

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

April 21, 2025

IN RE:)	
)	
PETITION OF TENNESSEE-AMERICAN WATER)	DOCKET NO.
COMPANY TO MODIFY TARIFF, CHANGE AND)	24-00032
INCREASE CHARGES, FEES, AND RATES, AND)	
FOR APPROVAL OF A GENERAL RATE)	
INCREASE)	

ORDER SETTING UTILITY RATES

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This matter came before Chairman David F. Jones, Vice Chairman John Hie, Commissioner Herbert H. Hilliard, Commissioner Clay R. Good, and Commissioner David Crowell of the Tennessee Public Utility Commission (the “Commission” or “TPUC”), the voting panel assigned to this docket, during deliberations held electronically via Webex on January 21, 2025, to consider the *Petition* filed by Tennessee-American Water Company (“TAWC” or the “Company”) on May 1, 2024 seeking to modify its tariff, change and increase charges, fees, and rates, and for approval of a general rate increase.

I. BACKGROUND AND PETITION

TAWC is a public utility that provides residential, commercial, industrial, and municipal water service (including public and private protection service) to customers in Chattanooga, Tennessee, and surrounding areas and North Georgia. The Company also provides water for both public and private fire protection services. In total, TAWC serves more than 87,000 customers.¹ TAWC is a wholly owned subsidiary of American Water Works Company, Inc., which provides water and wastewater to fourteen million customers in the United States through its regulated operations in fourteen states and eighteen military installations.²

The Company’s most recent rate case was in 2012, which concluded with the approval of a settlement agreement reached by the Company, the Consumer Advocate Division of the Office of the Tennessee Attorney General (“Consumer Advocate”), the City of Chattanooga (“City”), the Chattanooga Regional Manufacturers Association (“CRMA”), the Town of Signal Mountain, and Walden’s Ridge Utility District.³ Nevertheless, the Company’s rates have not remained stagnant.

¹ *Petition*, p. 1 (May 1, 2024).

² *Petition*, pp. 1-2 (May 1, 2024).

³ *In Re: Petition of Tennessee American Water Company for a General Rate Increase, Implementation of Distribution System Infrastructure Charge and the Establishment of Tracking Mechanisms for Purchase Power, Pension, and Chemical Expenses*, Docket No. 12-00049, *Order Approving Settlement Agreement* (November 20, 2012).

In 2013, the General Assembly enacted legislation granting public utilities the ability to opt for alternative rate regulation, which would allow rates to be increased without the scrutiny or costs of a traditional rate case in statutorily expedited proceedings.⁴ Pursuant to Tenn. Code Ann. § 65-5-103(d), TAWC proposed and gained approval of a Qualified Infrastructure Investment Program (“QIIP”) Rider; Economic Development Investment (“EDI”) Rider; Safety and Environmental Compliance (“SEC”) Rider (collectively “Capital Riders”); and a Pass-Through Mechanism for purchased power, chemicals, purchased water, and wheeling water called the Production Costs and Other Pass-throughs Rider (“PCOP”) in TPUC Docket No. 13-00130.⁵ Since 2013, the Capital Riders and PCOP mechanisms have allowed the Company to recover certain capital investments, including a return on equity, and certain expenses outside of a rate case.

In the Company’s most recent Capital Rider proceeding in Docket No. 24-00011, shortly before this rate case was filed, TAWC reported that its earnings exceeded the authorized return granted in the 2012 rate case.⁶ The Consumer Advocate expressed concerns with the reported over-earnings in Docket No. 24-00011, but noted the Capital Rider docket was not the appropriate proceeding to investigate the extent of any over-earnings.⁷

On May 1, 2024, the Company filed the *Petition* seeking to increase customer rates by \$14.1 million, an increase in residential rates of approximately \$4.24 per month based on average residential monthly usage of 3,800 gallons.⁸ The *Petition* was supported by the pre-filed testimony and exhibits of no less than fifteen Company employees and consultants. The Company calculated the revenue

⁴ 2013 Public Acts. Ch. 245 § 5’

⁵ See *In re: Petition of Tennessee-American Water Company for Approval of a Qualified Infrastructure Investment Program, an Economic Development Investment Rider, a Safety and Environmental Compliance Rider and Pass-Throughs for Purchased Power, Chemicals, Purchased Water, Wheeling Water Costs, Waste Disposal and TRA Inspection Fee*, Docket No. 13-00130, *Order Approving Amended Petition* (January 27, 2016).

⁶ *In re: Petition of Tennessee American Water Company’s 2024 Incremental Capital Recovery Rider Tariff*, Docket No. 24-00011, *Order Granting Petition As Amended*, pp. 3-4 (November 8, 2024).

⁷ *Id.* at 6.

⁸ *Petition*, pp. 3-4 (May 1, 2024).

deficiency in three major components: (1) \$7.3 million for recovery of capital investment; (2) \$3.7 million in increased operations and maintenance and general taxes expenses; and (3) \$3.1 million in increased cost capital expense based on a proposed return on equity of 10.75%.⁹ The existing Capital Rider would be reset to zero, and the balance recovered in the new base rates.¹⁰

TAWC also proposed to establish a more consolidated customer rate structure by moving from seven rate areas with multiple customer classes to two rate areas with two classes (except for special contracts and private fire service). TAWC also proposes to update its tariff by introducing updated language to clarify and simplify its tariff.¹¹ Additional proposals included programs for consumer-funded lead service line replacement and rate subsidies for qualifying low-income households.

II. TRAVEL OF THE CASE

The Administrative Judge entered a protective order on May 2, 2024, shortly after the *Petition* was filed to expedite the flow of confidential information among any participating intervening parties. The Consumer Advocate filed a *Petition to Intervene* on May 20, 2024, and the City filed a *Petition to Intervene* on May 29, 2024. The requests to intervene were subsequently granted by the Administrative Judge and a procedural schedule was established.¹² On June 28, 2024, the Utility Workers Union of America, AFL-CIO, and the Utility Workers Union of America Local 121 (together “UWUA”) sought intervention, which was subsequently granted.¹³

Following discovery, the Consumer Advocate filed pre-filed testimony of Alex Bradley, Aaron L. Rothschild, Clark Kaml, David N. Dittmore, and William H. Novak contesting various

⁹ *Id.* at 3-4.

¹⁰ *Id.* at 4.

¹¹ *Id.*

¹² *Order Granting the Petition to Intervene Filed by the Consumer Advocate* (June 12, 2024); *Order Granting the Petition to Intervene Filed by the City of Chattanooga* (June 12, 2024); *Order Establishing a Procedural Schedule* (June 13, 2024).

¹³ *Order Granting the Petition to Intervene Filed by Utility Workers Union of America, AFL-CIO, and the Utility Workers Union of America Local 121* (July 26, 2024).

accounting issues, the rate of return, and policy aspects of the proposed rate increase. In total, the Consumer Advocate proposed a *decrease* in rates of \$4,657,302 million.¹⁴

The City filed the pre-filed testimony of Mark E. Garrett contesting several aspects of the Company's proposed rate increase. The City proposed a rate *decrease* of \$1,503,968.¹⁵ The City further contested several rate design changes, arguing that rates in outlying areas would be lowered at the expense of Chattanooga residents.¹⁶

The UWUA filed Danny Seebeck and Shawn Garvey's combined pre-filed direct testimony to support the Company's proposed forecast of 117 employees; however, the UWUA sought to condition any rate increase on the Company being required to maintain the forecasted level of employees and steady hydrant and valve maintenance.¹⁷

On October 22, 2024, the Company filed the pre-filed rebuttal testimony of John Watkins, Harold Walker, III, Grady Stout, Linda Schlessman, Charles Rea, Robert Prendergast, Robert V. Mustich, Bob Lane, Larry Kennedy, Nicholas Furia, Grant Evitts, Dominic J. Degrazia, Ann Bulkley, and Heath Brooks.

On October 28, 2024, at the Public Comment Meeting held by the Commission in the City of Chattanooga, customers of the TAWC provided statements regarding their experiences with the services provided by the Company and the rates proposed in the *Petition*.¹⁸ Additionally, members of the public filed written comments. On November 12, 2024, TAWC filed copies of the legal notices with the Commission to demonstrate that the hearing date and the proposed rate changes were published in appropriate newspapers of general circulation, as required by TPUC Rule 1220-4-1-.05.

¹⁴ *Letter Correcting Revisions to Pre-Filed Direct Testimony of Alex Bradley* (November 14, 2024).

¹⁵ Mark E. Garrett, Pre-Filed Direct Testimony, p. 5 (September 17, 2024).

¹⁶ *City of Chattanooga's Post Hearing Brief*, pp. 18-28 (December 10, 2024).

¹⁷ *Post-Hearing Brief: Utility Workers Union of America, AFL-CIO, and UWUA Local 121*, pp. 1-3 (December 10, 2024).

¹⁸ *Notice of Public Comment* (September 27, 2024); Transcript of Public Comment Hearing (October 28, 2024).

III. PRE-HEARING MATTERS

During a pre-hearing conference on November 6, 2024, the Administrative Judge concluded that the Company's proposed lead service line replacement proposal presented several issues, including legal issues, that needed to be explored in a docket outside the context of a rate case.¹⁹ The parties to the docket did not object to removing the proposal from the rate case and considering the proposal in a separate docket.²⁰

On November 13, 2024, the Company and the UWUA filed a Stipulation and Settlement Agreement ("*Proposed Settlement*"). The *Proposed Settlement* required the Company to file quarterly reports on employee levels and maintenance programs and imposed an "enforcement" role for the Commission. Approval of the *Proposed Settlement* would authorize the UWUA to pull its witnesses from the case and not participate further.

On November 18, 2024, the voting panel considered the *Proposed Settlement* before beginning the hearing on the merits and voted not to approve the *Proposed Settlement*. In vague language, the *Proposed Settlement* assigned a "Head Count Enforcement Mechanism" to the Commission without any details or description of how the Commission would be charged with enforcing or policing the Company's employee level. As such, the panel found that certain terms in the *Proposed Settlement* would impose an unprecedented role on the Commission. This is not to suggest the Commission could not play such a role, such as where water service quality and public health matters were a concern. However, the record does not indicate any such circumstances. Moreover, the panel found that granting the *Proposed Settlement* would present due process concerns by precluding the other parties from cross-examining the UWUA's witnesses. In a status conference

¹⁹ *Pre-Hearing Order*, p. 2 (November 15, 2024).

²⁰ *Id.*

on November 15, 2024, the Consumer Advocate and the City indicated they both had cross-examination questions for the UWUA's witnesses concerning the contested issue of the employee level forecasted in this docket. As such, the panel voted unanimously to deny the *Proposed Settlement*.

IV. THE HEARING AND POST-HEARING FILINGS

The Hearing on the merits of the *Petition* commenced in Nashville and was held on November 18-21, as noticed by the Commission on November 8, 2024. Participating in the Hearing were the following parties and their respective counsel:

Tennessee-American Water Company – Melvin J. Malone, Esq., John H. Dollarhyde, Esq., and Katherine Barnes Cohn, Esq., Travis B. Swearingen, Esq. Butler Snow, LLP, 150 3rd Avenue South, Suite 1600, Nashville, Tennessee 37201.

Consumer Advocate Division – Shilina B. Brown, Esq., Victoria B. Glover, Esq., Vance L. Broemel, Esq. and Karen Stachowski, Esq., Office of the Tennessee Attorney General, Consumer Advocate Division, P.O. Box 20207, Nashville, Tennessee 37202-0207.

The City of Chattanooga – Frederick L. Hitchcock, Esq., and Catherine S. Dorvil, Esq., Chambliss, Bahner, & Stophel, P.C. LLP, 605 Chestnut Street, Suite 1700, Chattanooga, Tennessee 37450.

Utility Workers Union of America, AFL-CIO, and UWUA Local 121 – Scott P. Tift, Esq. Barrett, Johnston, Martin, & Garrison, PLLC, 200 31st Avenue North, Nashville, Tennessee 37203.

The panel heard testimony from TAWC witnesses; Grant Evitts, Bob Lane, Ann Bulkley, Nick Furia, Grady Stout, Robert Prendergast, John Watkins, Harold Walker, Robert Mustich, Kevin Kruchinski, Dominic DeGrazia, Larry Kennedy, Patrick Baryenbruch, Linda Schlessman, Heath Brooks, and Charles Rea. The Consumer Advocate presented witness testimony from William H. Novak, David Dittmore, Clark Kaml, Alex Bradley, and Aaron Rothschild. The City presented witness testimony from Mark Garrett. The UWUA presented witness testimony from Shawn Garvey and Danny Seebeck.

On each day of the Hearing, the panel solicited comments from the public, but no member of the public sought to be heard. The parties waived closing arguments at the Hearing in favor of filing Post-hearing Briefs. The Company, the Consumer Advocate, the City, and the UWUA filed their Post-hearing Briefs on December 10, 2024.

On January 17, 2025, Chairman David F. Jones pre-filed in the docket a written motion proposing specific calculations and conclusions to resolve the docket.²¹ As duly noticed on January 9, 2025, the Commission convened a public meeting for panel deliberations via the Webex telephonic platform on January 21, 2025.²² After considering the entire record, including all exhibits and witnesses' testimony, the panel deliberated the Chairman's motion, which included a multitude of findings and conclusions, and voted unanimously in favor of the motion.

V. CRITERIA FOR ESTABLISHING JUST AND REASONABLE RATES

The Commission has jurisdiction to set the rates of public utilities operating in Tennessee.²³ In setting rates for public utilities subject to its jurisdiction, the Commission balances the interests of the utility with the interests of consumers; that is, it is obligated to fix just and reasonable rates.²⁴ A public utility possesses the burden of proof on a petition to approve an adjustment of its rates.²⁵

For rates to be considered just and reasonable, the Commission must also approve a rate that allows the regulated utility an opportunity to earn a reasonable return on the value of the property used in service, i.e., its investments.²⁶ The Commission considers petitions for a rate increase filed pursuant to Tenn. Code Ann. § 65-5-103, in light of the following criteria:

²¹ Pre-Filed Motion of Chairman David F. Jones for Purposes of Deliberations at the January 21, 2025, Hearing (January 17, 2025).

²² Notice of Deliberations in Docket No. 24-00032 Held Electronically Via Webex (January 9, 2025).

²³ Tenn. Code Ann. §§ 65-4-101(6); 65-4-104; 65-5-101, *et seq.* (2018).

²⁴ Tenn. Code Ann. § 65-5-101 (2018).

²⁵ Tenn. Code Ann. § 65-5-103(a) (2018).

²⁶ *Bluefield Water Works and Improvement Company v. Public Service Commission of the State of West Virginia*, 262 U.S. 679, 43 S.Ct. 675 (1923).

1. The investment or rate base upon which the utility should be permitted to earn a fair rate of return;
2. The proper level of revenues for the utility;
3. The proper level of expenses for the utility; and
4. The rate of return the utility should earn.

There is no single, precise measure of the fair rate of return that a utility is allowed an opportunity to earn. Therefore, the Commission must exercise its judgment in making an appropriate determination. The Commission, however, is not without guidance in exercising its judgment:

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.²⁷

The United States Supreme Court has determined that regulated utilities are entitled to a reasonable return. The rate a utility is permitted to charge should enable it “to operate successfully, to maintain its financial integrity, to attract capital, and to compensate investors for the risks assumed.”²⁸

The general standards to be considered in establishing a fair rate of return for a public utility are financial integrity, capital attraction, and setting a return on equity commensurate with returns investors could achieve by investing in other enterprises of corresponding risk.²⁹ Thus, rates established must allow a company to cover its operating expenses and provide an opportunity to earn a fair rate of return on a company’s investment used to provide the service. Further, a rate should be reasonable not only when it is first established, but also for a reasonable time thereafter.³⁰

²⁷ *Id.* at 692-693; *see also Duquesne Light Co. v. Barasch*, 488 U.S. 299, 310 (1989).

²⁸ *Federal Power Comm’n v. Hope Natural Gas Co.*, 320 U.S. 591, 605 (1944).

²⁹ *Id.* at 603.

³⁰ *McCardle v. Indianapolis Water Co.*, 272 U.S. 400, 408-409, 47 S.Ct 144, 148 (1926); *Southern Bell Telephone & Telegraph Co. v. Tennessee Pub. Serv. Comm’n*, 304 S.W.2d 640, 647 (1944).

The Commission has wide discretion in setting rates. The Commission may “...use an historical test period, a forecast period, a combination of these where necessary, or any other accepted method of rate making necessary to give a fair rate of return...”³¹ The Tennessee Supreme Court has concluded that the Commission is not bound by any particular methodology.

The polestar of public utility rate establishment and regulation is the “just and reasonable” requirement of Section 65-518, T.C.A. There is no statutory nor decisional law that specifies any particular approach that must be followed by the Commission. Fundamentally, the establishment of just and reasonable rates is a value judgment to be made by the Commission in the exercise of its sound regulatory judgment and discretion.³²

Accordingly, the Commission is not limited to adopting any particular approach or a specific test period when making known and measurable adjustments to produce just and reasonable rates.³³ Applying these principles and criteria, and upon consideration of the entire record, including all exhibits and the testimony of the witnesses, the panel made the following findings and conclusions in this case.

VI. FINDINGS AND CONCLUSIONS

A. TEST PERIOD AND ATTRITION PERIOD

In a rate case, the Commission must decide the appropriate test period and attrition period to be utilized in the calculation of rates. Selecting the test period has the stated purpose of providing an indication of the rate of return that will be produced during the period under the existing rate structure in the reasonably foreseeable future. The test period takes into consideration the estimated effect of calculations related to revenues, expenses, and investments. As previously stated, the Commission has wide discretion with regard to this decision.

³¹ *Powell Tel. Co. v. Tennessee Pub. Serv. Comm'n*, 660 S.W.2d 44, 46 (Tenn.1983); *Am. Ass'n of Retired Persons v. Tennessee Pub. Serv. Comm'n*, 896 S.W.2d 127, 133 (Tenn.Ct.App.1994).

³² *CF Industries v. Tennessee Pub. Serv. Comm'n*, 599 S.W. 2d. 536, 542 (Tenn. 1980).

³³ *Id.* at 543.

The Company and the parties utilized a historical test period of the twelve months ending December 31, 2023, and an attrition period of the twelve months ending December 31, 2025, which the panel found reasonable.

B. REVENUES

The Consumer Advocate proposed adjustments to the Company's forecasted revenues. The City did not propose any adjustments to revenues. Revenues can be broken down into two general categories: revenues from sales to customers, which are the bulk of the Company's overall revenues, and "Other Revenues" that cover revenues derived from non-water sales. Attrition Year Revenues provided by the Company and Consumer Advocate reveal minor revenue variances that are primarily related to the different methodologies utilized. In summary, the Company forecasted \$71,858,982 in revenues, while the Consumer Advocate forecasted \$72,400,026, a difference of \$541,044.

The Company forecasted water revenues by first quantifying test period revenues using actual billing determinants and applying customer growth or loss to test period customer counts, then applying normalized usage to arrive at normalized attrition year billing determinants. Current rates are used with attrition year billing determinants to determine normalized attrition year revenues.³⁴

Customer growth or loss projections are determined using monthly historical customer counts from four classes in the Company's billing system. Most customer class growth is determined by using a two-year average of month-over-month growth or loss and applying this monthly growth or loss to the previous month's customer count, with the starting point being December 2023. For classes with little or no change in customer counts, no growth or loss was applied.³⁵ Sales for Resale were projected to remain at current levels.³⁶

³⁴ Heath J. Brooks, Pre-Filed Direct Testimony, p. 4 (May 1, 2024).

