (253,309)	Line 7 - Line 5
5	Total Adjustment - 2025 Amounts	<u>\$ (253,309)</u>	Line 4 + Line 8
6	<b>Recoverable % for Production Costs</b>	<b>For the 12 Months Ending 12/31/2023</b>	
7	Water Sales	98,863,364	1/
8	System Delivery	128,847,783	1/
9	Non-Revenue-Unaccounted for Water % [1 - (Line 13 / Line 14)]	23.27%	
10	Non-Revenue-Unaccounted for Water % Authorized	15.0%	
11	Variance (If Line 15 > Line 16 then Line 15 - Line 16)	8.27%	
12	<b>Recoverable % (1 - Line 17)</b>	<u><b>91.73%</b></u>	
13	1/ 2024 TAWC MFG Q022_Attachment.xlsx, tab "Total TNAW"; Note - the response is related to Q022, however is labeled as Q024.		

**Tennessee American Water Company**  
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Exhibit DND-8

**To Recalculate Chemical Expense Relying upon Non-Water Revenue Factor**

<u>Line No.</u>	<u>Item</u>	<u>Chemicals</u>	<u>Source</u>
1	1 Pro forma 2025 costs	\$2,307,000	TAWC Exp-3.1
2	Recoverable Costs	91.7%	Line 12
3	2025 Pro-Forma Chemical Costs	<u>\$ 2,116,184</u>	Line 5 * Line 6
4	Reduction in pro-forma Chemical costs	<u>\$ (190,816)</u>	Line 7 - Line 5
5	Reduction in 2025 Chemical Costs	<u><u>\$ (190,816)</u></u>	Line 4 + Line 8
6	Total Adjustment to 2024 Values		
<hr/>			
	<b>Recoverable % for Production Costs</b>	<b>For the 12</b>	
		<b>Months Ending</b>	
		<b>12/31/2023</b>	
7	Water Sales	98,863,364	1/
8	System Delivery	128,847,783	1/
9	Non-Revenue-Unaccounted for Water % [1 - (Line 13 / Line 14)]	23.27%	
10	Non-Revenue-Unaccounted for Water % Authorized	15.0%	
11	Variance (If Line 15 > Line 16 then Line 15 - Line 16)	8.27%	
12	<b>Recoverable % (1 - Line 17)</b>	<u><u><b>91.73%</b></u></u>	

1/ 2024 TAWC MFG Q022\_Attachment.xlsx, tab "Total TNAW"; Note - the response is related to Q022, however is labeled as Q024.

**Tennessee American Water Company**  
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Exhibit DND-9

**Elimination of Community Partnership Costs**  
**Miscellaneous Expense**

**Source:**

TAWC Exp- 18.1

CA Response 1-40

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>	<u>Source</u>
	Account 52514700 - Test Period Community Partnerships - TAWC 2023		
1	Normalized	\$ 108,820	TAWC Exp-18.1
2	2024-2025 Adjustments	\$ 13,520	TAWC Exp-18.1
3	Attrition Period Adjustment	<u>\$ 122,340</u>	
4	Adjustment to O&M to Eliminate 2023 Community Partnership costs	<u>\$ (108,820)</u>	
5	Attrition Period Adjustment	<u>\$ 122,340</u>	

**Tennessee American Water Company  
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Exhibit DND-10

**Adjustment to Normalize Property Tax Expense**

Source: TAWC Exhibit 22A.2

Line No.	Description	2023 Test Period	2025 Attrition Year*	CA Proforma Attrition Year
1				
2	Utility Plant in Service & CWIP Total	\$444,447,881	\$548,880,674	\$548,880,674
3				
4	Assessed Value	90,000,000	111,147,477	111,147,477
5				
6	Equalized Assessment %	67.31%	97.03% 1/	70.53% 2/
7				
8	Equalized Assessment	60,578,641	107,848,094	78,392,316
9				
10	Property Tax Rate	4.31%	4.56%	4.56%
11				
12	Property Taxes	<u>\$2,613,187</u>	<u>\$4,920,461</u>	<u>\$3,576,571</u>
13				
14	Attrition Period Adjustment			<u>\$ (1,343,890)</u>

15 1/ The Hamilton County assessment of 100% will first apply to 12/31/25 plant balances, recorded as 2026 Expense.

16 2/ TAWC Response 1-82

17 CA 1-11(a) indicates 2023 expenses were based upon 12/31/22 plant balances.

\*The forecasted equalized assessment incorporates  
Hamilton County Equalized increasing back to 100%.  
The rate decreased to 70.53% for years 2023 and 2024

