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October 22, 2024

VIA ELECTRONIC FILING

Hon. David Jones, Chairman
c/o Ectory Lawless, Docket Room Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243
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Electronically Filed in TPUC Docket Room
on October 22, 2024 at 2:22 p.m.

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, TPUC Docket No. 24-00032*

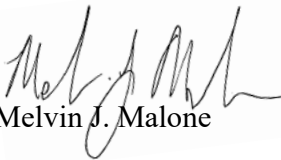
Dear Chairman Jones:

Attached for filing please find *Tennessee-American Water Company's Rebuttal Testimonies for (1) Heath Brooks; (2) Ann Bulkley; (3) Dominic J. DeGrazia; (4) Grant Evitts; (5) Nicholas Furia; (6) Larry Kennedy; (7) Bob Lane; (8) Robert V. Mustich; (9) Robert Prendergast; (10) Charles Rea; (11) Linda Schlessman; (12) Grady Stout; (13) Harold Walker, III; and (14) John Watkins* in the above-captioned matter.

As required, the original plus four (4) hard copies will follow. Should you have any questions concerning this filing, or require additional information, please do not hesitate to contact me.

Very truly yours,

BUTLER SNOW LLP



Melvin J. Malone

clw

Attachments

cc: Bob Lane, TAWC
Shilina Brown, Consumer Advocate Division
Victoria Glover, Consumer Advocate Division
Phillip Noblett, City of Chattanooga
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TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 24-00032

REBUTTAL TESTIMONY

OF

DOMINIC J. DEGRAZIA

ON

TOPICS:

**PROPERTY TAX ADJUSTMENTS
RATE BASE ADJUSTMENTS
PRODUCTION COST ADJUSTMENTS RELATED TO NRW
INFLATION ADJUSTMENTS**

**REBUTTAL TESTIMONY
DOMINIC DEGRAZIA
TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 24-00032**

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1 **I. INTRODUCTION**

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

3 A. My name is Dominic J. DeGrazia.

4 **Q. DID YOU PREVIOUSLY SUBMIT DIRECT TESTIMONY IN THIS**
5 **PROCEEDING ON BEHALF OF TENNESSEE-AMERICAN WATER COMPANY,**
6 **INC. (“TAWC” OR THE “COMPANY”) IN THIS PROCEEDING?**

7 A. Yes. I filed direct testimony on May 1, 2024.

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 A. The purpose of my rebuttal testimony is to rebut testimony provided by the Consumer
10 Advocate Division’s (“CAD”) witnesses Mr. Dittemore, Mr. Novack and Mr. Bradley and
11 the City of Chattanooga’s (“COC”) witness Mr. Garrett.

12 The topics I cover are as follows:

- 13 1. Property Tax Adjustments
14 2. Rate Base Adjustments
15 3. Production Cost Adjustments related to NRW
16 4. Inflation Adjustments

17 **II. PROPERTY TAX EXPENSE**

18 **Q. DID THE CAD PROPOSE ANY ADJUSTMENTS TO PROPERTY TAX EXPENSE?**

19 A. Yes. Mr. Dittemore proposed an adjustment to Property Tax expense.

20 **Q. WHAT ADJUSTMENTS DID MR. DITTEMORE PROPOSE?**

21 A. Mr. Dittemore proposed applying the lower 2024 appraisal ratio of 0.7053 for Hamilton
22 County to the 2025 attrition year balance to calculate the equalized assessment value,

1 which resulted in a decrease of \$1,343,890 in the Company' attrition year property tax
2 expense.¹

3 **Q. DO YOU AGREE WITH THE ADJUSTMENT MR. DITTEMORE PROPOSES?**

4 A. No. The appraisal ratio of 0.7053 for Hamilton County represents only one county out of
5 3 in the service areas and using this one ratio would not reflect the accurate overall
6 equalized assessment to calculate the property tax expense. Furthermore, utilizing a lower
7 overall assessment ratio would not reflect the proper incorporation of the expected change
8 in the appraisal ratio that will be applied to 2025 assessment based on the year end
9 December 31, 2024 balances. Incorporating the expected change of the Hamilton County
10 equalized assessment ratio from 0.7053 to 1.000 would result in an overall equalized
11 assessment of 97.03%. TAWC has reflected this revised appraisal ratio to account for the
12 forecasted property tax expense as of December 31, 2025 year end balances.