³⁵ *Id.* at 4-5.

³⁶ *Id.* at 5.

The revenue for the residential, commercial, and public authority classes was forecasted by the Company based on modeling the monthly usage per customer from January 2014 through December 2023. The Company considered various factors, including COVID-19 and weather, for water consumption, and used statistical linear regression modeling to develop usage.³⁷ Mr. Rea testified that such modeling was only used for residential, commercial, and public authorities with industrial and sales for resale developed using a simple multi-year average, as described by Company witness Brooks.³⁸

The Company asserted there is a decline in customer usage due to “the incremental introduction of low-flow fixtures and appliance, new regulations that lead to further reductions in fixture flow rates, conservation programs, and public initiatives that have led to greater consumer water conservation awareness.”³⁹ Additionally, programs to raise customer awareness of conserving water and energy have increased. Based on normalized historical usage for weather and the COVID-19 emergency, the overall trend for use per customer for the residential, commercial, and public authority classes has been downward, with a significant downward trend in usage for residential customers. The Company predicted the trend of declining water usage will continue due to these efforts.⁴⁰

The usage for residential, commercial, and public authorities is determined by first normalizing usage per customer at the consolidated Company level for each class. Then, the projected annual normalized usage per customer is multiplied by the projected average 2025 customer count to determine the total attrition usage for each class. The attrition usage for each class was allocated to each month of the attrition year based on the total historical system delivery volume. Specifically,

³⁷ Charles Rea, Pre-Filed Direct Testimony, pp. 47-51 (May 1, 2024).

³⁸ *Id.* at 37-49.

³⁹ *Id.* at 52.

⁴⁰ *Id.* at 52-56.

industrial customers' usage was normalized for the attrition year by using a two-year average based on 2022 and 2023 usage. The contracted minimum annual usage was used for the four Sales for Resale customers. Usage for residential, commercial and public authority customers is based upon 2022 and 2023 actual usage totals by block for each customer class in each rate zone.⁴¹ The Company later corrected a formula error, which increased the industrial revenue to \$133,236.⁴²

In rebuttal, the Company asserted that the Consumer Advocate's calculation of water revenues was flawed, particularly with the industrial class and sales for resale special contracts. TAWC asserted that the Consumer Advocate used a simple linear regression rather than a multiple linear regression when forecasting industrial usage, as the reason for the errors in its calculations.⁴³

On behalf of the Consumer Advocate, Mr. Novak testified that the minor difference is primarily related to the methodologies utilized. The Company used a multi-linear regression model to consider the impact of weather changes on water revenues, while the Consumer Advocate utilized a simple linear regression analysis that excludes the impact of weather in its calculations. Mr. Novak referenced prior decisions of the Commission that rejected the use of a multi-linear regression forecast for weather normalization adjustments.⁴⁴ Additionally, the Company used current contractual minimum usage amounts for special contract usage in the attrition year, whereas the Consumer Advocate based its attrition year usage projections on actual usage from the test period.⁴⁵

The panel voted unanimously to adopt the forecast of the Consumer Advocate. The calculation of water revenues for each class of service for TAWC is a two-step process. First, the number of bills for the test period is adjusted for a growth factor, which is mainly based on a historical trend, to arrive

⁴¹ Heath J. Brooks, Pre-Filed Testimony, pp. 6-8 (May 1, 2024).

⁴² Heath J. Brooks, Pre-Filed Rebuttal Testimony, p. 2 (October 22, 2024).

⁴³ *Id.* at 3.

⁴⁴ William H. Novak, Pre-Filed Direct Testimony, pp. 17-18 (September 17, 2024).

⁴⁵ *Id.* at 18.

at the forecasted attrition period number of bills. The number of bills multiplied by the existing flat monthly tariff rates gives the amount of revenue, excluding water usage. The next step is to calculate water usage revenue for the attrition period. Generally, usage is forecasted for the attrition period in much the same way as the number of bills. For this step, the test period usage is determined, and a growth factor is applied, again, generally a historical perspective, to arrive at an attrition period water usage. The water usage is then multiplied by the tariffed usage rates to calculate usage revenue. The flat rate revenues and water usage revenues are added together to arrive at the total amount of revenue for the attrition period for a particular class of service.

Forecasting the number of billing determinants and usage is very subjective, and experts often disagree on the appropriate forecasting method. However, the goal is to develop a forecast that reflects what can be reasonably expected to occur in the future, or in the case of ratemaking, the attrition period. In general, sometimes a longer historical trend (ten to fifteen years) may reveal more accurate patterns of change in customers and usage. In other circumstances, however, a review of more recent historical data (e.g., five years) may reveal more accurate and predictive patterns of growth and usage.

There are six classes of revenues for TAWC: (1) residential; (2) commercial; (3) industrial; (4) municipal & other public authorities; (5) Sale for Resale, and (6) private fire service. TAWC has the following seven rate zones: Chattanooga, Lookout Mountain, Lakeview, Suck Creek, Whitwell Inside City, Whitwell Outside City, and Jasper Highlands. The Company also serves four Special Contract customers with designated charges and minimum usage requirements. Sales for Resale customers include Fort Oglethorpe, Catoosa Utility District, Signal Mountain, and Walker County.

The small water sales difference between the parties is primarily attributable to 1) the methodology utilized by each, where the Company performed a multiple regression analysis asserting this method is preferred when usage is different between customers, while the Consumer Advocate

used a six-year trend analysis and a simple linear regression model asserting the use of multiple independent predictor variables is unnecessary; and 2) the Company using current contractual minimum usage amounts for special contract usage in the attrition year, arguing this usage is guaranteed, whereas the Consumer Advocate's forecast uses actual current usage for the attrition year arguing this is a more accurate predictor of future usage.

As the Consumer Advocate correctly noted, the Commission has previously denied the use of a multiple regression analysis when determining the impact of weather changes on revenues. Finding a simple regression is straightforward and can be easily replicated. Moreover, actual usage for special contract customers can be a better indicator of future usage than a minimum contract amount. Therefore, the panel voted unanimously to adopt a forecast of water revenues of \$71,219,856 for the Attrition Period, as projected by the Consumer Advocate.

With respect to "Other Revenues", the Company's forecast of Other Operating Revenues, Activity Fees, New Service Fees, and Disconnection-Reconnection Charges was projected by using a two-year average (2022 and 2023) to determine a normalized level of occurrences (determinants). These normalized billing determinants are multiplied by each respective rate to determine the total revenue for each fee or charge. Late payment revenues are projected by calculating a ratio based on a two-year average of late payments to total revenue. This ratio is applied to the revenue projections in the forecast to determine attrition year revenues. Rents were projected using contractual revenue amounts. Miscellaneous service fees are based on a two-year average, here using 2022 and 2023.⁴⁶

The Consumer Advocate used actual Test Period amounts for the Attrition Period. The different methodologies used by each party result in a minimal difference of \$38,445 for the Attrition Period.⁴⁷ The use of historical amounts for attrition year projections is a reasonable methodology

⁴⁶ Heath J. Brooks, Pre-Filed Direct Testimony, p. 8 (May 1, 2024).

⁴⁷ William H. Novak, Pre-Filed Direct Testimony, p. 18 (September 17, 2024).

because it uses known amounts as its basis. Further, the use of test period amounts is more consistent with actual revenue amounts. Therefore, the panel voted unanimously to adopt Other Revenues for the attrition period in the amount of \$1,180,170 as proposed by the Consumer Advocate. In sum, the adoption of the Consumer Advocate's calculation of Other Revenues in the amount of \$1,180,170 results in overall revenues of \$72,400,026 for the attrition period.

C. OPERATIONS AND MAINTENANCE ("O&M") EXPENSES

Expenses in this category fund the services necessary for operating the utility to provide safe and reliable drinking water to TAWC's Tennessee customers. The Company forecasts \$31,615,021 for its attrition year's O&M expenses, whereas the Consumer Advocate forecasts \$27,194,414, resulting in a difference of \$4,420,607. The major differences in the amounts are related to the Consumer Advocate's recommended removal of employee-related expenses associated with the Company's proposed new hires, certain employee incentive program expenses, amortization associated with deferred regulatory costs, and credit card processing fees for customer payments.

In summary, the panel's expense level of \$27,216,406 is based upon the use of 2023 growth rates, as opposed to average growth rates as proposed by both the Company and the Consumer Advocate.

O&M Expense Categories	Company⁴⁸	Company Rebuttal⁴⁹	Consumer Advocate⁵⁰	Panel Decision⁵¹
<i>Purchased Water</i>	\$194,199	\$194,199	\$194,199	\$176,500
<i>Purchased Power</i>	\$3,062,540	\$3,062,540	\$2,809,231	\$2,672,005
<i>Chemicals</i>	\$2,307,000	\$2,307,000	\$2,116,184	\$2,116,184
<i>Waste Disposal</i>	\$749,830	\$749,830	\$749,830	\$759,106
<i>Labor</i>	\$6,961,854	\$6,935	\$5,739,414	\$5,732,989
<i>Group Insurance</i>	\$481,683	\$481,683	\$333,536	\$323,187
<i>Other Emp Benefits</i>	\$643,491	\$643,491	\$562,861	\$559,911
<i>Support Services</i>	\$8,636,676	\$8,636,676	\$7,631,522	\$7,581,319
<i>Contracted Services</i>	\$966,015	\$966,015	\$815,810	\$886,174
<i>Pensions</i>	\$619,489	\$619,489	\$619,489	\$619,489
<i>Regulatory</i>	\$518,000	\$518,000	\$0	\$0
<i>Insurance Other than Grp</i>	\$1,205,504	\$1,205,504	\$1,205,504	\$1,205,504
<i>Customer Accounting</i>	\$577,105	\$577,105	\$87,229	\$87,556
<i>Uncollectible(s)</i>	\$490,096	\$490,096	\$491,153	\$491,153
<i>Rents</i>	\$29,985	\$29,985	\$27,351	\$30,115
<i>Telecommunications</i>	\$352,451	\$352,451	\$320,950	\$336,870
<i>Transportation</i>	\$428,594	\$428,594	\$428,594	\$428,594
<i>Maintenance</i>	\$1,691,431	\$1,691,431	\$1,599,432	\$1,710,996
<i>Miscellaneous</i>	\$1,699,078	\$1,582,286	\$1,462,123	\$1,498,752
<i>Total O&M Expenses:</i>	\$31,615,021	\$31,470,953	\$27,194,414	\$27,216,406

C(1). Purchased Water

The Company proposed purchased water expenses for its attrition year of \$194,199, which is nearly \$17,000 more than incurred during its test year. Aside from making some minor vendor rate adjustments, the increase is almost solely driven by inflation adjustments. For its inflation adjustments, the Company used the U.S. Bureau of Labor Statistics' ("BLS") most recent three-year average growth rate specific to fuels and utilities.⁵²

⁴⁸ Bob Lane, Pre-Filed Direct Testimony, Schedule FS-2.1, Pro Forma Income Statement (May 1, 2024).

⁴⁹ Bob Lane, Pre-Filed Rebuttal Testimony, Schedule BL-2 (October 22, 2024).

⁵⁰ Letter to Chairman Jones Regarding Corrections to the Pre-Filed Testimony of Alex Bradly, Schedule 7 (November 14, 2024).

⁵¹ Commission Exhibits EXP-OM Summary and EXP-1 through EXP-19 attached.

⁵² Dominic Degrazia, Pre-Filed Direct Testimony, p. 14 (May 1, 2024).

The Consumer Advocate did not oppose the Company's proposal regarding its forecasted purchased water expenses.⁵³ Likewise, neither the City nor the UWUA proposed any adjustments to the Company's recommendation.

The panel voted unanimously to adopt an attrition year purchased water expense calculation of \$176,500, representing a reduction to the Company and Consumer Advocate's forecast by \$17,699. The panel's calculation accepted the Company's proposed vendor adjustments but adjusted for inflation by applying the 2023 U.S. BLS growth rate (-0.19%) specific to fuels and utilities.⁵⁴ The rationale for using the 2023 BLS inflation rate, the latest available, is to exclude the inflation factor for 2022 used by the parties in developing their three-year average inflation rates. The 2022 inflation factor is significantly higher and does not represent a typical year, especially when 2021 and 2023 inflation rates are substantially lower. Moreover, the panel found that under the circumstances and facts in this docket, the latest year BLS inflation factor best represents what can be expected in the attrition year.

C(2). Purchased Power

TAWC proposed purchased power expenses for its attrition year of \$3,062,540, which is \$2,190,724 more than recorded for its test year. The primary driver for this increase is a \$1,893,020 adjustment for a PCOP expense transfer. To forecast purchased power expense, the test period expenses were adjusted to remove closed accounts and credit balances, electricity expenses for active accounts were annualized, and known price changes were incorporated. The Company's annualized expenses were then adjusted by the BLS most recent three-year average electricity-specific inflation factor (7.68%) to obtain its attrition year forecast.⁵⁵

⁵³ Alex Bradley, Pre-Filed Testimony, p. 6 (September 17, 2024).

⁵⁴ Commission Exhibit EXP-1 attached.

⁵⁵ Dominic Degrazia, Pre-Filed Direct Testimony, p. 12 (May 1, 2024).

Consumer Advocate witness Mr. Dittmore recommended eliminating \$253,308 of attrition period purchased power costs to properly implement the Commission's 15% non-revenue water ("NRW") limitation factor. Mr. Dittmore testified that this adjustment is needed to remove the costs associated with excess unaccounted-for water within the Company's system.⁵⁶ Mr. Dittmore further asserted that this adjustment is consistent with how the costs are determined in the Company's annual PCOP filing and that not making this adjustment would result in customers incurring costs associated with an effective NRW percentage of 23.27% in base rates that will not change as a result of future PCOP filings.⁵⁷

TAWC argued that the 15% NRW standard proposed by the Consumer Advocate is punitive, and attempted to distinguish the term NRW from the 15% "lost and unaccounted for water" standard set in the Company's 2008 rate case. However, these terms have been used interchangeably at the Commission by the Consumer Advocate and the Company.⁵⁸ The Company previously has defined "unaccounted for water" as an all-encompassing umbrella term before the Tennessee Court of Appeals without a distinction for NRW.⁵⁹ To be clear, the Commission is not implementing a new standard, but rather is continuing to apply the 15% standard for lost and unaccounted for water first adopted in the 2008 rate case, affirmed by the Tennessee Court of Appeals, and adopted again in the Company's 2010 rate case. When the Commission first implemented this standard for TAWC, the

⁵⁶ David Dittmore, Pre-Filed Direct Testimony, pp. 30-31, Exhibit DND-7 (September 17, 2024).

⁵⁷ *Id.* at 31-32.

⁵⁸ *Id.*

⁵⁹ *In re: Tennessee American Water Company vs. Tennessee Regulatory Authority, et al*, 2011 WL 334678* 27 (Tenn.Ct.App.2011): The term unaccounted for water was used broadly by the Tennessee Court of Appeals: "The Company takes the position that the TRA has historically taken into consideration all of TAWC's costs for fuel, power, and chemicals in determining TAWC's forecasted expenses. The Company explained that these costs directly relate to the treatment and pumping of all water in the distribution system, whether it is water delivered and billed to customers or UfW." During the Company's appeal of the 2008 rate case, TAWC's initial brief asserted the following definition of lost and unaccounted for water: "In any water system, some water is lost due to leaks or breaks in lines. Also, a portion of water provided to customers is not billed through, for example, leak detection or as a result of fighting fires. This lost and/or unbilled water is known as unaccounted for water ("UfW")." (internal citations omitted) *Brief of Petitioner Tennessee American Water Company*, p. 22 (March 21, 2010).

underlying goal was to encourage the Company to have a more efficient distribution system and to be a good steward of a natural resource.⁶⁰ As nearly one in four gallons of water treated and pumped by the Company is lost and unaccounted for, the panel voted unanimously to continue to apply the 15% standard.

The panel voted unanimously to adopt a forecast of the Company's attrition year level purchased power expense of \$2,672,005. This calculation reduces the Company's proposal by \$390,535 and reduces the Consumer Advocate's proposal by \$137,226. The panel's calculation accepted the Company's known price change adjustments for the attrition year and then adjusted for inflation by applying the 2023 BLS growth rate specific to electricity (2.42%). The panel's calculation of the attrition year includes the Commission's "lost and unaccounted for water" limitation factor (15%).⁶¹ The rationale for using the 2023 BLS inflation rate, the latest year available, is to exclude the inflation factor for 2022 used by the parties in developing their three-year average inflation rates. As noted earlier herein, the 2022 inflation factor is significantly higher and does not represent a typical year, especially when 2021 and 2023 inflation rates are substantially lower. Moreover, under the circumstances and facts in this docket, the latest year BLS inflation factor best represents what can be expected in the attrition year.

C(3). Chemicals

The Company's proposed chemicals expense for its attrition year was \$2,307,000, which is less than incurred for its test year by \$198,288. To forecast its chemicals expense, the Company used the most recent three-year average quantity for each chemical by plant and incorporated future usage

⁶⁰ *In re: Petition of Tennessee American Water Company to Change and Increase Certain Rates and Charges so as to Permit it to Earn a Fair and Adequate Rate of Return on Its Property Used and Useful In Furnishing Water Service to its Customers*, Docket No. 08-00039, *Order*, pp. 14-16 (January 13, 2009); *In re: Petition of Tennessee American Water For a General Rate Increase*, Docket No. 10-00189, *Final Order*, pp. 66-69 (April 27, 2012).

⁶¹ Commission Exhibit EXP-2 attached.

adjustments based on operational experience. The Company removed any chemicals that will no longer be used and added new chemicals it expects to use in its attrition year. The Company then estimated its cost per chemical for its attrition year and, using its expected usage volumes, computed its forecast.⁶²

Similar to the Consumer Advocate's proposed purchased power adjustment, Mr. Dittmore recommended eliminating \$190,816 of attrition period chemical costs to properly implement the Commission's 15% NRW limitation factor.⁶³ Likewise, Mr. Dittmore asserted this adjustment is consistent with approved methodologies associated with the Company's annual PCOP filing.⁶⁴

The panel voted unanimously to adopt the Consumer Advocate's forecast of the Company's attrition year level chemical expense of \$2,116,184. This calculation reduces the Company's proposed chemical expense for the attrition year by \$190,816. Beginning with acceptance of the Company's proposed adjustments for known price changes, the panel found the Consumer Advocate's calculation properly accounts for a reduction in chemical expense to implement the Commission's limitation factor (15%) for the attrition year to account for lost and unaccounted for water as previously discussed herein.⁶⁵

C(4). Waste Disposal

The Company proposed waste disposal expenses for its attrition year of \$749,830, which is \$61,151 higher than recorded for its test year. Aside from making some vendor rate adjustments for Denali Water Solutions, the increase is due to inflation adjustments. For its inflation adjustments, the Company used the BLS's most recent three-year average growth rate specific to fuels and utilities.⁶⁶

⁶² Dominic Degrazia, Pre-Filed Direct Testimony, pp. 12-13 (May 1, 2024).

⁶³ David Dittmore, Pre-Filed Direct Testimony, pp. 31-32 & Exhibit DND-8 (September 17, 2024).

⁶⁴ *Id.*

⁶⁵ Commission Exhibit EXP-3 attached.

⁶⁶ Dominic Degrazia, Pre-Filed Direct Testimony, pp. 13-14 (May 1, 2024).

The Consumer Advocate did not oppose the Company's proposal regarding its attrition period waste disposal expenses.⁶⁷ Similarly, neither the City nor the UWUA proposed any adjustments to the Company's recommended waste disposal expenses.