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Exhibit DND-11

**To Remove Corporate Lobbying and Business Development Costs**

Line No.	Item	2023 Amount	Exclusion Percentage	Test Period Adjustment
1	2023 Business Development Costs	\$ 72,052	1/ 100%	\$ (72,052)
2	2023 External Affairs and Public Policy	148,524	1/ 20% 2/	\$ (29,705)
3	Chief ID&E Officer and VP Talent Acquisition	\$ 6,969	3/ 50%	\$ (3,485)
4	Director, ID&E/ID&E Business Partner	\$ 7,968	3/ 100%	<u>\$ (7,968)</u>
5	Adjustment to O&M to eliminate non-recoverable Support Services costs			<u><u>\$ (113,209)</u></u>
6	2025 Costs			
7	Application of 2024 Inflation Factor		3.59% 4/	\$ (117,278)
8	Application of 2025 Inflation Factor		3.59% 4/	\$ (121,493)
9	Attrition Period Adjustment			<u><u>\$ (121,493)</u></u>
10	Composite Support Service Growth Factor Proposed by TAWC			
11	2023 Support Service Costs - As adjusted	\$ 8,047,803	TAWC Schedule EXP-8.2	
12	2025 Support Service Costs	<u>\$ 8,636,676</u>	TAWC Schedule EXP-8.2	
13	Compound Annual Growth Rate	3.59%		
14	1/ TAWC Exhibit 8 Support Services - Workpaper Tab and Response to CA 1-90 Corrected; pivot table-GL Account tab; Adjustments Data Tab;			
15	2/ Conclusions drawn from Attachment 3-12			
16	3/ CA Response 3-4			
17	4/ Petitioner's Inflation Exhibit - Professional Services Schedule 1.8			

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Exhibit DND-12

**To Remove TAWC Lobbying Costs**

CONFIDENTIAL

Line No.	Item	2023 Amount	Exclusion Percentage	Test Period Adjustment
1	2025 Costs			
2	Salary	\$ 104,816 2/	25%	\$ 26,204
3	Cap Credits Salary	\$ 2,402 2/	25%	\$ 600
4	Incentive Comp (APP) (55%)	\$ -	25%	\$ -
5	Incentive Comp Capital Credits (APP) (55%)	\$ -	25%	\$ -
6	Payroll Taxes	\$ 9,275 2/	25%	\$ 2,319
7	Other Benefits	\$ 10,514 2/	25%	\$ 2,629
8	Group Insurance	\$ 26,803 2/	25%	\$ 6,701
9	Group Insurance Capital Credits	\$ (599)	25%	\$ (150)
10	Total 2025 O&M Costs	\$ 162,097	25%	\$ 38,303
11	Reduction to O&M Costs			\$ (38,303)
12	1/ CA Confidential Response 2-13, Amount Excludes Incentive Comp.			
13	2/ TAWC 2024 Rate Case File - Labor Exhibit - Confidential - NU Slry tab, line 13			

**Tennessee American Water Company**  
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**Exhibit DND-13**

**To Reflect State Excise Tax Credit Omitted from TAWC Calculation**

The Company has indicated it omitted the Industrial Machinery and Research and Development Tax Credit from the attrition period State Tax Expense. Since state income tax expense is deductible for purposes of computing Federal Income Tax Expense, the reduction in State Tax Expense would result in an increase in Federal Tax Expense.

**Source: Response to CA 2-10.**

<u>Line No.</u>	<u>Item</u>	<u>Amounts</u>	<u>Source</u>
1	State Tax Credit - Industrial Machinery and Research and Development Tax Credit	\$ (210,827)	Response to CA 2-10, Attachment
2	Reduction in State Tax Expense	<u>\$ (210,827)</u>	

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Exh DND-14

Calculation of Revenue Lag Days

Line No.	Item	TAWC	CA	
1	Sum of Daily Accounts Receivable Balance in a Year	\$ 1,558,085,413	\$ 1,558,085,413	
2	Less: Uncollectibles <sup>1</sup> Deducted From A/R Balance	<u>(382,661)</u>	<u>(382,661)</u>	
3	Sum of Daily Accounts Receivable Balance	<u>1,557,702,752</u>	<u>1,557,702,752</u>	
4	Beginning Accounts Receivable Balance	4,143,784	4,143,784	
5	Ending Accounts Receivable Balance	<u>3,875,354</u>	<u>3,875,354</u>	
6	Change in Accounts Receivable for the Test Year	(268,430)	(268,430)	
7	Sum of Daily Revenue for the Test Year	\$ 66,087,192	\$ 66,087,192	
8	Add Back - Other Revenues - TAWC Removed twice	<u>1,180,215</u>	<u>1,180,215</u>	1/
9	Revised Daily Revenues	66,087,192	67,267,407	
10	Less: Change in Accounts Receivable for the Test Year	(268,430)	(268,430)	
11	<b>Sum of Daily Receipts in the Test Year</b>	\$ 66,355,622	\$ 67,535,837	
12	Sum of Daily Accounts Receivable Balance in Test Year	1,557,702,752	1,557,702,752	
13	Divided by the Sum of Daily Receipts in Test Year	66,355,622	\$ 67,535,837	
14	Total Service Period Collection Lag - Revised per Response to CA 1-51	23.50	23.06	
15	Plus: Service Period and Billing Lag Days	<u>21.40</u>	<u>21.40</u>	
16	Total Revenue Lag Days	<u>44.90</u>	<u>44.46</u>	
17	Sources:			
18	TAWC: Schedule HW-2; pages 1-3			
19	1/ CA: TAWC Information and where difference from TAWC; Response to CA 1-51			