13 **Q. DID THE COC PROPOSE ANY ADJUSTMENTS TO PROPERTY TAX**
14 **EXPENSE?**

15 A. Yes. Mr. Garrett on behalf of COC proposed adjustments to Property Tax expense.

16 **Q. WHAT ADJUSTMENTS DID MR. GARRETT PROPOSE?**

17 A. Mr. Garrett proposes applying the 2023 Equalized assessment percentage to the 2024 Total
18 Plant and CWIP balance resulting in a reduction of \$1,733,497 to TAWC proposed property
19 tax expense.²

¹ *Pre-filed Testimony of Consumer Advocate Division Witness David N. Dittmore* 34:4-35:8 & Exhibit DND-10, TPUC Docket No. 24-00032 (Sept. 17, 2024) (hereinafter "Dittmore").

² *Pre-filed Testimony of City of Chattanooga Witness Mark E. Garrett*, 32:20-34:7 & Exhibit MG-2.4, TPUC Docket No. 24-00032 (Sept. 17, 2024) (hereinafter "Garrett").

1 **Q. DO YOU AGREE WITH THE ADJUSTMENT MR. GARRETT PROPOSES?**

2 A. No. Utilizing the 2023 equalized assessment ratio would ignore the expected change in the
3 Hamilton County rate that will be applied in attrition year 2025 and that has been
4 incorporated in the forecasted assessment ratio in the TAWC proposed expense.
5 Additionally, TAWC is seeking the expense on the Total Plant and CWIP as of the end of
6 the 2025 attrition period, which reflects the proper forecasted expense TAWC will incur.

7 **III. ADJUSTMENTS TO RATE BASE**

8 **Q. DID CAD PROPOSE ANY ADJUSTMENTS TO RATE BASE?**

9 A. Yes, Mr. Novak proposes adjustments to rate base.

10 **Q. WHAT ADJUSTMENTS DID MR. NOVAK PROPOSE?**

11 A. Mr. Novak proposes adjustments to the TAWC working capital components of
12 Unamortized Debt Cost, Incidental Collections, and Deferred Rate Case Costs. Mr. Novak
13 also proposes adjustments to Customer Advances and Contributions in Aid of Construction
14 (“CIAC”).³

15 **Q. PLEASE DESCRIBE THE METHODOLOGY USED TO CALCULATE THE**
16 **UNAMORTIZED DEBT COST?**

17 A. Mr. Novak utilized a regression analysis on two-year trends of historical 13-month average
18 balances. The results of this analysis were used to forecast the December 2025 attrition
19 year balance, which reduced the Company’s balance by \$142,092.⁴

³ *Pre-filed Testimony of CAD Witness William H. Novak*, 5:1-16:3 & WHN rate base Workpaper, TPUC Docket No. 24-00032 (Sept. 17, 2024) (hereinafter “*Novak*”).

⁴ *Novak*, 10:1-716 & WHN rate base Workpaper, TPUC Docket No. 24-00032 (Sept. 17, 2024).

1 **Q. DO YOU AGREE WITH THE METHODOLOGY AND BALANCE USED FOR**
2 **THE UNAMORTIZED DEBT COST?**

3 A. No, I do not agree with using regression analysis for forecasting the Unamortized Debt
4 Cost Balance. The forecasted balance as proposed by the Company incorporated the actual
5 amortizations by debt issuance as well as forecasted new debt costs balances and specific
6 future amortization based on the terms of each projected issuance.⁵ Additionally, the
7 coefficient results from the regression analysis, which was performed by Mr. Novak,
8 produced a value of only 2.6%, which does not represent a linear relationship of the data.
9 Regressing average balances is not appropriate given the level of actual and specific
10 assumptions utilized in calculating the company Unamortized Debt Cost Balance.