The panel voted to adopt a calculation of the Company's attrition year waste disposal expense of \$759,106, representing an increase over the forecasts of the Company and Consumer Advocate's proposals by \$9,276. The panel's adopted calculation included the Company's proposed vendor adjustments and made inflation adjustments by applying the 2023 U.S. BLS growth rate specific to waste disposal (6.54%) for the attrition year.⁶⁸ As noted previously herein, the rationale for using the 2023 BLS inflation rate is to exclude the significantly higher inflation factor for 2022 used by the parties in developing their three-year average inflation rates.

C(5). Labor

The Company forecasted its attrition year labor expense of \$6,961,854, which is \$1,242,192 higher than the test period and due largely to the Company's proposal to add sixteen new full-time employees.⁶⁹ Attrition year labor expense is calculated by multiplying the forecasted 117 full-time positions by their individually forecasted 2025 wage rates. Each position's associated costs are then adjusted for expected capitalization to arrive at the Company's attrition year forecast.⁷⁰

On behalf of the Consumer Advocate, Mr. Dittmore recommended that the Company's proposed new hires be removed from its revenue requirement. Mr. Dittmore testified that the Company has and will always operate with employee vacancies and that assuming its vacant positions would be filled and remain that way is unreasonable. In addition, Mr. Dittmore recommended removal of 100% and 55% of the Company's long and short-term incentive expenses, respectively,

⁶⁷ Alex Bradley, Pre-Filed Direct Testimony, p. 10 (September 17, 2024).

⁶⁸ Commission Exhibit EXP-4 attached.

⁶⁹ Grady Stout, Pre-Filed Direct Testimony, p. 38 (May 1, 2024).

⁷⁰ Robert Prendergast, Pre-Filed Direct Testimony, pp. 3-10 (May 1, 2024).

along with 25% estimated lobbying expenses associated with the Company's Manager of External Affairs. The Consumer Advocate's total proposed adjustment for removing these expenses is \$1.2 million.⁷¹ Similarly, the City's witness, Mr. Garrett, recommended removal of the Company's proposed new hires for many of the same reasons as Mr. Dittmore, and supported removing 100% and 50%, respectively, of the Company's long- and short-term incentive expenses; his proposed adjustment is a \$1.5 million reduction.⁷²

UWUA witnesses, Mr. Garvey and Mr. Seebeck, supported the Company's inclusion of costs supporting filling its vacant positions and testified that the hires would improve worker safety and service to the Company's customers. However, Mr. Garvey recommended that the Commission require the Company to regularly submit staffing reports that provide the Company's number of vacant positions at a given time, along with its expectations of when any reported vacancies will be filled. Further, Mr. Garvey recommended that the Company be assessed a penalty by the Commission if it fails to maintain its authorized staffing levels.⁷³

In its rebuttal filing, the Company proposed removing employee severance expenses in the amount of \$27,276, which it notes it inadvertently included in its originally proposed revenue requirement. This is the only adjustment made to labor expenses by the Company in its rebuttal filing; this adjustment reduces the Company's labor expense proposal to \$6,934,578.⁷⁴

The panel voted to approve the attrition year employee labor expense at \$5,732,989, \$1,201,589 less than that proposed by the Company and driven by the removal of the Company's proposed full-time hires. While the Company has a goal of having 117 employees, the Commission cannot set rates based on aspirations. The Company has a long track record of operating with a number

⁷¹ David N. Dittmore, Pre-Filed Direct Testimony, pp. 20-29, 37-38 (September 17, 2024).

⁷² Mark E. Garrett, Pre-Filed Direct Testimony, pp. 31-32; Exhibits MG-2.1 and MG-2.2 (September 17, 2024).

⁷³ Shawn Garvey, Pre-Filed Direct Testimony, pp. 4-5 (September 17, 2024).

⁷⁴ Bob Lane, Pre-Filed Rebuttal Testimony, pp. 3-4, Rebuttal Exhibit BL-2 (October 22, 2024).

of employee vacancies. Assuming all new and vacant positions would be filled and remain that way is unreasonable.

At the conclusion of the Company's 2010 rate case, the Commission approved rate recovery for a staffing level of 110 employees.⁷⁵ As referenced in the direct testimony of UWUA witness, Shawn Garvey, the full-time employee levels for TAWC have been as follows:⁷⁶

Year End	Full-Time Employees
2012	95
2013	101
2014	101
2015	103
2016	104
2017	103
2018	113
2019	107
2020	111
2021	106
2022	102
2023	101

Although the Commission approved rate recovery for 110 employees in 2010, the Company's employee levels have averaged 104 full-time employees since that time.⁷⁷ Thus, the employee wages and associated benefits built into the rates far exceeded the actual amounts the Company incurred. TAWC also filed previous rate cases in 2003, 2004, 2006, and 2008, the first two of which were resolved by settlements. Evidence in the record from those previous rate cases and in 2012 indicates

⁷⁵ *In re: Petition of Tennessee American Water Company for a General Rate Increase*, Docket No. 10-00189, *Final Order*, pp. 61 (April 27, 2012).

⁷⁶ Shawn Garvey, Revised Direct Testimony, p. 6 (October 21, 2024).

⁷⁷ An additional rate case was filed by the Company in 2012 but was resolved in a settlement agreement. With the "give and take" of settlements, such decisions are usually not given any precedential value. The 2012 rate case is mentioned here only to have a complete timeline of rate cases. *See In Re: Petition of Tennessee American Water Company for a General Rate Increase, Implementation of a Distribution System Infrastructure Charge and the Establishment of Tracking Mechanisms For Purchased Power, Pensions and Chemical Expenses*, Docket No. 12-00049, *Order Approving Settlement Agreement* (November 20, 2012).

that the Company historically was granted wages and salaries built into the rates that included additional hiring, but that the set employee level or goal was not reached or was not sustainable.⁷⁸

While in the 2010 rate case, the Commission granted the wages and salaries requested by the Company for 110 employees to be included in rates, the Commission also required a reporting requirement for the number of employees on hand and valve maintenance reports.⁷⁹ The two subsequent semi-annual reports filed in Docket No. 10-00189 by the TAWC before the superseding 2012 rate case show the Company never exceeding 100 employees.⁸⁰ While the panel does not rely on stale information from a decade ago in making this decision, the track record of employees on hand demonstrated in this docket illustrates how dynamic the labor market is. Vacancies are a reality. Customers cannot be reasonably expected to pay the salaries and benefits of hypothetical employees.

Moreover, it is logical to assume that hiring additional full-time employees would reduce the amount of overtime hours necessary to complete necessary job tasks. However, neither TAWC nor the UWUA presented any corresponding analysis of the impact that hiring 117 full-time employees would have on the attrition period overtime hours. Therefore, the docket is void of cost savings that would logically occur if the Company increased its number of employees from 101 (year ending 2023) to 117 as proposed. Finally, consistent with the Commission's long-standing policy on incentive compensation, the panel's calculation excludes 55% of the Company's short-term incentive costs and 100% of the long-term incentive costs, as well as 25% of the estimated lobbying expenses

⁷⁸ *In re: Petition of Tennessee American Water Company to Change and Alter Rates and Charges So As To Permit It To Earn a Fair and Adequate Rate of Return on Its Property Used and Useful in the Furnishing Water Service to its Customers*, Docket No. 08-000039, Pre-Filed Direct Testimony of Terry Buckner, pp. 39-43 reciting Commission decisions and employee levels over previous rate cases (July 18 2008) (Confidential Designation lifted July 30, 2008); *In Re: Petition of Tennessee American Water Company for a General Rate Increase, Implementation of a Distribution System Infrastructure Charge and the Establishment of Tracking Mechanisms For Purchased Power, Pensions and Chemical Expenses*, Docket No. 12-00049, Pre-Filed Direct Testimony of Terry Buckner, pp. 7-10 (August 27, 2012).

⁷⁹ *In re: Petition of Tennessee American Water Company for a General Rate Increase*, Docket No. 10-00189, *Final Order*, pp. 61-64 (April 27, 2012).

⁸⁰ *In re: Petition of Tennessee American Water Company for a General Rate Increase*, Docket No. 10-00189, *Semi-Annual Report* (October 5, 2012); *Semi-Annual Report* (May 24, 2012).

related to the Company's Manager of External Affairs.⁸¹ Should the Company experience a hiring surge and maintain a larger level of employees, the legislature has provided alternative regulatory tools beyond a traditional rate case.

C(6). Group Insurance

The Company forecasted its 2025 attrition year group insurance expense to be \$481,683, which is \$230,945 higher than its test period amount. Group Insurance is provided to Company employees and is comprised of 1) basic life, short-term disability, and accidental death and disability ("AD&D") insurance, along with 2) medical, dental, and vision insurance coverage. After removing the associated other post-employment benefits ("OPEB") from the test period, the Company calculated basic life, disability, and AD&D insurance expenses for the attrition period using the existing 2024 rates and applied them on a position-by-position basis. The Company calculated the medical, dental, and vision insurance costs on a position-by-position basis and by inflating the existing 2024 premium rates to the estimated 2025 rates using a three-year average inflation factor (2022-2024). The employee group insurance costs are then adjusted for expected capitalization to arrive at the Company's attrition year forecast.⁸²

The Consumer Advocate proposed a reduction in the Company's group insurance costs, which is associated with Mr. Dittmore's recommended removal of the Company's sixteen full-time employee hire costs and the 25% exclusion of lobbying expenses related to the Company's Manager of External Affairs.⁸³ Neither the City nor the UWUA proposed any adjustments to the Company's proposal.

⁸¹ Commission Exhibits EXP-5 and EXP-5A attached.

⁸² Robert Prendergast, Pre-Filed Direct Testimony, pp. 3-10 (May 1, 2024).

⁸³ David N. Dittmore, Pre-Filed Direct Testimony, Exhibit DND-1 (September 17, 2024).

The panel adopted a calculation of \$323,187 for the Company's attrition year group insurance expenses. The panel's decision incorporated a \$158,496 reduction in the Company's proposal to reflect the impact on group insurance expenses related to the panel's decision on labor-related expenses, including the number of employees, as well as 25% of the estimated lobbying expenses related to the Company's Manager of External Affairs.⁸⁴

C(7). Other Employee Benefits

The Company forecasted its other employee benefits expense for the attrition year to be \$643,491, an increase of \$148,620 over the test period. The higher attrition period expense is primarily driven by the Company's proposal for sixteen new full-time employees, which primarily affects the 401(k) and defined contribution plan expenses.⁸⁵ Other employee benefits are comprised of savings programs including the Company's 401(k), defined contribution pension, retiree medical expense and employee stock purchase plans, along with other employee-related costs such as tuition aid and training. After other employee benefits are computed, they are then adjusted for expected capitalization to arrive at the Company's attrition year forecast.⁸⁶

The Consumer Advocate proposed a reduction in the Company's other employee benefits in conjunction with Mr. Dittmore's recommended removal of the Company's sixteen full-time employee hire costs and 25% exclusion of lobbying expenses related to the Company's Manager of External Affairs.⁸⁷ Neither the City nor the UWUA proposed any adjustments to the Company's forecast.

The panel voted unanimously to adopt a calculation for the attrition year other employee benefits expense of \$559,911. This amount is \$83,580 less than that of the Company and is driven by

⁸⁴ Commission Exhibits EXP-6 and EXP-5A.

⁸⁵ Grady Stout, Pre-Filed Direct Testimony, p. 38 (May 1, 2024).

⁸⁶ Robert Prendergast, Pre-Filed Direct Testimony, pp. 3-10 (May 1, 2024).

⁸⁷ David N. Dittmore, Pre-Filed Direct Testimony, Exhibit DND-1 (September 17, 2024).

the removal of the Company's proposed full-time hires and 25% of the estimated lobbying expenses related to the Company's Manager of External Affairs.⁸⁸

C(8). Support Services

The Company proposed \$8,636,676 in attrition year support service charges from its Service Company, representing an increase of \$561,366 compared to its per-book support charges in its 2023 test year. Service Company expenses are charged to the Company at cost via direct pass-throughs or allocations through monthly invoices. These expenses include charges for affiliate services requiring specific expertise or having economies of scale, such as water testing, finance, general and tax accounting, accounts payable, payroll, human resources, and cash management. The Company normalized its test year per-book amounts by making certain adjustments, such as removing non-regulatory items (lobbying, charitable contributions, penalties, and community relations), annualizing certain test year expenses, and including estimated employee merit increases.⁸⁹

The Consumer Advocate recommended a reduction in the Company's attrition period forecast of just over \$1 million, much of which is the result of Mr. Dittmore's proposed elimination of 100% and 55% of the Company's long- and short-term incentive expenses. The reduction also included Mr. Dittmore's proposal to remove allocations unnecessary for the Company's provision of water service to its customers, including 100% of allocated business development costs; an estimate for allocated lobbying costs; and certain allocated expenses for inclusion, diversity, and equity ("ID&E") efforts.⁹⁰ Consistent with the City's recommended labor adjustment, Mr. Garrett proposed the removal of 100% and 50% of the Company's incentive-related service company allocations; as such, his proposed adjustment in support allocations is a \$870,455 reduction.⁹¹

⁸⁸ Commission Exhibits EXP-7 and EXP-5A attached.

⁸⁹ John Watkins, Pre-Filed Direct Testimony, pp. 3-8 (May 1, 2024).

⁹⁰ David N. Dittmore, Pre-Filed Testimony, Exhibits DND-5 and DND-11 (September 17, 2024).

⁹¹ Mark E. Garrett, Pre-Filed Direct Testimony, pp. 31-32, Exhibits MG-2.1 and MG-2.2 (September 17, 2024).

The panel voted to adopt a calculation of \$7,581,319 for the Company's attrition year support services charge from its Service Company. This calculation reflects the removal of 100% and 55%, respectively, of the allocated long- and short-term incentive plan expenses, 100% of allocated business development costs, and estimates for lobbying and ID&E expenses that are unnecessary in the provision of safe and reliable drinking water. With respect to the business development costs, there is little in the record to describe how business development charges from the Service Company provide a tangible benefit for ratepayers. Moreover, the Commission has a long-standing practice of disallowing lobbying expenses. While ID&E may have good intentions and provide the Company with corporate goodwill, the connection between the provision of water service and paying a financial incentive to management at the Service Company to reach diversity goals in hiring is tenuous at best. In total, the panel adopted a total of \$1,055,357 in reductions to the Company's proposed shared services expenses.⁹²

C(9). Contracted Services

The Company proposed \$966,015 for its attrition year contracted services expenses, which is over \$24,000 less than its test period. After removing lobbying expenses from its test period, the Company next applied inflation factors to arrive at its 2025 attrition year forecast. The Company used the most recent three-year average BLS growth factors specific to professional services as its inflation factor for contract expenses.⁹³

The Consumer Advocate recommended removing the \$121,869 legal costs associated with TPUC Docket No. 19-00103 from the Company's test period expenses. Mr. Dittmore asserted that considerable time and costs were expended to resolve outstanding issues regarding the Company's

⁹² Commission Exhibit EXP-8 attached.

⁹³ John Watkins, Pre-Filed Direct Testimony, pp. 10-11 (May 1, 2024).

capital rider, and, as such, these expenses should not be considered recurring.⁹⁴ After removing the nonrecurring legal costs from the test period to arrive at the adjusted test period amount, the Consumer Advocate's witness, Mr. Bradley, used a revised non-production growth factor of 1.18% to project the attrition year expense of \$815,810.⁹⁵ Neither the City nor the UWUA proposed any adjustments to the Company's forecast.

The panel voted to adopt a calculation of \$886,174 as the Company's attrition year level of contract services expenses, an amount that normalized the Company's test period expenses by removing \$56,368, which was related to Docket No. 19-00103.⁹⁶ The docket in question was an investigative proceeding that allowed the Company, the Consumer Advocate, the City, CRMA, and Commission Party Staff to explore and reach an agreement on possible modifications to the Company's Capital Riders to streamline the Capital Rider filings and process. The docket lasted several years, did not include a record of contested litigation, and concluded late in 2023 with a settlement approved by the Commission.⁹⁷ As such, it is not reasonably expected to be a recurring annual expense.

Further, the panel's calculation applied the 2023 BLS growth factor of 1.37% as opposed to the Company's proposed three-year average.⁹⁸ The rationale for using the 2023 BLS inflation rate, the latest available, is to exclude the inflation factor for 2022 used by the parties in developing their three-year average inflation rates. The 2022 inflation factor is significantly higher and does not represent a typical year, especially when 2021 and 2023 inflation rates are substantially lower. The

⁹⁴ David N. Dittmore, Pre-Filed Direct Testimony, pp. 29-30 (September 17, 2024).

⁹⁵ Alex Bradley, Revised Pre-filed Direct Testimony, p. 4 (October 9, 2024).

⁹⁶ Tennessee-American Water Company's Second Supplemental Response to Consumer Advocate DR 1-74, p. 5 (November 7, 2024).

⁹⁷ *In re: Docket to Investigate and Consider Potential Issues and Modifications to the Collective Capital Riders of Tennessee-American Water Company*, Docket No. 19-00103, *Order Approving Stipulation and Settlement Agreement* (January 31, 2024).

⁹⁸ Commission Exhibit EXP-9 attached.

panel found that, under the circumstances in this case, the latest year BLS inflation factor best represents what can be expected in the attrition year.

C(10). Pensions

The Company proposed \$619,489 for its attrition year pension expenses, representing an increase of \$32,092 compared to its per-book test year charges. The Company's attrition year pension expense was calculated using the 2024 cash contribution estimates from the Company's third-party actuary, Willis Towers Watson ("WTW"), and then applying the capitalization percentage to the associated service cost. The Company's attrition year forecast is comprised of \$185,262 in service cost and \$434,227 in non-service cost.⁹⁹

The Consumer Advocate did not oppose the Company's proposal regarding its attrition period pension expenses.¹⁰⁰ Likewise, neither the City nor the UWUA proposed any adjustments to the Company's forecast. The panel voted to accept the Company and Consumer Advocate's proposals of using actual cash contribution estimates from its third-party actuary, WTW, and therefore, adopted \$619,489 as the Company's attrition year level of pensions expense.¹⁰¹

C(11). Regulatory Cost

The Company forecasted \$1,554,000 in deferred rate case support and filing costs and proposed to defer these costs and recover them from customers over a three-year period. As such, the Company has included \$518,000 in its attrition year expenses. Additionally, the Company proposed to (a) reconcile any differences between its forecasted and actual level of rate case costs in its annual PCOP mechanism and (b) offset the regulatory portions of base rates upon full recovery after three years via its PCOP mechanism.¹⁰²

⁹⁹ Robert Prendergast, Pre-Filed Direct Testimony, pp. 10-11 (May 1, 2024).

¹⁰⁰ Alex Bradley, Pre-Filed Direct Testimony p. 5 (September 17, 2024).

¹⁰¹ Commission Exhibit EXP-10 attached.

¹⁰² Robert Lane, Pre-Filed Direct Testimony, pp. 17-19 (May 1, 2024).

