

TENNESSEE PUBLIC UTILITY COMMISSION



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January 17, 2025

Docket No. 24-00032

*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*

As a courtesy, because the motion is lengthy and contains numerous monetary rulings, it is being filed before the public deliberations scheduled on Tuesday, January 21, 2025.

*NOTE: The evidentiary portion of the case has closed, and the filing of this motion commences the panel's deliberations on the merits of the case. As such, no comments or other filings should be offered on the proposed rulings below, and none will be accepted by the Commission Docket Manager. The filing is a proposal and not made in lieu of the official action of the Commission in this matter, which will be memorialized by written order subsequent to the public deliberations.

Chairman David F. Jones's Pre-Filed Motion on the Merits of the Rate Case

Tennessee American Water Company is requesting a \$13,919,240 annual rate increase. Based upon my findings, which are detailed below relative to the Company's revenues, expenses, taxes, rate base, and rate of return, I find Tennessee American should be granted an annual rate increase of \$1,007,930, which is predicated upon the following findings:

Test Period and Attrition Period

I find that the test period for the twelve months ended December 31, 2023, and the attrition period for the twelve months ending December 31, 2025, as proposed by the Parties, are reasonable and should be adopted.

Revenues

I move the adoption of attrition period Water Sales Revenues of \$71,219,854 and Other Revenues of \$1,180,170, which brings total operating revenues to \$72,400,024 for the attrition period.

Expenses

I move the adoption of \$27,216,406 for attrition period operation and maintenance expenses consisting of the following:

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- 1) Purchased Water of \$176,500;
- 2) Purchased Power of \$2,672,005;
- 3) Chemicals of \$2,116,184;
- 4) Waste Disposal of \$759,106;
- 5) Labor of \$5,732,989;
- 6) Group Insurance of \$323,187;
- 7) Other Benefits of \$559,911;
- 8) Support Services of \$7,581,319;
- 9) Contracted Services of \$886,174;
- 10) Pensions of \$619,489;
- 11) Regulatory Expense of \$0;
- 12) Insurance Other Than Group of \$1,205,504;
- 13) Customer Accounting of \$87,556;
- 14) Uncollectibles of \$491,153;
- 15) Rents of \$30,115;
- 16) Telecommunications of \$336,870;
- 17) Transportation of \$428,594;
- 18) Maintenance of \$1,710,996; and
- 19) Miscellaneous of \$1,498,752.

I also move the adoption of \$15,763,872 in Depreciation Expense and \$1,116 for Amortization Expense for the attrition period.

Taxes Other Than Income

I move the adoption of Taxes Other than Income Taxes of \$5,502,129 for the attrition period, consisting of the following:

- 1) Property Tax of \$3,576,571;
- 2) Franchise Tax of \$982,116;
- 3) Gross Receipts Tax of \$217,895;
- 4) Commission Inspection Fee of \$289,493; and
- 5) Payroll Taxes of \$436,054.

I also move to adopt a State Excise Tax of \$843,487 and a Federal Income Tax of \$3,229,112 for the attrition period, which is based on the normalization method of accounting for the Repair Deduction.

Net Operating Income

Based on the preceding determinations, I find that the Net Operating Income for the attrition period is \$19,843,902, based on current rates before the application of taxes for the additional attrition period revenues.

Rate Base

I move to adopt a Rate Base of \$300,742,017 for the attrition period consisting of:

Additions:

- 1) Utility Plant in Service of \$515,138,706;
- 2) Construction Work in Progress of \$0;
- 3) Materials and Supplies of \$1,899,351;
- 4) Lead/Lag Study of \$1,602,081; and
- 5) Other Working Capital of \$1,066,412.

Deductions:

- 1) Accumulated Depreciation of \$126,819,773;
- 2) Accumulated Deferred Income Taxes of \$60,093,004;
- 3) Customer Advances for Construction of \$8,250,965;
- 4) Contributions in Aid of Construction of \$19,455,803;
- 5) Unamortized Investment Tax Credit of \$5,010;
- 6) Jasper Highlands Regulatory Liability of \$590,400; and
- 7) Utility Plant Acquisition Adjustment of \$3,749,579.

Revenue Conversion Factor

I move the adoption of an overall Revenue Conversion Factor of 1.355850 based upon a Forfeited Discounts Factor of 0.005373, an Uncollectible Ratio of 0.006833, a state excise tax rate of 6.5%, and a federal income tax rate of 21%.

Rate of Return

I move the adoption of a capital structure composed of 55.00% long-term debt, 0.81% short-term debt, and 44.19% equity. I also move to adopt a long-term debt cost of 4.59%, a short-term debt cost of 4.27%, and an equity return of 9.7%. Using these recommended values, I move to adopt an overall rate of return of 6.8455% for Tennessee American.

Revenue Deficiency

Based upon the preceding determinations, I find a Revenue Deficiency of \$1,007,930 for the attrition period.

Rate Design

I move that Tennessee American's proposed tariff relating to base rates be denied and that the Company file tariffs consistent with the following rate changes, which are designed to recover the revenue deficiency: An equal percentage rate increase to residential, commercial, industrial, municipal and other public authorities, and private fire service. This across-the-board increase represents a 1.45% increase to base rates and shall be applied to the minimum fixed charge of each customer class for all service zones and territories. Further, although my motion does not include any rate increase to the

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Company's sales for resale and special contract customers, the special contract rates should be updated to include the amounts recovered through the Capital Recovery and PCOP Riders, which are being reset to zero in this docket.

Other Items

The Company also proposed several other miscellaneous tariff changes, and I move approval of those changes with exception of the following: I move the Company's requests to include electronic payment fees in base rates, to increase the meter tampering charge, and to implement the proposed Universal Affordability Tariff be denied.

The Company requested authorization to establish a replacement program for customer-owned lead service lines and recover any associated costs through its Capital Recovery Rider. Without objection from the Parties, the Hearing Officer found that the replacement program is complicated and presents several legal issues that need to be explored, concluding that a new docket should be opened to consider the program. Therefore, I move that a new docket should be opened to consider any requested replacement program for customer-owned lead service lines.

The Company also requested to recover an estimated \$1,554,000 in rate case expenses. Consistent with the Consumer Advocate's and the City of Chattanooga's recommendation, I move that rate case costs be removed from base rates and instead establish a separate proceeding to determine the recoverable amount of rate case costs, as well as the time period and mechanism for recovery. The amount of regulatory costs to be recovered, however, shall not exceed the \$1,554,000 requested by the Company.