11 **Q. PLEASE DESCRIBE THE METHODOLOGY USED TO CALCULATE THE**
12 **INCIDENTAL COLLECTIONS.**

13 A. Mr. Novak first uses a 12-month average of the net accrual of the accrual and payments of
14 the sales tax to calculate the average annual and subsequent average daily funds.⁶ Mr.
15 Novak also calculates the total lag days using TAWC Payment Lag Days and includes an
16 additional Service Period Lag Days based on 15.21 days.⁶ The combined total lag days
17 was then applied to the daily funds resulting in a higher balance of (\$334,298) compared
18 to the TAWC amount of (\$145,861), which reduced rate base by an additional (\$188,437).⁶

19 **Q. DO YOU AGREE WITH THE METHODOLOGY USED TO CALCULATE THE**
20 **INCIDENTAL COLLECTIONS?**

⁵ *Pre-filed Testimony of TAWC Witness Nicholas Furia*, 7:1-12 & Exhibit CS-1 Schedule CS-1.3 & CS-1.4, TPUC Docket No. 24-00032 (May. 1, 2024).

⁶ *Novak*, 10:1-7 & WHN rate base Workpaper, TPUC Docket No. 24-00032 (Sept. 17, 2024).

1 A. No. TAWC used the same methodology used in Docket No. 12-00049 & Docket No. 24-
2 00011 to calculate the Incidental collections. This methodology uses only the Payment
3 Lag Days and applies this to the average daily funds for payments. The average daily fund
4 in both methods produced a similar basis, however, the inclusion of the service period lag
5 days resulted in a larger impact to the calculated balance.

6 **Q. DID MR. NOVAK EXCLUDE THE DEFERRED RATE CASE EXPENSE**
7 **BALANCE?**

8 A. Yes. Mr. Novak removed the balance from the working capital component of rate base
9 stating “For Deferred Rate Case Costs, I am recommending that the Commission consider
10 developing a separate surcharge of the costs outside of base rates.”⁷

11 **Q. DO YOU AGREE WITH THE EXCLUSION OF THE DEFERRED RATE CASE**
12 **EXPENSE BALANCE?**

13 A. No. TAWC’s proposal, like that of Mr. Novak, defers rate case expense, creating a
14 Regulatory Asset and amortizing it over a three-year period. Company witness Bob Lane
15 further addresses this proposal with the recommendation of using the PCOP Rider, rather
16 than creating an additional surcharge, as the mechanism of revenue recovery treatment.
17 Additionally, Mr. Novak’s exclusion of the deferred rate case balance is inconsistent with
18 his proposal, as the regulatory asset balance would set the basis for recovery through a
19 surcharge. This estimated balance and amortization would then be trued up to the actual
20 costs.

⁷Novak, 10:1-11:2 & WHN rate base Workpaper, TPUC Docket No. 24-00032 (Sept. 17, 2024).

1 **Q. DID MR. GARRETT ALSO EXCLUDE THE DEFERRED RATE CASE EXPENSE**
2 **BALANCE?**

3 A. No. Similar to Mr. Novak, Mr. Garrett recommends rate case expenses be addressed under
4 another proceeding, however no exclusion or adjustment was made regarding the rate base
5 balance. Mr. Garrett stated “I recommend that rate case expenses be deferred and
6 considered in a subsequent docket in which the Commission can fully review and evaluate
7 the expenses and make a final determination regarding the appropriate recovery of the
8 expenses at that time.”⁸

9 **Q. WHAT IS TAWC’S PROPOSAL TO ADDRESS THE DEFERRED RATE CASE**
10 **EXPENSE BALANCE?**

11 A. TAWC is proposing to use the PCOP Rider to reconcile the forecasted amount recovered
12 in base rates with the actual rate case costs incurred, with any difference between the
13 forecasted amount and the actual amount to be returned to or recovered from customers via
14 the PCOP Rider. Please refer to Company witness Bob Lane’s Direct and Rebuttal
15 testimonies for additional discussion on the Company’s proposal to recover rate case
16 expense.⁹

17 **Q. PLEASE DESCRIBE THE ADJUSTMENTS AND METHODOLOGY USED TO**
18 **PROJECT THE CUSTOMER ADVANCES BALANCES.**

19 A. Mr. Novak first adjusted the test period balances to include projects that are Work in
20 Progress (“WIP”). Secondly, Mr. Novak utilized a regression analysis using a two-year

⁸ *Garrett*, 41:3-42:2 & Exhibit MG-2.7, TPUC Docket No. 24-00032 (Sept. 17, 2024).