Consumer Advocate witness, Mr. Novak, recommended removing the Company's estimated rate case support and filing costs from its proposed revenue requirement. Mr. Novak proposed a separate proceeding for assessing the final amount of these costs, along with a separate surcharge for recovery, would be preferable to including them in base rates.¹⁰³ The City's witness, Mr. Garrett, agreed with Mr. Novak's recommendation.¹⁰⁴

For some time, the Commission has weighed whether additional incentives and/or deterrents are necessary with respect to ensuring rate case expense is reasonable. Rate case expense is a necessary expenditure in the provision of utility service and, if reasonable, is generally recovered from ratepayers. Ratepayers benefit because the Company receives additional revenues to make necessary facility repairs and upgrades so that the system remains safe and reliable, and to cover reasonable operating expenses to help ensure efficiency of operations. Stockholders also benefit from the increased revenues, which generally result in higher equity returns and, ultimately, increased stock prices. Yet, regulators must be circumspect and consider whether too little review or a complete lack of consequences for management and stockholders could embolden a public utility to take unreasonable positions in furtherance of driving up the revenue requirement sought in a rate case. In this case, the Company submitted an estimate of \$1.554 million in rate case expense, covering legal, internal costs, and outside consultants, for a rate case that ultimately ended with a relatively modest rate increase of \$1,073,930.

Traditionally, rate case expense has been incorporated into base rates to be recovered by ratepayers often based on little more than a line-item estimate provided by a public utility. A rate case proceeding carries with it a great deal of complexity over a host of issues and rarely permits the time for the parties or the Commission to deeply examine any rate case expense issue. As such, the estimate

¹⁰³ William H. Novak, Pre-Filed Direct Testimony, pp. 10-11 (September 17, 2024).

¹⁰⁴ Mark E. Garrett, Pre-Filed Direct Testimony, pp. 41-42 (September 17, 2024).

would generally be accepted, amortized over a three-year period (i.e., calculated for recovery over a three-year period) and built into base rates. Under the facts and circumstances in this docket, a separate proceeding will allow a review and a determination of the reasonableness of known and measurable costs. The panel voted unanimously to exclude the Company's rate case costs from establishing its base service rates and in turn, established a separate proceeding to determine the actual amount of regulatory costs, the time period for recovery, and the mechanism for allowing TAWC to recover these costs. The amount of regulatory costs to be recovered for the rate case, however, shall not exceed the \$1,554,000 amount requested by TAWC.

C(12). Insurance Other Than Group ("IOTG")

The Company proposed a \$1,205,504 IOTG expense for the attrition year, which is \$55,283 higher than the test period. Tennessee American's IOTG expenses are comprised of several different types of insurance, including auto liability, general liability, excess liability, workers' compensation, and property. The Company also has additional policy coverages including directors' and officers' liability, employment practices, cyber liability, crime, fiduciary, travel, special contingency risk, aviation of unmanned vehicles, and others. After removing the costs associated with the December 2023 casualty reserve to create a normalized test period, the Company forecasted the attrition period by beginning with the premium amounts allocated to the Company as of March 2024 and then applying specific policy escalation factors for each policy group at their corresponding renewal dates. A three-year average of retrospective general liability premium invoice adjustments provided by the insurance carrier was also incorporated. Finally, any capital project-related premiums are adjusted for expected capitalization to arrive at the Company's attrition year forecast.¹⁰⁵

¹⁰⁵ John Watkins, Pre-Filed Direct Testimony, pp. 8-9 (May 1, 2024).

The Consumer Advocate, the City, and the UWUA did not oppose the Company's proposal regarding its attrition period forecast.¹⁰⁶ The Company's approach appeared reasonable, and there was also no opposition to the amount forecasted by TAWC. The panel voted unanimously to approve \$1,205,504 as the Company's attrition year level of IOTG expenses.¹⁰⁷

C(13). Customer Accounting

TAWC included \$577,105 in customer accounting expenses, which is \$492,422 higher than incurred during its test period. These expenses include lockbox, customer payment processing, and other miscellaneous bank charges. Aside from minor normalization and inflationary adjustments, the primary driver for this increase was \$487,514 for electronic payment fees; these electronic payment fees were related to the Company's proposal to transition from its current policy of charging a convenience fee to any customer who wishes to pay his/her bill by credit card to providing the credit card payment option to all customers without additional convenience fees.¹⁰⁸

The Consumer Advocate recommended denial of the Company's request to place electronic payment processing fees in the amount of \$487,514 within base rates based on the assertion that doing so would create a customer cross-subsidy and send an inappropriate price signal to customers. The Consumer Advocate proposed \$87,229 for the Company's attrition year customer accounting expenses.¹⁰⁹ Neither the City nor the UWUA proposed adjustments to the Company's attrition year forecast.

The panel voted to adopt a calculation of customer accounting expense for the Company's attrition year of \$87,556, which rejected the Company's proposed electronic payment fees and applied the 2023 U.S. BLS growth rate (1.37%) specific to professional services to adjust for inflation in the

¹⁰⁶ Alex Bradley, Pre-Filed Direct Testimony, p. 5 (September 17, 2024).

¹⁰⁷ Commission Exhibit EXP-12 attached.

¹⁰⁸ John Watkins, Pre-Filed Direct Testimony, pp. 9-10 (May 1, 2024).

¹⁰⁹ Alex Bradley, Pre-Filed Direct Testimony, pp. 13-15 (September 17, 2024).

attrition year.¹¹⁰ This calculation reduced the Company's proposal by \$489,549 and increased the Consumer Advocate's proposal by \$327. Individual customers will continue to be responsible for the applicable convenience fee if they choose to use a credit card to pay their bill.

The rationale for using the 2023 BLS inflation rate (latest year) is to exclude the inflation factor for 2022 used by the parties in developing their three-year average inflation rates. The 2022 inflation factor is significantly higher and does not represent a typical year, especially when 2021 and 2023 inflation rates are substantially lower. Under the facts and circumstances of this case, the latest year BLS inflation factor best represents what can be expected in the attrition year.

C(14). Uncollectibles

The Company forecasted the attrition year uncollectible expense of \$490,096, which is \$107,435 higher than its test period amount. To forecast the attrition year total uncollectible account expense, the Company first utilized the historical uncollectible dollar-to-revenue ratio from 2021-2023, then determined an average uncollectible percentage. This three-year average uncollectible percentage is then applied to the pro forma revenue for the attrition year to derive the total uncollectible expenses for its attrition year.¹¹¹

Consumer Advocate witness, Mr. Bradley, proposed a \$1,057 increase in the Company's proposed uncollectible expenses. Mr. Bradley employed the Company's historical uncollectible dollar-to-revenue ratio from 2021-2023 to compute an average uncollectible percentage, which he then applies to the Consumer Advocate's forecasted attrition year revenue.¹¹² Neither the City nor the UWUA proposed any adjustments to the Company's proposal.

¹¹⁰ Commission Exhibit EXP-13 attached.

¹¹¹ Robert Lane, Pre-Filed Direct Testimony, p. 15 (May 1, 2024).

¹¹² Alex Bradley, Pre-Filed Direct Testimony, pp. 10-11 (September 17, 2024).

The panel voted to adopt an uncollectible expense of \$491,153 for the attrition year.¹¹³ The Consumer Advocate's approach for developing a three-year historical uncollectible percentage is reasonable. As the panel had previously adopted the Consumer Advocate's attrition year revenue forecast, it was then appropriate to apply the three-year historical uncollectible percentage to the Consumer Advocate's forecasted revenues which results in a 1,057 increase in uncollectible expenses over that of the Company.

C(15). Rents

The Company proposed rent expenses for its attrition year of \$29,985, which is \$21,556 higher than recorded for its test year. The Company incurs costs for renting assets such as copy machines, office space, and easements. The primary reason for the increase is the Company's adjustment to bring its test period expenses in line with its most recent three-year average. The attrition year adjustments made to rent expense were for inflation and were based on the most recent three-year average BLS rent-specific index.¹¹⁴

The Consumer Advocate recommended an attrition year rent expense of \$27,351, which is \$2,633 less than the Company's proposal. To project attrition year maintenance expense, Mr. Bradley began with the Company's test period amount and then adjusted via his revised non-production growth factor of 1.18%.¹¹⁵ Neither the City nor the UWUA proposed any adjustments to the Company's forecast.

The panel voted to accept a calculation of \$30,115 for the Company's attrition year level rent expense, an amount that increases the Company and Consumer Advocate's rent expense proposal by \$131 and \$2,765, respectively. The panel's calculation applied the 2023 U.S. BLS growth rate specific

¹¹³ Commission Exhibits EXP-14 & AB-1 Attrition Adjustments attached.

¹¹⁴ Robert Prendergast, Pre-Filed Direct Testimony, p. 12 (May 1, 2024).

¹¹⁵ Alex Bradley, Revised Pre-Filed Direct Testimony, p. 6 (October 9, 2024).

to rent (6.17%) to adjust for inflation to the recent three year-year average.¹¹⁶ The rationale for using the 2023 BLS inflation rate (latest year) was to exclude the inflation factor for 2022 used by the parties in developing their three-year average inflation rates. The 2022 inflation factor was significantly higher and does not represent a typical year, especially when 2021 and 2023 inflation rates were substantially lower. Under the facts and circumstances of this docket, the panel found that the latest year BLS inflation factor best represents what can be expected in the attrition year.

C(16). Telecommunications

The Company proposed telecommunications expenses for its attrition year of \$352,451, which is \$38,949 higher than recorded for its test year. These expenses included carrier plan costs, systems integration and maintenance costs, data lines, and related administrative expenses. The most recent three-year average general Consumer Price Index (“CPI”) inflation factor of 6.03% was used to calculate the Company’s test year amount for its attrition year expense.¹¹⁷

The Consumer Advocate recommended \$320,950 for the attrition year telecommunications expense based on the use of revised non-production yearly growth factor of 1.18%.¹¹⁸ Neither the City nor the UWUA proposed any adjustments to the Company’s forecast.

The panel voted to adopt a calculation of \$336,870 for the attrition year level telecommunication expense, representing a reduction of \$15,581 from the Company’s calculation. The panel’s calculation applied the general 2023 U.S. BLS growth rate (3.66%) to adjust for inflation to the test period amount.¹¹⁹ The rationale for using the 2023 BLS inflation rate (latest year) was to exclude the inflation factor for 2022 used by the parties in developing their three-year average inflation rates. The 2022 inflation factor was significantly higher and did not represent a typical year,

¹¹⁶ Commission Exhibit EXP-15 attached.

¹¹⁷ John Watkins, Pre-Filed Direct Testimony, p. 11 (May 1, 2024).

¹¹⁸ Alex Bradley, Revised Pre-Filed Direct Testimony, p. 4 (October 9, 2024).

¹¹⁹ Commission Exhibit EXP-16 attached.

especially when 2021 and 2023 inflation rates were substantially lower. Under the facts and circumstances of this case, the latest year BLS inflation factor best represents what can be expected in the attrition year.

C(17). Transportation

The Company forecasted its attrition year transportation expenses at \$428,594, which is nearly \$10,000 lower than its test year amount. This forecast included increased expenses to support four new vehicles in 2024 and another two in 2025 by using the average 2023 test year per-vehicle costs. In addition, the Company's forecast reflected estimated capitalized credits, which more than offset the additional expenses.¹²⁰ The Consumer Advocate, the City, and the UWUA did not oppose the Company's proposal regarding its attrition period transportation expenses.¹²¹

The panel found the Company's approach reasonable and adopted the calculation of \$428,594 as the Company's attrition year transportation expense.¹²²

C(18). Maintenance

The Company forecasted its attrition year maintenance expenses at \$1,691,431, which is \$471,782 more than experienced in its test year. This amount is based on a three-year average level of annual maintenance expenses. The Company next applied inflation factors to arrive at its 2025 attrition year forecast. The Company averaged the three most recent BLS maintenance-specific annual growth rates as its inflation factor for its maintenance expenses.¹²³

The Consumer Advocate forecasted its attrition year maintenance expense at \$1,599,432, which is \$92,000 lower than the Company's projection. To project attrition year maintenance expense, Mr. Bradley begins with the Company's test period amount and then applies his revised non-

¹²⁰ John Watkins, Pre-Filed Direct Testimony, pp. 10-11 (May 1, 2024).

¹²¹ Alex Bradley, Pre-Filed Direct Testimony, p. 10 (September 17, 2024).

¹²² Commission Exhibit EXP-17 attached.

¹²³ Dominic Degrazia, Pre-Filed Direct Testimony, p. 16 (May 1, 2024).

production growth factor of 1.18%.¹²⁴ Neither the City nor the UWUA proposes any adjustments to the Company's forecast.

The panel voted unanimously to adopt a calculation of \$1,710,996 for the Company's attrition year level maintenance expense, an amount that increased the Company's and Consumer Advocate's proposals by \$19,565 and \$111,564, respectively. The panel's calculation made inflation adjustments by applying the 2023 U.S. BLS growth rate specific to water and sewer maintenance costs (4.65%) to the three-year average test period amount to arrive at the attrition year maintenance expenses.¹²⁵ The rationale for using the 2023 BLS inflation rate (latest year) was to exclude the inflation factor for 2022 used by the parties in developing their three-year average inflation rates. The 2022 inflation factor was significantly higher and did not represent a typical year, especially when 2021 and 2023 inflation rates were substantially lower. Under the facts and circumstances of this docket, the latest year BLS inflation factor best represents what can be expected in the attrition year.

C(19). Miscellaneous

The Company forecasted its attrition year miscellaneous expense at \$1,699,078, which is \$162,057 higher than the test period. The Company's miscellaneous expense account is comprised of five categories: building maintenance, postage, office supplies, employee-related expenses (e.g., relocation expenses), and other expenses that include customer education, community relations, and lab supplies. After removing lobbying expenses and Covid-19-related expenses from its test period, the Company calculated a three-year average cost by line item. The Company then inflated each line item's three-year average using the most recent three-year average BLS cost factors applicable to its various expenses to arrive at its overall attrition year forecast.¹²⁶

¹²⁴ Alex Bradley, Revised Pre-Filed Direct Testimony, p. 5 (October 9, 2024).

¹²⁵ Commission Exhibit EXP-19 attached.

¹²⁶ John Watkins, Pre-Filed Direct Testimony, p. 12 (May 1, 2024).

The Consumer Advocate recommended the removal of community partnership costs in the amount of \$108,820 from the test period.¹²⁷ Mr. Dittmore asserted that, while these costs are beneficial to the community and generate goodwill, they are unrelated to providing water service and therefore should not be built into base rates.¹²⁸ Further, Mr. Dittmore proposed that the Commission direct the Company to record any future community partnership costs, which should include any internal labor expenses associated with employees' participation in these events, to a non-operating expense account that should be excluded from any proposed future revenue requirement.¹²⁹ Given this adjustment and employing a lower inflationary growth factor, the Consumer Advocate's revised attrition year miscellaneous expenses are \$1,462,123.¹³⁰ Neither the City nor the UWUA proposed any adjustments to the Company's attrition forecast.

In rebuttal testimony, the Company proposed two additional adjustments to its initial filing. It proposed removing \$116,438 of employee relocation expenses and \$354 related to a slight reduction in one of its inflation factors. These adjustments reduced the Company's initial attrition-year forecast in miscellaneous expenses to \$1,582,286.¹³¹

The panel adopted a calculation of 1,498,752 for miscellaneous expense for the attrition year, representing a reduction to the Company's rebuttal proposal by \$83,534 and an increase over the Consumer Advocate's proposal by \$36,629. The panel's calculation normalized the Company's test year by removing the Company's Community Partnership Expense in the amount of \$108,820 from the Company's three-year average adjustment. The 2023 U.S. BLS growth rates specific to each individual miscellaneous account were applied to adjust for inflation in the attrition year.¹³² The

¹²⁷ David N. Dittmore, Pre-Filed Direct Testimony, p. 33 (September 17, 2024).

¹²⁸ *Id.*

¹²⁹ *Id.* at 33-34.

¹³⁰ Alex Bradley, Revised Pre-Filed Direct Testimony, p. 4 (October 9, 2024).

¹³¹ Bob Lane, Pre-Filed Rebuttal Testimony, pp. 3-5, Rebuttal Exhibit BL-2 (October 22, 2024).

¹³² Commission Exhibit EXP-18 and EXP-18A attached.

rationale for using the 2023 BLS inflation rate (latest year) is to exclude the inflation factor for 2022 used by the parties in developing their three-year average inflation rates. The 2022 inflation factor is significantly higher and does not represent a typical year, especially when 2021 and 2023 inflation rates are substantially lower. Under the facts and circumstances of this case, the latest year BLS inflation factor best represents what can be expected in the attrition year.

C(20). Taxes Other Than Income Taxes (“TOTIT”)

General taxes include the Company’s gross receipts taxes, Commission inspection fees, property taxes, franchise taxes, and payroll taxes (FICA + unemployment taxes), which are a function of the Company’s proposed taxable revenue, rate base (asset) value, and/or labor expenses. The Company proposed an attrition period TOTIT amount of \$7,748,014.

Aside from slight differences in general taxes due to recommended adjustments in the Company’s proposed revenue requirement, the primary difference between the Company’s proposal and the Consumer Advocate’s \$6,242,026 recommendation was related to the Company’s forecasted property tax. The Company forecasted a large increase in its property taxes compared to its test period amount due to an expected appraisal increase. Mr. Dittemore testified that this increase would not become effective until 2026 and that accepting the Company’s “proposal would require customers to pay higher rates in 2025, while the Company would not incur the [higher] cost until 2026.”¹³³ Consequently, Mr. Dittemore recommended a \$1.3 million reduction to the Company’s original proposal.

In its rebuttal testimony, the Company proposed two additional increases to its initially proposed TOTIT. The Company proposed an increase of \$20,451 to its property tax forecast and \$3,624 to its gross receipts tax forecast. These adjustments are related to its rate base update that more

¹³³ David N. Dittemore, Pre-Filed Direct Testimony, pp. 34-35 (September 17, 2024).

accurately reflects its Enterprise Solutions capital investment plan and to an increase in its industrial service revenue, respectively, that combine to increase the Company's initially proposed general taxes from \$7,748,014 to \$7,772,089.¹³⁴

The panel adopted a total of attrition year general taxes for the Company is \$5,502,129. The nearly \$2.3 million difference between the panel's calculation and that of the Company is driven by the panel's \$1.3 million property tax reduction for the attrition year, which was recommended by the Consumer Advocate, the panel's adjustment to reduce the Company's gross receipts tax by including a per-statute credit for excise taxes which both the Company and Consumer Advocate omitted, and a payroll tax adjustment relating to the panel's decisions to exclude the Company's proposed new full-time hire positions and removal of 25% estimated lobbying expenses related to the Company's Manager of External Affairs.

<i>Other Tax</i>	Company¹³⁵	Company Rebuttal¹³⁶	Consumer Advocate¹³⁷	Panel Decision¹³⁸
<i>Gross Receipts</i>	\$1,042,208	\$1,045,832	\$1,014,093	\$217,895
<i>TPUC Fees</i>	286,779	286,779	289,493	289,493
<i>Property</i>	4,920,461	4,940,912	3,576,571	3,576,571
<i>Franchise</i>	982,116	982,116	915,278	982,116
<i>FICA</i>	512,400	512,400	442,541	433,308
<i>Unemployment</i>	4,050	4,050	4,050	2,746
<i>Total Other Taxes</i>	\$7,748,014	\$7,772,089	\$6,242,026	\$5,502,129

D. RATE BASE

Rate Base measures the total of the investor-funded plant, facilities, and other investments used by the utility in providing service to its customers. The rate base is the investment on which a fair rate of return is applied to arrive at the net operating income requirement. The Company proposed

¹³⁴ Bob Lane, Pre-Filed Rebuttal Testimony, pp. 3-5, Rebuttal Exhibit BL-2 (October 22, 2024).

¹³⁵ Bob Lane, Pre-Filed Direct Testimony, Company Schedule FS-2.1, Pro Forma Income Statement, and Company's Income Statement Excel file (May 1, 2024).

¹³⁶ Bob Lane, Pre-Filed Rebuttal Testimony, Schedule BL-2 (October 22, 2024).

¹³⁷ Alex Bradley, Revised Pre-Filed Direct Testimony, Schedule 10 (October 14, 2024).

¹³⁸ Commission Exhibit TOTIT-1 attached.

a rate base of \$305.77 million, while the Consumer Advocate recommended \$298.04 million to be approved. The City modified the Company's position by adjusting cash working capital, other working capital, accumulated depreciation, and Accumulated Deferred Income Tax ("ADIT") for a rate base of \$300.77 million. Overall, the panel approved a rate base value of \$300,742,017.

D(1). Utility Plant in Service ("UPIS")

The Company based its UPIS calculations on the Company's historical starting balance as of December 31, 2023, and then forecasted capital additions and retirements for 2024 and 2025. The Company bases its \$515,138,706 value of attrition period UPIS on a thirteen-month average of net plant balances.¹³⁹ Net plant balances were calculated by taking the forecasted plant retirements and subtracting them from forecasted monthly plant additions to yield the net amount of monthly plant additions or net retirements (as applicable). Forecasted monthly plant retirements were estimated based on the average annual retirements for the most recently available two historical years, 2022 and 2023, and provisioning for one-twelfth (1/12) of that historical annual retirement average each month during the bridge and attrition periods. Those monthly retirements are netted against the plant additions over the course of twenty-four months, resulting in the attrition period net monthly plant balances.¹⁴⁰

Consumer Advocate witness, Hal Novak, performed an analytical comparison of the Company's historical additions and retirements each year for 2020 through 2025. Mr. Novak found there was a reasonable approximation between the Company's historical average of plant additions and the Company's forecasted additions for 2024 and 2025. Therefore, Mr. Novak adopted the Company's initial forecast data for plant additions and retirements to perform the Consumer

¹³⁹ Dominic J. Degrazia, Pre-Filed Direct Testimony, Exhibit RB-2-UPIS-DD (May 1, 2024).

¹⁴⁰ *Id.*

Advocate's computation of UPIS, a valuation of \$515,138,706.¹⁴¹ The City made no adjustments to the Company's UPIS valuation.

In its rebuttal testimony, the Company proposed an adjustment to UPIS by increasing the amount of attrition period additions. This proposal was initiated from the Company's response to a data request by the Consumer Advocate.¹⁴² The schedules presented in Mr. Lane's testimony did not specify a newly proposed amount of attrition period UPIS, but rather adjusted the cumulative net average rate base total by adjustments to various elements of rate base with no further supporting schedules breaking down the calculations of UPIS to support this adjustment.¹⁴³

The Company filed a post-hearing brief that proposed an increase to UPIS to a value of \$515,830,424, based on Mr. Lane's net adjustment, although there was no presentation of supporting schedules. Aside from Mr. Lane's proposed adjustments to net rate base without full supporting schedules, the Company's methodology for determining attrition period UPIS by forecasting the effect of capital expenditures and retirements applied to its known historical balances is a reasonable, forward-looking procedure for calculating service rates. Moreover, the capital budgeting approach used by the Company is consistent with methodologies for determining appropriate levels of UPIS for rate-setting purposes adopted in prior rate cases.

The panel's review found the Company's methodology were consistent with those sponsored by both the Consumer Advocate and the Company's initial filing.¹⁴⁴ However, without sufficient detailed information, the panel is unable to reconcile the net adjustment presented in the Company's rebuttal filing to the overall UPIS forecast. The panel voted to adopt the thirteen-month average of

¹⁴¹ William H. Novak, Pre-Filed Direct Testimony, pp. 7-8 (September 17, 2024).

¹⁴² Bob Lane, Pre-Filed Rebuttal Testimony, p. 5 (October 22, 2024).

¹⁴³ *Id.* at Rebuttal Exhibit BL-1.

¹⁴⁴ William H. Novak, Pre-Filed Direct Testimony, p.6 (September 17, 2024).

UPIS valued at \$515,138,706 that was originally proposed by the Company and agreed to by the Consumer Advocate be adopted for the attrition year in this case.

D(2). Construction Work in Progress (“CWIP”)

The Company does not include CWIP in its rate base. The Company testified that plant is not part of rate base until it either is, or is forecasted to be, placed into service, and becomes “used and useful.” As such, CWIP is excluded from the Company’s rate base calculation because it is not yet used or useful.¹⁴⁵ The Consumer Advocate accepted the Company’s proposed \$0 balance; but noted that historically CWIP has been allowed as an addition to rate base by the Commission, and that the Company did include CWIP as a component of rate base in the Company’s last rate case, Docket No. 12-00049. Furthermore, when CWIP is excluded, the funds used during construction (“AFUDC”) are typically allowed to be capitalized as construction period financing costs. Thus, the exclusion of CWIP may result in an increase in AFUDC activity going forward. The City made no adjustments to the Company’s CWIP valuation.

In the Company’s last rate case, CWIP was included as an addition to rate base; but, in this filing, the Company has excluded CWIP from rate base, asserting that plant should not be considered as part of rate base until it is placed into service. In this docket, TAWC excluded the test year CWIP balance of \$5.2 million from rate while the Company forecasted \$4,804,073¹⁴⁶ of CWIP that is expected to be completed during the attrition period from January 2024 to December 2025, which was included as a component of UPIS. Although the Company employed a different method compared to the last rate case filing, the dollar impact on rates between the two methods is minimal and within a reasonable range. The Consumer Advocate is also in agreement with the Company’s new approach

¹⁴⁵ Tennessee American Water Company Response to Third Discovery Request of the Consumer Advocate, DR No. 3-3 (August 27, 2024).

¹⁴⁶ Dominic J. Degrazia, Pre-Filed Direct Testimony, Exhibit RB-2 (May 1, 2024).

to exclude CWIP. Based on the foregoing, the panel voted to adopt the proposed zero for the CWIP attrition year balance for this case.

D(3). Materials and Supplies

Materials and supplies represent the inventory balance of plant materials, chemicals, and other related items. TAWC calculated a material and supplies 13-month average test period value of \$1,899,351, which is carried forward as the attrition period balance.¹⁴⁷ The Consumer Advocate and the City did not oppose the Company's forecast for material and supplies.

Relying solely on the 13-month test year average may not adequately represent a normalized balance, given that materials and supplies balances fluctuate significantly based on operational needs. During the thirteen-month test period, the Company's balance fluctuated, peaking at \$2,369,566 in June 2023 and dropping to \$1,366,374 in December 2023, representing a change of approximately 73%. Recognizing these fluctuations, the panel compared a calculation computed a twenty-four-month average to smooth the variability and determine a reasonable forecasted balance with a thirteen-month average. Both approaches yielded similar balances. Therefore, the panel voted to adopt an estimated thirteen-month average attrition year balance of \$1,899,351 for materials and supplies.

D(4). Lead/Lag Cash Working Capital

Cash working capital ("CWC") is included as an addition in rate base to recognize the cost of funding lag between the time utility service is rendered to customers and the time the revenue is collected from customers for the associated service. The lag also accounts for the time difference between when expenses occurred and when the associated payments were made to vendors. Company witness Harold Walker conducted a Lead/Lag study by calculating Revenue Lag Days, subtracting Expense Lag Days and check clearing time for each expense category to determine a net lag between

¹⁴⁷ *Id.* at Exhibit RB-3.

revenue and expense. The Company forecasted attrition period lead-lag CWC to be \$4,503,000.¹⁴⁸ A significant driver of the operating cost increase during the attrition year is the \$1,242,192 rise in labor expenses. The Company's proposal to add sixteen new full-time employees brings the total forecasted workforce to 117 full-time positions.

The Consumer Advocate originally forecasted the CWC value to be (\$366,485).¹⁴⁹ This negative value reflects that customers are providing funds in excess of the amount necessary to finance TAWC's daily operations. There are three modifications to the CWC made by the Consumer Advocate. First, modifying the overall revenue lag from 44.9 days to 44.46 days.¹⁵⁰ In its response to DR. No. 1-51, the Company acknowledged that other revenues totaling \$1,180,215 were erroneously removed twice from the "Daily Revenue" amount, resulting in a material error to the CWC calculation.

Second, modifying the Support Service lag days from negative 5 days to positive 10.5 days to match the lag used for Salaries and Wages. The negative lag used by the Company implies that TAWC pays for affiliate charges before the charges are actually incurred. The Consumer Advocate indicates that this is not a standard practice between two affiliated entities, and TAWC's customers should not be expected to prepay affiliate charges. The Support Service charges are primarily related to labor charges. Therefore, applying the Salaries and Wages lag is reasonable. Third, the Consumer Advocate recommended using the Consumer Advocate's modified O&M costs for the CWC calculation. The major O&M cost adjustments made by the Consumer Advocate include: (1) a \$1.2 million reduction in Labor costs, (2) a \$1 million reduction in Support Service, and (3) approximately half a million dollars in reductions in customer accounting and regulatory expenses.¹⁵¹ On November 14, 2024, the

¹⁴⁸ *Id.* at Exhibit RB-4.

¹⁴⁹ Alex Bradley, Pre-Filed Direct Testimony, Schedule 5 (September 17, 2024).

¹⁵⁰ David N. Dittmore, Pre-Filed Direct Testimony, p.43, Exhibit DND 14 (September 17, 2024).

¹⁵¹ Alex Bradley, Pre-Filed Direct Testimony, Schedule 8 (September 17, 2024).

Consumer Advocate filed revised testimony and workpapers, adjusting its forecasted CWC from (\$366,485) to (\$122,925).¹⁵² This revision corrected an error in the expense lag calculation, reducing it from 47.79 to 45.58 days. Additionally, the adjustment increased O&M expenses, raising the daily cost of service from \$109,997 to \$110,114.

Mark Garrett, on behalf of the City, proposed attrition year working capital of (\$2,390,000).¹⁵³ The City's working capital calculation excluded non-cash items such as return on equity, depreciation expense, and deferred tax expense from the lead/lag study. Mr. Garrett asserted that the Company's inclusion of these non-cash items significantly inflated the cash working capital. In addition, Mr. Garrett excluded prepayment for affiliate service and revised the revenue lag from 44.9 days to 41.4 days, based on an average day of 15.2 days from the midpoint to the end of the service period, which is 3.5 days shorter than the 18.7 days used by the Company. The payment lag for gross receipt tax was also revised to 393.50 days, rather than (157.5 days) proposed by the Company. The negative lag indicates the tax has been prepaid. According to Mr. Garrett, the gross receipts tax was based on the prior year's revenue, but the Company incorrectly calculated the gross receipts tax for the 2025 attrition year based on the annualized 2025 revenue.¹⁵⁴

In its rebuttal filing, the Company's workpaper reflected its acceptance of the Consumer Advocate's proposed overall revenue lag adjustment, reducing it from 44.9 days to 44.46 days due to a correction in the daily revenue calculation. The Company's workpaper also included adjustments to O&M expenses and related taxes in the CWC calculation. All of those revisions collectively lower the Company's proposed CWC to \$4,391,000.¹⁵⁵

¹⁵² *Letter to Chairman Jones Regarding Revisions to Pre-Filed Testimony of Alex Bradley*, Schedule 5 (November 14, 2024).

¹⁵³ Mark E. Garrett, Pre-Filed Direct Testimony, Exhibit MG-2.5 (September 17, 2024).

¹⁵⁴ *Id.* at 14-15.

¹⁵⁵ Harold Walker III, Pre-Filed Rebuttal Testimony, p. 14 (October 22, 2024).

The panel voted to adopt a calculation for an attrition year balance of \$1,602,081 for Lead/Lag CWC. The panel concluded that the Consumer Advocate's proposed total revenue lag of 44.46 days for computing cash working capital should be adopted in this case. The panel's calculation includes the exclusion of net income from the CWC calculation, as it is a non-cash expense that does not generate a cash requirement on behalf of the Company. However, it reflects the Company's position to include depreciation, amortization, and deferred tax in the CWC calculation for computing the daily average.

Similar non-cash items, such as return on equity, have been excluded from CWC calculations in previous commission orders, while depreciation, amortization, and deferred tax have consistently been included in computing the daily average with zero lag days applied to them.¹⁵⁶ This approach is further supported by *Hahne & Aliff's* Utility Accounting Principles treatise, which advocates including depreciation, amortization, and deferred tax in computing the daily average.¹⁵⁷

The panel's calculation includes the Consumer Advocate's method for computing the expense lag related to support services. The Company applied negative lag, which implies TAWC pays for affiliate charges before the services are completed. The Consumer Advocate's approach uses 10.5 lag days, aligning with the expense lag used for salaries and wages. Affiliate charges should be paid after the services are completed. The inclusion of the current State Excise tax in the Lead-Lag working capital calculation is consistent with the methodology used in the previous commission rate cases.

Additionally, the Company's approach to calculating the payment lag for gross receipts tax is appropriate. A review of the Company's 2023 general ledger details reveals the Company's gross

¹⁵⁶ *In re: Petition of Chattanooga Gas Company for Approval of an Adjustment in Rates and Tariff; the Termination of the AUA Mechanism and Related Tariff Changes and Revenue Deficiency Recovery; and an Annual Rate Review Mechanism*, Docket No. 18-00017, *Amended Order*, p. 48 (January 15, 2019).

¹⁵⁷ *Hahne, R.L., & Aliff, G.E.* Accounting for Public Utilities, § 5.04[4][a], Working Capital Component of Rate Base (2019).

receipts tax was paid in July 2023, with the prepaid amount amortized in equal monthly amounts (1/12), starting in the same month. The Company's application of a negative 157.5 days of payment lag for gross receipts tax reflects the midpoint that the payment was made on, which is in advance of the service period. The Consumer Advocate also agreed with the Company's approach to the payment lag calculation for gross receipt tax. Applying the panel's decisions on O&M costs for the CWC calculation, the panel voted to adopt an attrition year balance of \$1,602,081 for Lead/Lag CWC.

D(5). Other Working Capital

Other working capital includes deferred rate case expenses, unamortized debt expense, and the cost lag of incidental collections, with the incidental collection being a deduction from the value of other working capital. The Company's forecasted attrition amount for other working capital is \$2,549,849.¹⁵⁸ The deferred rate case expense balance for the attrition year is based on the total estimated costs for the 2024 rate case, which will be amortized over thirty-six months starting in January 2025. The Company then uses a thirteen-month average balance from December 2024 to December 2025 to arrive at the attrition year balance. The unamortized debt expense balance for the attrition year is calculated by starting with the test year balance and deducting the cumulative amortization of existing and forecasted new debt issuances. Incidental collections relate to the sales and use tax collected on behalf of taxing authorities.

The Consumer Advocate recommended having a separate surcharge for deferred rate case expenses, as separating these costs into a surcharge would limit the Company to recovering only the actual rate case expense, rather than an estimated amount through base rates. The separate surcharge would be terminated once actual rate case expenses were fully recovered. Thus, the Consumer Advocate made an adjustment to remove the Company's forecasted deferred rate case expense

¹⁵⁸ Dominic J. Degrazia, Pre-Filed Direct Testimony, Exhibit RB-5 Other Cash Working Capital-DD (May 1, 2024).

balance of \$1,295,000 from other working capital.¹⁵⁹ The City's witness, Mr. Garrett, proposed deferring the rate case expense to a subsequent docket until the Commission can fully review and evaluate those expenses.¹⁶⁰

In rebuttal testimony, Company witness, Mr. Degrazia, relied upon the Consumer Advocate's unamortized debt cost regression analysis, pointing out that its coefficient of only 2.6% indicates that the data does not exhibit a linear relationship. As a result, the Company asserted that using regression analysis to forecast the attrition year balance is not appropriate. Additionally, the service period lag days, which contributed to most of the difference in the attrition year's incidental collections, have never been used in the prior dockets to calculate incidental collections.¹⁶¹ Furthermore, Company witness, Mr. Lane proposed using the PCOP rider to reconcile the forecasted rate case expenses with the actual expenses, and then ultimately refund or recover the difference through the rider.¹⁶²

The Company's methodology is based on itemized debt issued by American Water and the calculation of the attrition year balance using a thirteen-month average forecasted balance from December 2024 through December 2025. The Consumer Advocate applied a regression analysis using a thirteen-month average trend from January 2022 to forecast the attrition year balance. The data, however, does not show a clear linear relationship, and the resulting R^2 value of 0.026 reflects the model's lack of reliability. Applying a twenty-four-month average balance starting in January 2024 through the end of the attrition period produced results that were consistent with the Company's proposed balance. Therefore, the panel adopted the Company's attrition year balance of \$1,400,710 for unamortized Debt Costs.

¹⁵⁹ William H. Novak, Pre-Filed Direct Testimony p. 10 (September 17, 2022).

¹⁶⁰ Mark E. Garrett, Pre-Filed Direct Testimony, p. 41 (September 17, 2022).

¹⁶¹ Dominic J Degrazia, Pre-Filed Rebuttal Testimony, pp. 4-5 (October 22, 2024).

¹⁶² Bob Lane, Pre-Filed Rebuttal Testimony, p. 16 (October 22, 2024).

The panel found that the Consumer Advocate's approach in calculating the Incidental Collections is reasonable. This method incorporates service period lag days of 15.21 and includes an additional related account in the daily funds calculation. As discussed previously herein, the panel adopted the Consumer Advocate's recommendation to exclude rate case expense at this time and for it to be addressed in a separate filing where the Commission can review the actual costs incurred and establish an appropriate recovery. Overall, the panel voted to adopt an attrition year balance of \$1,066,412 for Other Working Capital.

D(6). Accumulated Depreciation and Depreciation Expense

The Company calculated accumulated depreciation by starting with its beginning balance as of December 31, 2023. While the Company's balance sheet level of accumulated depreciation as of the test period was valued at (\$133,769,104), the Company adjusted this amount by reducing its beginning accumulated depreciation balance by the accumulated cost of removal of (\$21,654,906). Therefore, the starting balance of accumulated depreciation carried into the attrition period calculations was only (\$112,144,198), which produced a lower deduction to UPIS and increased the Company's net rate base level.¹⁶³

The Company calculated total depreciation expense for the attrition period by multiplying the forecasted monthly net UPIS balances for each plant account by the average life depreciation rates and adding an estimated cost of removal expense accrual into depreciation expense by allocating the cost of removal accrual rate to each plant account. The depreciation and cost of removal rates used during the 2024 bridge period were established in the previously approved depreciation study; however, the attrition period 2025 uses the newly proposed depreciation and cost of removal rates to yield the total forecasted depreciation expense for the attrition period.¹⁶⁴

¹⁶³ Tennessee-American Water Company Response to First Staff Data Request, Question 6 (September 5, 2024).

¹⁶⁴ Dominic J. Degrazia, Pre-Filed Direct Testimony, Exhibit EXP-20.1-Depreciation Expense-DD (May 1, 2024).