⁹ *Pre-filed Rebuttal Testimony of TAWC Company Witness Bob Lane*, 15:16-18:14, TPUC Docket No. 24-00032 (Oct. 22, 2024).

1 trend of the 13-month average historical balances and used the regression results to forecast
2 the attrition year balance resulting in an increase in Customer Advance balances.¹⁰

3 **Q. DO YOU AGREE WITH THE CUSTOMER ADVANCES METHOD OF**
4 **FORECASTING AND ADJUSTMENTS?**

5 A. No. The balances associated with these projects were excluded from the test period as the
6 projects were not yet used and useful. Furthermore, the Company did not include
7 Construction Work in Progress (“CWIP”) as a component of rate base and therefore no
8 corresponding balances are included as an offset to the projects included for these accounts.
9 TAWC did not include CWIP in rate base thereby increasing the capitalized cost through
10 allowance of funds used during construction (“AFUDC”). I also do not agree with using
11 regression analysis for the forecasted Customer Advances, as they are subject to refunds
12 and the balances can and have fluctuated over time. Therefore, an extrapolation of a balance
13 based on a linear trend is not an appropriate method, compared to the TAWC forecasted
14 amounts based on the Strategic Capital Expenditure Plan (“SCEP”).

15 **Q. PLEASE DESCRIBE THE ADJUSTMENTS AND METHODOLOGY USED TO**
16 **PROJECT THE CIAC BALANCES.**

17 A. Mr. Novak followed a similar method as he did for Customer Advances by adjusting the
18 test period balances to include projects that are Work in Progress. Mr. Novak then utilized
19 a regression analysis using a two-year trend of the 13-month average historical balances
20 and used the regression results to forecast the attrition year balance resulting in an increase
21 in CIAC balances.¹¹

¹⁰ Novak, 12:12-13:16 & WHN rate base Workpaper, TPUC Docket No. 24-00032 (Sept. 17, 2024).

¹¹ Novak, 13:18-14:19 & WHN rate base Workpaper, TPUC Docket No. 24-00032 (Sept. 17, 2024).

1 **Q. DO YOU AGREE WITH THE CIAC METHOD OF FORECASTING AND**
2 **ADJUSTMENTS?**

3 A. No. The balances associated with these projects were excluded from the test period as the
4 projects were not yet used and useful. Furthermore, the Company did not include CWIP
5 as a component of rate base and therefore no corresponding balances are included as an
6 offset to the projects included for these accounts. I also don't agree with the use of
7 regression analysis for the forecasted CIAC as an appropriate method compared to the
8 TAWC forecasted amounts based on the SCEP.

9 **Q. DID CAD AND COC PROPOSE ADJUSTMENTS TO CASH WORKING**
10 **CAPITAL?**

11 A. Yes. Company witness Harold Walker addresses each proposed adjustment of CAD witness
12 David N. Dittmore and the COC witness Mark E. Garrett regarding their calculation of
13 the appropriate cash working capital ("CWC") allowances for inclusion in TAWC's rate
14 base.¹²

15 **Q. DO YOU AGREE WITH CAD'S AND COC'S PROPOSED ADJUSTMENTS TO**
16 **CWC?**

17 A. No. As further addressed in Harold Walker's Testimony, TAWC does not agree with the
18 proposed changes by Mr. Dittmore or Mr. Garrett.

19 **Q. WHAT CWC BALANCE SHOULD BE INCLUDED IN THE TAWC RATE BASE?**

¹² *Pre-filed Rebuttal Testimony of TAWC Company Witness Harold Walker, 3:1-14:16, TPUC Docket No. 24-00032 (Oct. 22, 2024).*

1 A. The cash working capital balance is \$4,391,000. The determination of this amount is
2 addressed in Harold Walker’s testimony, and Schedule HW-1R summarizes TAWC’s cash
3 working capital requirements.