The forecasted monthly amount of plant retirements and forecasted actual costs incurred during the removal process are deducted from the forecasted depreciation expense and accrued removal cost for the attrition period to yield each monthly addition of total depreciation expense, which is then added into accumulated depreciation to produce the forecasted monthly accumulated depreciation balances for the attrition period.¹⁶⁵ The Company then took a thirteen-month average value of accumulated depreciation (\$126,819,773) as the amount of accumulated depreciation for the attrition period rate base calculation. This amount is subtracted from the Company's thirteen-month average of UPIS to yield the net utility plant in service, an amount of \$388,318,933.¹⁶⁶

Consumer Advocate witness, Hal Novak, reviewed the Company's newly proposed depreciation rates to be effective January 1, 2025, and observed that these new rates will decrease the annual depreciation expense by \$1,039,590. Mr. Novak recommended that the new depreciation rates be approved.¹⁶⁷ Mr. Novak testified that the Company's balance and calculation of accumulated depreciation for the attrition period were linked to the Company's forecast of UPIS, which the Consumer Advocate has accepted.¹⁶⁸ Thus, the Consumer Advocate accepted the Company's proposed \$126,819,773 balance of accumulated depreciation. In addition, the Company's proposed depreciation rates produced \$15,764,988 in attrition period depreciation expense, which the Consumer Advocate also accepted as reflected on the Consumer Advocate's Income Statement Exhibit.¹⁶⁹

On behalf of the City, Mr. Garrett recommended maintaining the current depreciation and cost of removal rates. He testified that the proposed increases in depreciation rates would contribute to a

¹⁶⁵ Tennessee-American Water Company's Responses to Second Set of Discovery Requests of The Consumer Advocate, DR 2-47 (July 30, 2024).

¹⁶⁶ Dominic J. Degrazia, Pre-Filed Direct Testimony, Exhibit RB-1-Summary-DD (May 1, 2024).

¹⁶⁷ William H. Novak, Pre-Filed Direct Testimony, p. 11 (September 17, 2024).

¹⁶⁸ *Id.*

¹⁶⁹ *Id.*

\$2.1 million increase in depreciation expense. Since the recovery of investment is a long-term process for public utilities, he suggested delaying the rate increase until the Company demonstrates deficiencies and when the customers' financial situation is not heavily stressed. Mr. Garrett also highlighted an error found in the Company's workpapers relating to the cost of removal expense.¹⁷⁰ The City proposed a net adjustment, resulting in a decrease in expense of \$2,291,091.¹⁷¹ In summary, the City recommended retention of the current depreciation and cost of removal rates, while correcting the identified cost of removal error. The City did not make any other adjustments to the Company's numbers affecting UPIS.

In rebuttal testimony, the Company proposed adjusting its valuation of the cost of removal, which is a component of calculating its accumulated depreciation. The adjustment was made in the Company's response to the Consumer Advocate's data request.¹⁷² The schedules presented in Mr. Lane's testimony did not specify a newly proposed amount of accumulated depreciation, but rather adjusted the cumulative net average rate base total by adjustments to various components of rate base, with no further supporting schedules breaking down the accumulated depreciation calculations to support this adjustment.¹⁷³

The Company's post-hearing brief proposed a decrease to accumulated depreciation, valued at \$126,748,495, but did not provide supporting schedules to support the adjustment. Except for the latter adjustments proposed to net rate base, the Company's methodology for determining attrition period accumulated depreciation by forecasting the effects of depreciation expenses, removal costs, salvage values, and retirements is a reasonable, forward-looking procedure for calculating service rates. Further, the depreciation study's methodologies, which are based on straight-line, average life

¹⁷⁰ Mark E. Garrett, Pre-Filed Direct Testimony, p. 34 (September 17, 2024).

¹⁷¹ *Id.* at 35.

¹⁷² Bob Lane, Pre-Filed Rebuttal Testimony, p. 5 (October 22, 2024).

¹⁷³ *Id.* at Rebuttal Exhibit BL-1.

group, remaining life techniques, are consistent with the depreciation methodologies previously approved by the Commission to compute depreciation rates.¹⁷⁴

The panel's review of the attrition period for accumulated depreciation produced results that were materially consistent with those sponsored by both the Consumer Advocate, and the Company in their initial filings.¹⁷⁵ Because the Company did not present sufficient detailed information, the panel was unable to reconcile the net adjustment presented in the Company's rebuttal filing to the overall accumulated depreciation forecast. The panel voted to adopt the thirteen-month average of accumulated depreciation, valued at \$126,819,773, that was originally proposed by the Company and agreed to by the Consumer Advocate for the attrition year in this case. Further, the panel approved the Company's newly proposed depreciation rates in its initial filing as incorporated within the depreciation study submitted with the Company's *Petition*.

D(7). Accumulated Deferred Income Taxes ("ADIT")

The Company forecasted an attrition year ADIT amount of \$60,093,004, which included both ADIT and excess ADIT.¹⁷⁶ The attrition year ADIT amount was calculated by taking the test period balance and adding forecasted 2024 and 2025 ADIT activities. The ADIT activities (excluding excess ADIT) results from the book and tax timing differences occurring during the attrition year, primarily driven by the impact of accelerated depreciation methods used to compute tax depreciation expense on the forecasted UPIS, as well as the different treatment on repair expenses, which for tax purposes are recognized immediately, but for ratemaking purposes are capitalized and depreciated over time. To forecast 2025 ADIT activities, the Company applied a proration rate, using the remaining days/365

¹⁷⁴ *In re: Atmos Energy Corporation Shared Service Depreciation Study*, Docket No. 20-00012; *Order Approving New Depreciation Rates*, pp. 5-6 (January 27, 2021).

¹⁷⁵ William H. Novak, Pre-Filed Direct Testimony, p. 6 (September 17, 2024).

¹⁷⁶ Dominic Degrazia, Pre-Filed Direct Testimony, Exhibit RB-7 Deferred Taxes-DD (May 1, 2024).

method as outlined in Treasury regulation Section 1.167(I)-1(h)(6)(ii), which led to a 54% reduction in the forecasted 2025 ADIT activities.¹⁷⁷

A significant portion of the excess ADIT is associated with tax rate changes under the 2017 Tax Cut and Jobs Act. The total Excess ADIT approved in the TAWC Federal Tax Impact Docket No. 18-00039 is approximately \$16.8 million. The Company estimated that amortization for 2024 and 2025 would be \$239,753 and \$232,555, respectively, which is relatively small compared to the overall ADIT amount. The Company also confirmed that the unprotected portion of Excess ADIT had been fully amortized as of December 2023.¹⁷⁸

The Consumer Advocate asserted that the flow-through method is a more suitable approach than the normalization method for calculating income tax expense related to repair deductions. Under Internal Revenue Service (“IRS”) guidelines, the income tax expense calculation is referred to as the ‘flow-through’ method, while Generally Accepted Accounting Principles (“GAAP”) calculations lead to ‘normalized’ tax expenses. For all timing differences, excluding depreciation, either method can be used in ratemaking at the discretion of the Commission.¹⁷⁹ The Consumer Advocate further asserted that adopting the flow-through approach for repair deductions aligns income tax expense recovered in rates with taxes actually owed by the Company and ensures that customers do not overpay beyond the Company’s actual tax liabilities.¹⁸⁰ Adopting the flow-through method to the repair deduction reduces deferred tax expenses by \$3,641,589, resulting in an increase to rate base.¹⁸¹

¹⁷⁷ Tennessee-American Water Company Response to First Staff Data Request, Question 10 (September 5, 2024).

¹⁷⁸ *Id.* at Question 12 (September 5, 2024).

¹⁷⁹ David N. Dittmore, Pre-Filed Direct Testimony, pp. 10-12 (September 17, 2024).

¹⁸⁰ *Id.* at 16-18.

¹⁸¹ *Id.* at 9.

The City supported the Consumer Advocate’s recommendation to adopt the flow-through method for the repair allowance. However, Mr. Garrett’s proposed reduction of \$3,831,785 in income tax expenses differs from the amount proposed by the Consumer Advocate.¹⁸²

The primary difference between the parties’ ADIT calculation lies in whether the flow-through or normalized method should be used for the income tax treatment of repair expenses. In their post-hearing briefs, the parties maintained their respective positions on the income tax treatment of the repairs deduction. The Consumer Advocate and the City asserted that the flow-through method should be required because this method more closely aligns income tax expense recovered in rates to the actual amount of taxes owed by the Company, as well as lessens the impact of any rate adjustment on struggling ratepayers by reducing income tax expense to current customers in the near term.¹⁸³ The Company, on the other hand, asserted that the Commission should continue the Company’s existing and long-standing treatment of normalizing the repairs deduction.¹⁸⁴

According to the Company, the normalization method is preferred because it stabilizes rates and spreads the tax benefits of the repairs deduction to current and future customers rather than allocating all of the benefits to today’s customers.¹⁸⁵ Moreover, the Company argued that the flow-through method would have a negative impact on its financing plans because the method significantly reduces cash flows and does not provide the “interest-free” funds that normalization provides, thereby requiring the Company to replace these funds through either debt or equity.¹⁸⁶

Although the Commission has not directly addressed the appropriate income tax treatment of the repairs deduction previously, the Company correctly notes that it has normalized the income tax

¹⁸² Mark E. Garrett, Pre-Filed Direct Testimony, p. 44 (September 17, 2024).

¹⁸³ *Consumer Advocate Division’s Post Hearing Brief*, pp. 22-23 (December 10, 2024); *City of Chattanooga’s Post Hearing Brief*, pp. 17-18 (December 10, 2024).

¹⁸⁴ *Tennessee-American Water Company’s Post Hearing Brief*, pp. 69-70 (December 10, 2024).

¹⁸⁵ *Id.* at 72.

¹⁸⁶ *Id.* at 73.

timing differences related to capital repairs in its previous rate cases.¹⁸⁷ Other jurisdictions have recently ordered the normalization method of accounting for the income tax treatment of the repairs deduction.¹⁸⁸

While the Commission may choose to reexamine this issue in a future case, the panel concluded that the Commission’s practice of permitting jurisdictional utilities to normalize the temporary tax timing differences related to the repairs deduction should be continued under the circumstances of this case. Normalization of tax timing differences has been the standard ratemaking practice employed by the Commission in the calculation of rates; and while this practice increases income tax expense for current customers, normalization returns the tax benefits of the repairs deduction to current and future customers over the life of the capital repair through a deduction of the associated deferred tax liability from rate base. As such, normalization provides the Company with an “interest-free” source of funds, which potentially avoids costs related to other sources of capital such as interest or equity returns.

At this time, normalization reasonably distributes the tax benefits related to the repairs deduction to current and future customers. The panel voted unanimously to adopt the Company’s attrition year balance of \$0 for Flow-Through of Repairs Deduction and \$60,093,004 as the total ADIT balance.

D(8). Customer Advances for Construction

Customer Advances primarily represent funds collected from developers for new main installations. When new customers tap into the extended mains, some funds may be refunded to the developers. TAWC avoids financing development costs by having developers pay for the initial main

¹⁸⁷ *Id.* at 70-71.

¹⁸⁸ See *Appalachian Power Company and Wheeling Power Company, both d/b/a American Electric Power*, Case Nos. 14-1152-E-42T, 14-1151-E-D, 2015 WL 3526971, *64 (W.Va.P.S.C. May 26, 2015); *Petition of Indiana-American Water Company, Inc.*, Cause No. 45870, 2024 WL 755397, *84-85 (Ind.U.R.C. Feb. 14, 2024).

extension upfront. Customer Advances are deducted from the rate base calculation, as they are not considered investor funds. The Company forecasted \$8,250,965 for the attrition year Customer Advances, which is based on the test year balance of \$7,500,963 and monthly forecasts for receipts from and refunds to developers.¹⁸⁹ The Company further clarified that approximately \$2.08 million of customer advances relating to work-in-progress from the test year was excluded from the rate base calculation, resulting in an increase to rate base.¹⁹⁰

The Consumer Advocate opposed excluding Customer Advances relating to CWIP valued at \$2,083,551 from the rate base calculation.¹⁹¹ Mr. Novak testified that the Commission has consistently treated Customer Advances as a deduction in the rate base calculation without segregating specific components, and that although the Company has excluded CWIP as a component of rate base, that exclusion does not justify that Customer Advances relating to capital projects also be excluded. Furthermore, the Consumer Advocate used a two-year trend of the thirteen-month average Customer Advance balances to forecast the attrition year balance, rather than relying on a simple average.¹⁹² The Consumer Advocate's forecasted balance as of December 2025 was \$10,636,908.¹⁹³ The City did not adjust the Company's calculations and accepted the Company's forecasted Customer Advances.¹⁹⁴

Company witness, Mr. Degrazia, testified that the Company excluded CWIP as a component of rate base; therefore, no corresponding balances were included as an offset to the projects included in the Customer Advances account. Additionally, the Company opposed the use of a regression analysis to forecast Customer Advances, as the value of Customer Advances is subject to refunds and

¹⁸⁹ Dominic J. Degrazia, Pre-Filed Direct Testimony, Exhibit RB-8 Customer Advances-DD (May 1, 2024).

¹⁹⁰ Response of Tennessee-American Water Company to Second Set of Discovery Requests of the Consumer Advocate, CAD 2-49 (July 30, 2024).

¹⁹¹ William H. Novak, Pre-Filed Direct Testimony, p. 14 (September 17, 2024).

¹⁹² *Id.*

¹⁹³ *Id.* at 13.

¹⁹⁴ Mark E. Garrett, Pre-Filed Direct Testimony, Exhibit WP MG-2.6 (September 17, 2024).

the balance fluctuates over time; therefore, forecasting the Customer Advances balance based on a linear trend is not an appropriate method.¹⁹⁵

The panel found that TAWC's approach to exclude the CWIP-related portion of Customer Advances is consistent with the recommended exclusion of CWIP from rate base. For the remaining Customer Advances, the Company used a thirteen-month average to forecast the attrition period ending balance, which the panel also considers reasonable. Accordingly, the panel adopted the Company's attrition year balance of \$8,250,965 for Customer Advances.

D(9). Contribution in Aid of Construction ("CIAC")

CIAC represents non-refundable money or physical property received from a third party. Because CIAC is not considered an investor asset, it is a deduction from the rate base calculation. The Company forecasted the attrition period CIAC balance to be \$19,455,803, which was based on the test year actual balance, adjusted by forecasted additional contributions and reduced by the amortization of contributions to depreciation expense.¹⁹⁶ TAWC took a thirteen-month average of the forecasted monthly balances to arrive at the final attrition year forecast. The Company further clarified that the portion of CIAC that relates to CWIP from the test year was excluded from the rate base calculation, resulting in an increase to rate base.¹⁹⁷

The Consumer Advocate opposed excluding the portion of CIAC pertaining to test-year capital projects (work-in-progress) of \$772,482 from the rate base calculation.¹⁹⁸ Mr. Novak testified that the Commission has consistently treated CIAC as a deduction in rate base calculations without segregating specific components. Furthermore, the Consumer Advocate utilized a two-year trend of

¹⁹⁵ Dominic J. Degrazia, Pre-Filed Rebuttal Testimony, p. 7 (October 22, 2024).

¹⁹⁶ Dominic J. Degrazia, Pre-Filed Direct Testimony, Exhibit RB-9 (May 1, 2024).

¹⁹⁷ Tennessee-American Water Company's Response to Second Set of Discovery Requests of the Customer Advocate, 2-48 (July 30, 2024).

¹⁹⁸ William H. Novak, Pre-Filed Direct Testimony, p. 14 (September 14, 2024).

the thirteen-month average CIAC balances to forecast the attrition year balance, rather than relying on a simple average.¹⁹⁹ The Consumer Advocate's forecasted balance as of December 2025 was \$21,536,948.²⁰⁰ The City did not make any adjustments to the Company's CIAC.²⁰¹

TAWC witness, Mr. Degrazia, testified that the Company excluded CWIP as a component of rate base; therefore, no corresponding balances were included as an offset to the projects included in the CIAC. Additionally, the Company opposed using a regression analysis to forecast CIAC; rather the Company employed a simple average method.²⁰²

The panel found that the Company's approach is consistent with the recommended exclusion of CWIP from rate base. For the remaining CIAC, the Company used a thirteen-month average to forecast the attrition period ending balance, which the panel found to be a reasonable methodology under the circumstances in this docket. Accordingly, the panel voted to adopt the Company's attrition year balance of \$19,455,803 for CIAC.

D(10). Unamortized Investment Tax Credit

TAWC calculated its thirteen-month average attrition period balance of unamortized investment tax credits to be \$5,010.²⁰³ The Consumer Advocate and the City of Chattanooga accepted the Company's forecasted amount. The panel voted to adopt the Company's forecast.

D(11). Jasper Highland Regulatory Liabilities and Utility Plant Acquisition Adjustment

Jasper Highlands Regulatory Liabilities are deductions from rate base and represent the post-closing payments associated with the Jasper Highlands acquisition.²⁰⁴ The Company forecasted an

¹⁹⁹ *Id.*

²⁰⁰ *Id.*

²⁰¹ Mark E. Garrett, Pre-Filed Direct Testimony, Exhibit MG-2.6 (September 17, 2024).

²⁰² Dominic J. Degrazia, Pre-Filed Rebuttal Testimony, p. 8 (October 22, 2024).

²⁰³ Dominic J. Degrazia, Pre-Filed Direct Testimony, Exhibit RB-10 (May 1, 2024).

²⁰⁴ *In re: Joint Petition of Tennessee-American Water Company and Thunder Air, Inc. d/b/a/ Jasper Highlands Development, Inc. for Approval of an Asset Purchase Agreement and for Issuance of a Certificate of Convenience and Necessity*, Docket No. 20-00011, *Order Approving Asset Purchase Agreement and Granting Certificate of Convenience and Necessity*, pp. 17-19 (February 26, 2021).

attrition year balance of \$590,490.²⁰⁵ TAWC calculated this balance by starting from the test year balance, reducing it by the forecasted monthly remittances, and then taking a thirteen-month average ending in December 2025 to determine the final attrition year amount. The forecasted remittances during the attrition period were based on the monthly average of payments made in years 2021, 2022, and 2023. The Consumer Advocate adopted the Company's forecasted amount in its rate base calculation. The panel voted to adopt the Company's calculation of the attrition year Jasper Highland Regulatory Liability balance of \$590,490.

TAWC deducted a Utility Plant Acquisition Adjustment ("UPAA") of \$3,749,579 from its attrition period rate base.²⁰⁶ The UPAA liability arises from the purchase of Jasper Highlands, and it has remained the same amount because no amortization has ever been applied. The Consumer Advocate and the City did not oppose the Company's forecasted amounts. The UPAA arises from the purchase of Jasper Highlands, where the Company paid less than the net book value of the assets, resulting in an acquisition discount. The UPAA balance recorded under Account 11430000 remains consistent with the amount approved in the prior case. This balance has remained unchanged since the acquisition, as no amortization has been applied. According to the Water Uniform System of Accounts ("USOA"), the amount recorded in the UPAA account for acquisition shall be amortized, or otherwise disposed of, as the Commission may approve or direct. In Docket No. 20-00011, although the Commission's order did not establish specific guidelines on UPAA amortization, it was indicated that other related ratemaking issues and future recoveries would be deferred to future proceedings.²⁰⁷ The panel found that, given the complexity, number of issues, and time constraints of

²⁰⁵ Dominic J. Degrazia, Pre-Filed Direct Testimony, Exhibit RB-11 (May 1, 2024).

²⁰⁶ *Id.* at Exhibit RB-12.

²⁰⁷ *In re: Joint Petition of Tennessee-American Water Company and Thunder Air, Inc. d/b/a/ Jasper Highlands Development, Inc. for Approval of an Asset Purchase Agreement and for Issuance of a Certificate of Convenience and Necessity*, Docket No. 20-00011, *Order Approving Asset Purchase Agreement and Granting Certificate of Convenience and Necessity*, p. 19 (February 26, 2021).

a rate case, there has been insufficient discussion in the record at this time on the issue of amortizing the UPAA. Therefore, the panel voted unanimously to consider the means of amortizing the UPAA in a future proceeding.

E. COST OF CAPITAL

The goal of regulatory rate setting is to ensure a fair rate of return on a company's investments while ensuring the safety and reliability of the service provided. The fair rate of return standard descends from court decisions in the *Hope* and *Bluefield* cases.²⁰⁸ A fair rate of return is achieved when (1) the return is comparable to other businesses that bear similar risks; (2) the allowed return is sufficient to ensure financial integrity; and (3) the company can attract, at reasonable cost, credit to meet its capital requirements. The fair rate of return is applied to the investment in rate base to arrive at the net operating income requirement.

Here, the Company sought an equity return of 10.75%.²⁰⁹ For rate-setting purposes, the Company proposed a capital structure comprised of 1.99% short-term debt, 43.49% long-term debt (45.48% total debt), and 54.52% common equity.²¹⁰ TAWC witness, Nicholas Furia, recommended a cost rate of 4.27% for short-term debt.²¹¹ Mr. Furia also recommended a cost rate of 4.59% for long-term debt.²¹² The overall cost of capital based upon the testimony of Ms. Bulkley and Mr. Furia for TAWC was 7.94%.²¹³

On behalf of the Consumer Advocate, Mr. Rothschild recommended that the Commission should reject (1) Ms. Bulkley's recommended return on equity ("ROE") of 10.75% because it is

²⁰⁸ *Bluefield Water Works & Improvement Co. v. P.S.C. of West Virginia*, 262 U.S. 679 (1923), *F.P.C. v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

²⁰⁹ Anne E. Bulkley, Pre-Filed Direct Testimony, p. 66 (May 1, 2024).

²¹⁰ Nicholas Furia, Pre-Filed Direct Testimony, p. 4 (May 1, 2024).

²¹¹ *Id.* at Schedule CS-1.1.

²¹² *Id.*

²¹³ *Id.* at 9, Schedule CS-1.1.

higher than the Company's market-based cost of equity ("COE") and (2) TAWC's requested capital structure consisting of 54.52% equity and 43.49% debt, because they have a significantly higher common equity ratio (54.52%) than the average common equity ratio (50.9%) used by other water utility companies in the country and the consolidated capital structure being used by TAWC's parent, American Water Works Company, Inc. ("AWWC") (about 44%).²¹⁴

The Consumer Advocate recommended an equity return "of up to 8.28%, which is at the high end of my cost of equity model results (7.09% - 8.28% with a midpoint of 7.68%) ..." ²¹⁵ Mr. Rothschild also recommended a capital structure containing 50.90% common equity and 47.11% long-term debt, a long-term debt cost of 4.59%. This, coupled with the equity return recommendation, results in an overall cost of capital by the Consumer Advocate of 6.46%. ²¹⁶

On behalf of the Consumer Advocate, Mr. Rothschild argued against adopting TAWC's requested capital structure. As an alternative, Mr. Rothschild supported using a capital structure consisting of 50.90% equity and 47.11% debt, based on the average common equity ratios of the proxy group of companies Mr. Rothchild used for TAWC. ²¹⁷ Relative to the cost of debt, Mr. Rothschild recommended adopting TAWC's requested cost of long-term debt of 4.59% and cost of short-term debt of 4.27%. ²¹⁸ Among his criticisms, Mr. Rothschild argued that Ms. Bulkley's recommendations were not market-based and relied on "backward looking data." ²¹⁹ Mr. Rothschild further asserted that the data sources used by Ms. Bulkley show that her equity return estimates were too high, noting that the Kroll Stocks, Bonds, Bills, and Inflation ("SBBI") Yearbook estimates a long-term market return of only 9.45%. ²²⁰

²¹⁴ Aaron L. Rothschild, Pre-Filed Direct Testimony, p. 8 (September 17, 2024).

²¹⁵ *Id.* at 9.

²¹⁶ *Id.* at 10-11.

²¹⁷ *Id.* at 79.

²¹⁸ *Id.*

²¹⁹ *Id.* at 81-82.

²²⁰ *Id.* at 83.

The City argued that it is appropriate to use information from TAWC's parent company when determining the cost of capital.²²¹ The City recommended adopting a modified version of TAWC's parent company, AWWC's consolidated capital structure.²²² Mr. Garrett recommended the equity component be set at 44.57%, which is the bottom of the range of the proxy group of companies utilized by the Company.²²³ Mr. Garrett concluded the Consumer Advocate's recommendation should be adopted and that the 10% rate is consistent with the Constant Growth Discounted Cash Flow ("DCF") models presented by Ms. Bulkley and should serve as a ceiling for the Company's ROE.²²⁴

The UWUA suggested that a reduction of the ROE could be imposed as a penalty if TAWC did not maintain a workforce consistent with the authorized number of positions.²²⁵

In rebuttal testimony, Ms. Bulkley testified the average ROE awarded in 2024 of 9.62% with a low of 9.1% and a high of 11.88%.²²⁶ Ms. Bulkley asserted the recommended ROE of 8.28 % was well below the low end of the range of authorized ROEs for water, natural gas, and electric utilities in the United States since 2021.²²⁷ Concerning Mr. Rothschild's DCF implementation using option implied growth rates, Ms. Bulkley testified that the Consumer Advocate's approach: (1) lacked academic support; (2) suffered from a scarcity of options data; (3) required the creation of data; (4) calculated growth rates inconsistent with the assumptions of the constant growth DCF model and (5) had substantial week- to- week variability.²²⁸

Ms. Bulkley testified that it was inappropriate to use the capital structure of a holding company, like AWWC, to set the capital structure of an operating subsidiary, like TAWC.²²⁹ Ms.

²²¹ Mark E. Garrett, Pre-Filed Direct Testimony, pp. 36-39 (September 17, 2024).

²²² *Id.* at 39.

²²³ *Id.*

²²⁴ *Id.* at 40.

²²⁵ Shawn Garvey, Pre-Filed Direct Testimony, pp. 23-24 (September 17, 2024).

²²⁶ Anne E. Bulkley, Pre-Filed Rebuttal Testimony, p. 21 (October 22, 2024).

²²⁷ *Id.* at 20.

²²⁸ *Id.* at 34-38.

²²⁹ *Id.* at 77-78.

Bulkley opined that TAWC’s capital structure should be set on a stand-alone basis from the parent company.²³⁰ Ms. Bulkley argued that the capital structure should not be based upon the concept of double leverage.²³¹ Mr. Furia opined that capital structure ratios cannot be deemed inappropriate unless they greatly diverge from sound industry practice.²³² Mr. Furia argued that the source of investment capital is irrelevant and advocates using a stand-alone capital structure.²³³

E(1). Capital Structure

The Commission traditionally recognizes the importance of the parent-subsidary relationship when establishing the appropriate capital structure for use in a rate proceeding.²³⁴ The methodology the Commission has used to determine the capital structure for TAWC entails dividing the capital structure of TAWC between “the elements of TAWC’s capitalization that are held by AWWC and those held by outside parties.”²³⁵ The methodology used to determine the capital structure for ratemaking purposes for TAWC is referred to as “double leverage” in the Docket No. 10-00189 *Final Order*.²³⁶

To implement the double leverage method, the cost of capital for the elements of TAWC’s capitalization held by parties other than AWWC is applied to the portion of capitalization held by

²³⁰ *Id.* at 77-78.

²³¹ *Id.* at 82-83.

²³² Nicholas Furia, Pre-Filed Rebuttal Testimony, pp. 3-4 (October 22, 2024).

²³³ *Id.* at 4-11.

²³⁴ *In re: Petition of Chattanooga Gas Company for Approval of an Adjustment in Rates and Tariff; the Termination of the AUA Mechanism and the Related Tariff Changes and Revenue Deficiency Recovery; and an Annual Rate Review Mechanism*, Docket No. 18-00017, *Amended Order*, p. 60 (January 15, 2019).

²³⁵ *In re: Petition of Tennessee American Water Company for a General Rate Increase*, Docket No. 10-00189, *Final Order*, p. 126 (April 27, 2012).

²³⁶ The term “double leverage” in the context of capital structure has been defined in other proceedings differently. For example, in Commission Docket No. 18-00017, a rate case for Chattanooga Gas Company, Consumer Advocate witness Dr. Christopher Klein described the double leverage methodology as using the weighted average cost of capital of the parent company as the cost of equity for the subsidiary. Dr. Klein noted that the purpose of using double leverage is to recognize the parent subsidiary relationship. See *In re: Petition of Chattanooga Gas Company for Approval of an Adjustment in Rates and Tariff; the Termination of the AUA Mechanism and the Related Tariff Changes and Revenue Deficiency Recovery; and an Annual Rate Review Mechanism*, Docket No. 18-00017, *Amended Order*, pp. 59-60, fn 196 (January 15, 2019).

those outside parties. Similarly, the cost of capital for AWWC is applied to the part of capitalization held by AWWC. That is, the parent company's cost of capital, reflecting the parent company's capital structure, is applied to the portion of TAWC capitalization held by the parent. Using this approach to determine TAWC's capital structure dates back to Docket No. 06-00290.²³⁷

To evaluate the continued need to use the double leverage methodology for TAWC's capital structure, TPUC issued a data request concerning the items in TAWC's capitalization held by parties outside AWWC. The Company indicated that such debt is only 1.8% of its projected attrition year capitalization.²³⁸ Further, the Mortgage Bond held by outside parties matures in 2026.²³⁹ Given the pending maturity of the Mortgage Bond coupled with the small percentage of TAWC's projected capitalization the outside held Mortgage Bond occupies, and the pending maturity of the indebtedness under examination, it is reasonable to conclude that the portions of TAWC's capitalization held by outside parties are not part of TAWC's long-term capital structure.

The panel did not adopt a double leverage calculation for TAWC, in part due to the small and decreasing portion of its capitalization held outside AWWC. The capital structure in this proceeding must recognize the importance of the parent-subsidiary relationship by being based upon AWWC, TAWC's parent company, an approach that is not unprecedented.²⁴⁰

The Company supports the use of TAWC's parent company's capital structure in this proceeding, arguing in part that the stand-alone ratemaking principle requires rates to be established for each jurisdictional entity on an independent basis, regardless of the source of the investment

²³⁷ *In Re: Petition Of Tennessee-American Water Company To Change And Increase Certain Rates And Charges So As To Permit It To Earn A Fair And Adequate Rate Of Return On Its Property Used And Useful In Furnishing Water Service To Its Customers*, Docket No. 06-00290, Order, p. 47 (June 10, 2008).

²³⁸ Response of Tennessee American Water Company to Commission Second Discovery Request, Question 5 (November 14, 2024).

²³⁹ Nicolas Furia, Pre-Filed Direct Testimony, Exhibit CS-1 Capital Structure-NF, Schedule CS-1.3 (May 1, 2024).

²⁴⁰ *In re: Petition of Chattanooga Gas Company for Approval of an Adjustment in Rates and Tariff; the Termination of the AUA Mechanism and the Related Tariff Changes and Revenue Deficiency Recovery; and an Annual Rate Review Mechanism*, Docket No. 18-00017, Amended Order, p. 62 (January 15, 2019).

funds.²⁴¹ However, no single methodology or principle controls or binds the Commission. Moreover, the use of the capital structure of the parent is readily acknowledged within the realm of setting rates for public utilities.

One of the primary issues when determining the capital structure for ratemaking purposes is the corporate level at which to measure the capital structure. The capital structure is typically measured at the corporate level at which the utility actually interfaces with the capital markets. Some utilities participate directly in the capital market and have a capital structure disciplined by the capital markets.

Actual capital structure ratios are generally used for a utility that has market-traded stock and/or debt directly issued to investors. Utilities that are subsidiaries of parent companies may interface with the capital markets at the parent level instead. If so, that parent capital structure can be considered for ratemaking purposes. However, parent companies may have significant non-utility operations of different risk that may render the use of the parent company capital structure inappropriate.²⁴²

TAWC is a wholly-owned subsidiary of AWWC.²⁴³ TAWC does not access the short-term debt market directly but through American Water Capital Corporation, an affiliate of the AWWC corporation.²⁴⁴ Further, TAWC accesses long-term debt markets through American Water Capital Corporation.²⁴⁵ The record reflects that TAWC does not access capital markets directly; thus, using the parent's capital structure is appropriate in this proceeding.

The Company's proposed capital structure does not contain information reflecting the parent-subsidiary relationship. The Commission requested an updated capital structure for AWWC for the attrition year ended December 31, 2025. The Company indicated that the projected capital structure was not available.²⁴⁶ Consumer Advocate witness, Mr. Rothschild, proposed that the capital structure

²⁴¹ Nicholas Furia, Pre-Filed Rebuttal Testimony, pp. 4-5 (October 22, 2024).

²⁴² John D. Quackenbush, CFA, *Cost of Capital and Capital Markets: A Primer for Utility Regulators*, National Association of Regulatory Utility Commissioners, pp. 11-12 (December 2019).

²⁴³ Transcript of Proceedings Volume 1, pp. 136-137, 165 (November 18, 2024).

²⁴⁴ *Id.* at 150-160.

²⁴⁵ *Id.* at 160.

²⁴⁶ Tennessee-American Water Company's Response To Commission Second Discovery Request, Question 4 (November 14, 2024).

used in this proceeding should be set by averaging the capital structure of comparable companies. However, the panel declined to do so because sufficient information exists about AWWC to determine its capital structure.

The City proposed adopting AWWC's capital structure with the modifications that (1) “the equity component be set at 44.57%, which is the bottom of the range of the proxy group of companies cited by Ms. Bulkley, and (2) that the short-term debt component of the capital structure be set at 1.99%.²⁴⁷ While the panel rejected Mr. Garrett’s proposed modifications to the capital structure, it adopted a capital structure consisting of 0.81% short-term debt, 55% long-term debt, and 44.19% common equity based on the capital structure of AWWC.²⁴⁸

E(2). Cost of Debt

The panel adopted a long-term debt cost for TAWC of 4.59% in calculating the overall rate of return. Both the Consumer Advocate and the City accepted the 4.59% long-term debt cost and used it in the calculation of the overall rate of return. The panel accepted a short-term debt cost of 4.27% proposed by Company and accepted by City witness Garret and the Consumer Advocate.

E(3). Equity Return

There is no simple single-step process for setting the appropriate equity return. Several factors are used to determine the equity return, including the results of the parties' valuation models, prevailing economic conditions, rulings of other state commissions, and other factors that may provide evidence about the risk of investing in the company. At a high level, the Company recommended an equity return of 10.75%. The Consumer Advocate recommended an equity return of 8.28%. The midpoint of the recommendations is 9.5%. The Company provided testimony that the

²⁴⁷ Mark E. Garrett, Pre-Filed Direct Testimony, p. 39 (September 17, 2024).

²⁴⁸ The panel’s capital structure is nearly identical to the capital structure for AWWC found in MFG Q066, except for the 0.01% preferred stock, an amount the panel has determined is immaterial.

average equity return for water, natural gas, and electric utilities in 2024 was 9.62%, with a low of 9.1% and a high of 11.88%.²⁴⁹

The equity return estimates from Consumer Advocate Witness, Mr. Rothschild, aside from those associated with his constant growth DCF, are relatively low compared to recent regulatory decisions.

On the other hand, Ms. Bulkley's Capital Asset Pricing Model ("CAPM") analysis produced relatively high estimates because of her calculation of market return, which ultimately calculated the market risk premium used in her CAPM calculations. Ms. Bulkley used a DCF model to estimate a 12.7% market return for the Standard and Poor's ("S&P") Index as of March 31, 2024.²⁵⁰ Witness Bulkley testified that the 12.7% market return estimate is not unreasonable because in fifty out of the last ninety-seven years, the realized equity market return was at least 12.7%.²⁵¹ Among his many criticisms of Ms. Bulkley's 12.7% market return estimate, Mr. Rothschild observed that her analysis was based on a one-year timeframe and that longer-term measures are preferable.²⁵² In essence, the Company has asked the Commission to ignore data that supports a lower market return. Witness Bulkley's market return, market risk premium, and CAPM results are suspect due to the use of a 12.7% market return derived from a cross-section of data from a limited time period. The overstatement of market return, and hence risk premium, impact all of Ms. Bulkley's CAPM results.

The overstatement of market return is also apparent in Ms. Bulkley's Empirical Capital Asset Pricing Model ("ECAPM") estimates. The results from the various ECAPM models estimated by Ms. Bulkley range from 11.02% to 11.75%.²⁵³ The Company's estimates are a minimum of 140 basis

²⁴⁹ Anne E. Bulkley, Pre-Filed Rebuttal Testimony, p. 21 (October 22, 2024).

²⁵⁰ Anne E. Bulkley, Pre-Filed Direct Testimony, pp. 45-46, Exhibit ARB-7 (May 1, 2024).

²⁵¹ *Id.* at 46.

²⁵² Aaron L. Rothschild, Pre-Filed Direct Testimony, p. 93 (September 17, 2024).

²⁵³ Anne E. Bulkley, Pre-Filed Direct Testimony, p. 48 (May 1, 2024).

points higher than the mean of 2024 equity returns for electric, natural gas and water utilities provided by Ms. Bulkley. In a similar vein, all implementations of her CAPM with current Value Line BETA statistics produce equity return estimates of more than 11.37%.²⁵⁴

Ms. Bulkley applied a proxy group of publicly traded utilities as an essential element of her estimate of the cost of equity for TAWC. Ms. Bulkley testified that a “significant benefit of using a proxy group is that it mitigates the effects of anomalous events that may be associated with any one company.”²⁵⁵ TAWC is not publicly traded, but its parent, AWWC, is publicly traded.²⁵⁶ The peer group assembled by Ms. Bulkley included utilities providing water, natural gas, and electric service.²⁵⁷ The Consumer Advocate did not contest Ms. Bulkley’s proxy group. Given the small number of water companies, the multi-industry proxy group employed by Witness Bulkley is reasonable.

The fundamental principle underlying the Capital Asset Pricing Model is that investors demand higher returns for assuming additional risk. The CAPM produces a quantitative measure of the additional return required for bearing additional risk. The additional return needed to induce an investor to engage in a riskier investment is known as the risk premium. The formal representation of the CAPM is:

$$K = R_f + \beta(R_m - R_f)$$

K (expected return); R_f (risk-free return); R_m (overall market return); β (measure of asset risk relative to market risk)

The panel applied a risk-free return of 4.23% for use in the CAPM calculation.²⁵⁸ This measure is the current thirty-day average yield on the thirty-year Treasury bond used by Company

²⁵⁴ *Id.*

²⁵⁵ *Id.* at 29.

²⁵⁶ *Id.* at 30.

²⁵⁷ *Id.* at 29-31.

²⁵⁸ Anne E. Bulkley, Pre-Filed Direct Testimony, Exhibit AEB-3 (October 22, 2024).

Witness Bulkley in one of her CAPM implementations. Witness Bulkley also provided a near-term (2024-2025) and (2026-2030) projected rates for the thirty-year Treasury of 4.12% and 4.3% respectively.²⁵⁹ The average of these projected rates is 4.21%, which is comparable to the panel's 4.23%.