4 **Q. DID CAD AND COC PROPOSE ADJUSTMENTS TO ACCUMULATED**
5 **DEFERRED TAXES?**

6 A. Yes. Company Witness Linda Schlessman’s Testimony addresses CAD witness
7 Dittemore’s and COC witness Garrett’s recommendation to adopt the flow-through
8 methodology for the treatment of the Repair Deductions when computing state and federal
9 income tax expense and the recommendation to reduce the accumulated deferred income
10 tax liability balance for the adoption of the flow-through tax methodology for the repairs
11 timing difference.¹³

12 **Q. DO YOU AGREE WITH CAD’S PROPOSED ADJUSTMENTS TO**
13 **ACCUMULATED DEFERRED TAXES?**

14 A. No. As Company Witness Linda Schlessman’s Testimony states, TAWC recommends
15 continuing to account for the repairs timing difference under the normalized method of
16 accounting pursuant to practices utilized in TAWC’s prior rate case.¹⁴

17 **IV. PRODUCTION COST EXPENSES**

18 **Q. DID CAD PROPOSE ADJUSTMENTS TO PRODUCTION COST EXPENSES?**

19 A. Yes. Mr. Dittemore proposed adjustments to Purchase Power and Chemical costs based on
20 a Non-Revenue Water (“NRW”) Limitation Factor of 15%. The resulting attrition period

¹³ *Pre-filed Rebuttal Testimony of TAWC Company Witness Linda Schlessman, 2:6-16:10*, TPUC Docket No. 24-00032 (Oct. 22, 2024) (hereinafter “Schlessman”).

¹⁴ *Schlessman, 2:6-16-:10*, TPUC Docket No. 24-00032 (Oct. 22, 2024).

adjustments were a reduction of \$253,309 in Purchase Power and \$190,816 in Chemical costs.¹⁵

Q. DO YOU AGREE WITH CAD’S PROPOSED ADJUSTMENTS TO PRODUCTION COST EXPENSES?

A. No. TAWC does not agree with the Mr. Dittemore’s proposed adjustments to Power and Chemicals based on a “NRW” limitation factor. This topic is extensively addressed in Company witness Grady Stout’s Rebuttal Testimony.¹⁶

V. INFLATION ADJUSTMENTS

Q. DID CAD PROPOSE A DIFFERENT METHOD THAN TAWC TO DETERMINE NON-PRODUCTION VALUES FOR THE ATTRITION PERIOD?

A. Yes. Mr. Bradley proposed using a compound annual growth rate to forecast future costs.¹⁷

Q. DO YOU AGREE WITH THE USE OF COMPOUND ANNUAL GROWTH (“CAGR”) METHOD OF FORECASTING AND RESULTING ADJUSTMENTS TO NON-PRODUCTION EXPENSES?

A. No. The use of CAGR based on historical values is an alternative method for forecasting, however, TAWC believes that its use of Consumer Price Index (“CPI”) values that are specific to each expense category is a more accurate method for forecasting. The use of CPI by sector is a widely accepted method for forecasting and this method has been recently accepted by Mr. Dittemore¹⁸ in the Iowa American Water General Rate Case

¹⁵ *Dittemore*, 32:3-32:17 & Exhibit DND-7 & 8, TPUC Docket No. 24-00032 (Sept. 17, 2024).

¹⁶ *Pre-filed Rebuttal Testimony of TAWC Company Witness Grady Stout*, 30:3-36:9, TPUC Docket No. 24-00032 (Oct. 22, 2024).

¹⁷ *Pre-filed Testimony of CAD Witness Alex Bradley*, 21:16-20, TPUC Docket No. 24-00032 (Sept. 17, 2024).

¹⁸ *Pre-filed Testimony of Office of Consumer Advocate Witness David N. Dittemore Witness*, 36:4-41:11, Iowa Docket No. RPU-2024-0002 (September 6, 2024).

1 (RPU-2024-0002) with changes to time-period used to determine the CPI rate to apply.

2 Furthermore, the Company found issues with the CAD-proposed non-production growth

3 factor as addressed in Company Witness John Watkins Rebuttal Testimony.¹⁹

4 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

5 **A.** Yes.

¹⁹ *Pre-filed Rebuttal Testimony of TAWC Company Witness John Watkins, 9:12-14:10, TPUC Docket No. 24-00032 (Oct. 22, 2024) (hereinafter “Watkins”).*

CERTIFICATE OF SERVICE

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

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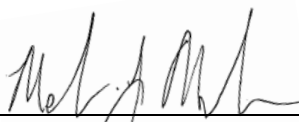
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This the 22nd day of October 2024.



Melvin J. Malone