The Commission prefers to use a long-term measure for market return or risk premium. For example, in the 2018 Chattanooga Gas rate case, the Commission used a long-term risk premium of 6.9% calculated from data for 1926 to 2017.²⁶⁰ In this proceeding, neither witness used a measure of risk premium that spanned more than several years. The panel calculated a 6.35% long-run risk premium based on data from 1926-2022.²⁶¹ Finally, the panel applied a BETA value of 0.85 derived as the average of ValueLine BETAs for the proxy companies identified by the Company.²⁶²

The panel adopted an equity return of 9.7%, which is substantially similar to the midpoint of the parties' equity return recommendations, the midpoint of 2024 water utility rate decisions, and the average of 2024 rate case decisions for water, electric, and natural gas utilities. The CAPM equity return calculated from the information above results in an ROE of 9.63%. The panel rounds the calculated amount upward to 9.7%, reflecting the higher equity returns from the Company's DCF results. The panel further notes that the equity return is comparable to that established in rate cases involving other subsidiaries of AWWC. Notably, the Pennsylvania Public Utility Commission established 9.45% in an *Order* based upon a public meeting held July 11, 2024.²⁶³ The New Jersey Board of Public Utilities accepted a *Stipulation* setting an equity return of 9.6% via an *Order* dated

²⁵⁹ *Id.*

²⁶⁰ *In re: Petition of Chattanooga Gas Company for Approval of an Adjustment in Rates and Tariff; the Termination of the AUA Mechanism and the Related Tariff Changes and Revenue Deficiency Recovery; and an Annual Rate Review Mechanism*, Docket No. 18-00017, *Amended Order*, pp. 66-67, fn 219 (January 15, 2019).

²⁶¹ Consumer Advocate's Responses to Tennessee-American's First Set of Discovery Request, Question 1-04, Kroll 2023 SBBI Yearbook, p. 201 (October 9, 2024).

²⁶² Anne E. Bulkley, Pre-Filed Rebuttal Testimony, Exhibit AEB-3 (October 22, 2024).

²⁶³ TAWC Response To Commission Second Discovery Request, Question 3, Attachment 1, p. 194 (November 14, 2024)

September 4, 2024.²⁶⁴ The Indiana Utility Regulatory Commission issued an *Order* in February this year setting Indiana American Water Company's equity return at 9.65%.²⁶⁵ Finally, the Kentucky Public Service Commission set an equity return of 9.7% via an *Order* issued May 3, 2024.²⁶⁶

E(4). Overall Rate of Return

With the equity return, debt costs, and capital structure determined, the calculation of the overall rate of return is a mechanical exercise. The panel unanimously adopted an overall rate of return of 6.846%, which falls within the zone of reasonableness between the Consumer Advocate's proposed 6.4618% and the Company's 7.94%.

F. REVENUE CONVERSION FACTOR

After reviewing the testimony and calculations of TAWC and the Consumer Advocate, coupled with the Commission's analysis and calculations, the panel adopted an overall Revenue Conversion Factor of 1.355850 based upon a Forfeited Discounts Factor of 0.005373, an Uncollectible Ratio of 0.006833, state excise tax rate of 6.5%, and a Federal Income Tax rate of 21%.

G. REVENUE DEFICIENCY

Based upon the preceding determinations for revenues, expenses, rate base, taxes, rate of return, including return on equity, and the revenue conversion factor, the panel adopted a Revenue Deficiency of \$1,007,930 for the attrition period.

H. RATE DESIGN

For rate recovery of the revenue deficiency, the Company performed a cost-of-service study ("COSS") consisting of a summary, account detail, allocation summary, allocation worksheet, and usage statistics. The first step of a COSS is forecasting attrition year costs based on operational

²⁶⁴ *Id.* at Question 5, Attachment 5, p. 3.

²⁶⁵ *Id.* at Question 3, Attachment 7, p. 43.

²⁶⁶ *Id.*, Attachment 10, p. 40.

functions. Next, the allocators are identified by function (such as usage, capacity, services, etc.). The final step is to allocate functionalized costs to the classes of service by utilizing an appropriate allocation that is related to different cost drivers. Mr. Brooks summarized the Class Cost of Service Result as follows, which indicates the amount of revenue that would be needed in order for each customer class to recover its respective costs:²⁶⁷

Class	Current Revenue	COSS Adjustment	COSS Adjustment %
Residential	\$ 32,458,901	\$ 10,512,646	32%
Commercial	\$ 22,715,453	\$ (895,492)	-4%
Industrial	\$ 5,884,360	\$ 1,977,564	34%
Municipal & OPA	\$ 4,322,067	\$ 1,774,789	41%
Sale For Resale	\$ 1,286,516	\$ 1,200,734	93%
Private Fire	\$ 3,973,889	\$ (1,018,030)	-26%

The Company, however, did not request that rates be adjusted to cover the costs reflected in their COSS; rather, the Company provided the study to support larger increases to certain customer classes, including residential.

The Company proposed consolidating the rate structure to one rate zone for all rate zones except Jasper Highlands while also recovering the deficiency. The consolidated area would be rate zone 1, and Jasper Highlands would be rate zone 2. Rate zone 1 would have two rates—one for residential customers and one for all other customers, excluding special contracts and private fire.²⁶⁸

Rate zone 2 would have a single rate applicable to all classes except private fire service. The current service charge of \$52.15 would continue for all meter sizes, and a single volumetric charge of \$1.1790 per hundred gallons would apply to all volumes after a monthly allowance of 2,500 gallons.²⁶⁹

²⁶⁷ Heath J. Brooks, Pre-Filed Direct Testimony, pp. 9-20 (May 1, 2024).

²⁶⁸ *Id.* at 21-22.

²⁶⁹ *Id.* at 22-23.

According to TAWC's proposal, the residential rate zone 1 would have a fixed service charge that is dependent on the meter size. A 5/8" meter charge will be \$21.50 and would escalate depending on meter size. The proposal also included a residential volumetric rate of \$1.28091 per hundred gallons for all usage over 3,000 gallons. The non-residential (Commercial) rate for zone 1 consisted of a fixed service of \$27.50 for a 5/8" meter and escalates with meter size. Additionally, the Company proposed a six-block rate structure, which is based on the current Chattanooga industrial tariff and volumetric rate proportions.

The proposed rates are as follows:

Meter Size	Residential	Non-Residential
5/8-Meter	\$ 21.50	\$ 27.50
3/4-Meter	\$ 32.25	\$ 41.00
1-Meter	\$ 53.75	\$ 68.50
1.5 Meter	\$ 107.50	\$ 137.50
2-Meter	\$ 172.00	\$ 219.50
3-Meter	\$ 344.00	\$ 438.50
4-Meter	\$ 537.50	\$ 686.50
6-Meter	\$ 1,075.00	\$ 1,372.50
8-Meter	\$ 1,720.00	\$ 2,196.50
Monthly Usage (Per 100 gallons)	Residential	Non-Residential
First 30 hgal	\$ -	\$ 0.05969
Next 456 hgal	\$ 1.28091	\$ 0.94791
Next 3,254 hgal	\$ 1.28091	\$ 0.59574
Next 33,600 hgal	\$ 1.28091	\$ 0.42075
Next 74,600 hgal	\$ 1.28091	\$ 0.32145
Over 112,000 hgal	\$ 1.28091	\$ 0.19122

The proposed rates result in \$84,059,343 attrition revenue collected from retail customers. Of this amount, \$35,214,894 would be collected through fixed charges (32% of the total) and \$48,844,449 through volumetric charges (58% of the total).²⁷⁰

²⁷⁰ *Id.* at 25.

According to Mr. Brooks, the Company’s original filing did not include the -3.82% savings from the 2017 Tax Cuts and Jobs Act (“TCJA”); Mr. Brooks’s supplemental testimony amended the calculations of the proposed rates and provided the following table outlining the average rate increase for each rate zone.²⁷¹

Rate Zone	Current	Proposed	\$ Change	% Change
Chattanooga	\$ 26.76	\$ 31.75	\$ 4.98	18.6%
Lookout Mtn	\$ 34.86	\$ 31.75	\$ (3.12)	-8.9%
Lakeview	\$ 30.95	\$ 31.75	\$ 0.79	2.6%
Suck Creek	\$ 61.00	\$ 31.75	\$ (29.25)	-48.0%
Whitwell Inside City	\$ 39.82	\$ 31.75	\$ (8.07)	-20.3%
Whitwell Outside City	\$ 46.45	\$ 31.75	\$ (14.70)	-31.7%
Jasper Highlands	\$ 94.69	\$ 66.68	\$ (28.00)	-29.6%

Mr. Brooks testified that a consolidated tariff pricing: 1) Improves affordability for all customers, 2) Lowers administrative and regulatory costs, 3) Provides a consistent regulatory approach for all public utilities, and 4) Supports water industry consolidation.²⁷² Special Contract customers did not receive any of the retail increase in revenues. They were quantified by rolling rider revenue recovery into the proposed base rates.²⁷³ Below is TAWC’s rate proposal impact by customer class:²⁷⁴

Class	Current Revenue	Proposed Revenue	Increase \$	Increase %
<i>Residential</i>	\$32,458,901	\$39,218,107	\$6,759,206	20.82%
<i>Commercial</i>	\$22,715,453	\$27,461,381	\$4,745,927	20.89%
<i>Industrial</i>	\$5,750,304	\$6,581,262	\$830,958	14.45%
<i>OPA</i>	\$4,322,067	\$5,153,148	\$831,081	19.23%
<i>SFR</i>	\$1,286,516	\$1,288,075	\$1,559	0.12%
<i>Private Fire</i>	\$3,973,889	\$4,357,369	\$383,480	9.65%

²⁷¹ Heath J. Brooks, Pre-Filed Supplemental Testimony, pp. 2-4 (May 6, 2024).

²⁷² Heath J. Brooks, Pre-Filed Testimony, p. 28 (May 1, 2024).

²⁷³ *Id.* at 24.

²⁷⁴ *Id.* at 26.

The Consumer Advocate challenged the use of twenty-seven individual allocation factors to each element of the Company's COSS as judgmental, and no rationale is provided for each assignment. Additionally, the Company ignored other factors such as value of service, product marketability, etc., which cannot be determined when allocating costs.²⁷⁵ In contrast to the Company's proposal, the Consumer Advocate recommended a revenue surplus be allocated to each of the Company's seven geographic regions based on the existing margin and then allocated between customer charges and usage charges after considering the existing usage charges for the Company's current PCOP and Capital Rider surcharges.²⁷⁶

The City asserted that the Company's rate design proposal was unreasonable because the Company proposed to collect 93% of needed revenue from the City. Yet, Chattanooga represents only 89% of total customers and 82% of transmission and distribution plants.²⁷⁷ Further, this proposal imposes the entire rate increase for seven service areas on the Chattanooga customers alone. If a revenue requirement increase is necessary, the City recommends recovering it from all customers in the seven service areas.

The goal of overall rate design is to establish a system of rates that will enable a utility to generate sufficient revenues to cover expenses needed to operate the utility, plus an equity return for investors. There are often, however, many factors that are taken into consideration when designing rates, including those related to economics and social considerations. For example, a social consideration may be to establish rates for residential customers that are affordable but not necessarily reflective of the actual cost of service. In turn, rates for other services or classes of services (i.e., industrial and commercial) may be priced further above cost in order to maintain residential services

²⁷⁵ William H. Novak, Pre-Filed Direct Testimony, pp. 21-22 (September 17, 2024).

²⁷⁶ *Id.* at 23-24.

²⁷⁷ Mark E. Garrett, Pre-Filed Testimony, p. 45 (September 17, 2024).

at affordable rates. Further, substantially large customers, or customers with alternatives, may command lower rates via special contracts.

In this docket, TAWC requested approximately \$13.9 million in additional revenues and proposes to shift a large portion of the rate increase to residential customers. Furthermore, the Company has proposed to lower rates for certain areas, such as Jasper Highlands and Whitwell, and in turn, raise Chattanooga customer rates even further to offset these rate decreases. The proposed decreases for certain areas are not supported. TAWC has spent several million dollars on infrastructure improvements for the City of Whitwell, and the Company did not provide sufficient reasoning to reduce their rates. TAWC did not provide specific costs for these areas to indicate that the current rates were not warranted. It should also be pointed out that when TAWC purchased these water systems the existing base rates were adopted and have not been increased.

As discussed previously, the panel has adopted a revenue requirement of \$1,007,930 as opposed to the Company's request of approximately \$13.9 million. With this substantially lower revenue requirement, the panel rejected the Company's proposed rate design and voted to adopt an across-the-board increase, i.e., equal percentage rate increase to each class, finding that such rate design is more appropriate. As a result, the Company's residential, commercial, industrial, municipal, and public authorities, Sales for Resale, and private fire customer classes will each receive an approximate 1.45% increase to their monthly fixed bill to recover the revenue deficiency. The panel did not vote to increase rates for the Company's special contract customers. However, 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. The panel ordered TAWC to file a tariff implementing the authorized rate increase in accordance with this across-the-board rate design methodology for the Commission Staff to review.

I. OTHER TARIFF/ RATE CHANGES

The Company proposed to replace the Activity and New Service Fees with an Activation Fee of \$25.00. Attrition year revenues using current rates produce \$252,155 in revenues, which will be replaced with the new Activation fee of \$25.00, producing \$401,725 in revenues.

The Company proposed increasing the Disconnection/Reconnection charge for water to \$30.00, producing Attrition year revenues of \$223,110. The Company proposed to increase the Disconnection/Reconnection charge for sewer to \$30.00, which will produce Attrition year revenues of \$285,030. The Company also proposed to implement a new charge of \$20.00 for “After Hours” service, resulting in an Attrition year revenue of \$40,800. In rebuttal, the Company agreed to define “Normal Business Hours” as 7:30 a.m. to 4:00 p.m. in the tariff.²⁷⁸

The current rate for the Meter Tampering Charge is \$92.00. The Consumer Advocate opposed the charge and asserted the Company did not establish the need for it, provided no basis for its determination, and that combined with the \$30.00 reconnection charge, the total would be \$280.00, which Mr. Novak deemed unreasonable.²⁷⁹ In response, the Company argued that this fee was not cost-based but rather designed to deter customers from illegally tampering with the meter.²⁸⁰

The panel voted to reject the new meter tampering rate adjustment and found the remaining tariff changes reasonable.

J. UNIVERSAL AFFORDABILITY TARIFF

The Company proposed the Universal Affordability Tariff (“UAT”), which is intended to offer a discounted rate for qualified low-income residential customers. The UAT would offer multiple tiers of discounts on both the basic 5/8” meter charge and the volumetric charges for water service to

²⁷⁸ Bob Lane, Pre-Filed Rebuttal Testimony, p. 28 (October 22, 2024).

²⁷⁹ William H. Novak, Pre-Filed Direct Testimony, pp. 33-34 (September 17, 2024).

²⁸⁰ Bob Lane, Pre-Filed Rebuttal Testimony, p. 28 (October 22, 2024).

residential customers at or below 150% of the Federal Poverty Level (“FPL”).²⁸¹ The Company estimated 16,700 residential customers would be eligible, which represents 22% of the Company’s residential water customer base.

In 2024, the FPL for Tennessee is set for \$15,060 for a single household with \$5,380 per year for each additional household member.²⁸² The UAT would offer up to a 70% discount on applicable volumetric base rates for those customers that fall within 0% and 50% of the FPL. A 40% discount would be offered to those between 51% and 100% of the FPL and a discount of 10% of the customers that fall within 101% to 150% of the FPL.²⁸³ Customers would be required to have their income level verified to qualify. The Company indicated it intends to contract with a third party to accomplish the verification of income levels.²⁸⁴

According to Mr. Charles Rea, the Company’s current rate design subsidizes lower-income customers while promoting higher-income customers.²⁸⁵ Mr. Rea testified that higher-income residential customers generally use more water than lower-income households.²⁸⁶ Utilizing the cost of service analysis performed by Mr. Heath Brooks, Mr. Rea offered data indicating that allocated costs for 1,000 gallons of water, including production and transmission to higher income groups, are more expensive than the cost of providing the same service to lower income groups.²⁸⁷

The Company’s stated goal is to make basic water service more affordable. The Company acknowledged that there is no universally accepted definition of “affordability” in the context of water service. However, Mr. Rea utilized a benchmark for which water service is deemed affordable if a

²⁸¹ Grant Allen Evitts, Direct Testimony, p. 14 (May 1, 2024).

²⁸² Charles Rea, Direct Testimony, pp. 17-19 (May 1, 2024).

²⁸³ Grant Allen Evitts, Direct Testimony, p. 15 (May 1, 2024).

²⁸⁴ Tennessee American Water Company’s Response to City of Chattanooga Discovery Request 1-30, (June 25, 2024).

²⁸⁵ Charles Rea, Direct Testimony, p. 4, 15-16 (May 1, 2024); *TAWC Post-Hearing Brief*, p. 125 (December 10, 2024).

²⁸⁶ *Id.* at 30.

²⁸⁷ *Id.* at 35.

water bill is less than 2% of the household income. As part of his analysis, Mr. Rea defined basic water service as forty gallons of household usage a day.²⁸⁸

Mr. Rea calculated that approximately 6,800 residential water customers would receive bills for basic water service above 2% of their household income, representing 9% of the total number of customers.²⁸⁹ The Company further estimated that approximately 16,700 customer households at or below 150% of the FPL would qualify for the discounts proposed under the UAT.²⁹⁰

There are two components to the cost that the Company will incur due to the UAT.²⁹¹ First, the Company will lose revenue from the discount. Second, the Company will also incur costs for the administration of the program through a third-party administrator. The Company intends that the revenue lost from the discount and the costs of administering the program would be recovered in the future from TAWC's residential customers.²⁹² The Company proposes to defer the actual costs of the UAT, both for management and the revenue lost from discounts, for recovery in a future proceeding.²⁹³

The Company did not include any costs in the test year.²⁹⁴ Mr. Lane testified that the costs of the UAT may vary and are dependent upon the level of customer participation.²⁹⁵ In response to a discovery request, the Company estimated lost revenue of \$344,252 per month using a series of assumptions.²⁹⁶

The Consumer Advocate opposed the UAT based on a lack of information concerning the costs of the third-party vendor that is expected to administer the program. The costs at the beginning

²⁸⁸ *Id.* at 10, 22.

²⁸⁹ *Id.* at 15.

²⁹⁰ *Id.* at 23.

²⁹¹ Bob Lane, Direct Testimony, p. 29 (May 1, 2024).

²⁹² *Id.* at 30-31.

²⁹³ *TAWC Post-Hearing Brief*, p. 124 (December 10, 2024).

²⁹⁴ Bob Lane, Direct Testimony, pp. 30-31 (May 1, 2024).

²⁹⁵ *Id.*

²⁹⁶ Company's Response to City of Chattanooga's DR No. 1-33.

of the program are unknown, and there is little explanation for how an applicant's income level would be verified. According to Mr. Kaml, pre-approval of a project complicates any prudency review of the costs.²⁹⁷ Moreover, Mr. Kaml testified that there may be issues of preferential rates for individuals who fail to meet eligibility requirements but are, in effect, similarly situated.²⁹⁸

In rebuttal testimony, the Company touted similar low-income tariffs in other jurisdictions. Mr. Rea testified that affiliates of the Company in Illinois, Pennsylvania, and New Jersey have similar programs, and other jurisdictions have pending requests for approval.²⁹⁹ In rebuttal testimony, Mr. Rea claimed the AWWC has a successful history in administering similar proposals. Mr. Rea disagreed that the UAT creates preferential rates. According to Mr. Rea, with any income-based program, there will always be customers who do not qualify by narrow margins. Mr. Rea testified that this is unavoidable in any program with eligibility requirements and does not make the proposal unreasonable.³⁰⁰

The panel voted to reject the UAT. The panel found that the proposal lacks specific details regarding the implementation of the UAT and its financial impact on residential customers. Neither the cost of managing the program nor the overall amount of lost revenue are known and measurable. The Company's proposal seeks to implement the UAT now and recover an unknown amount from residential customers in the future. Without such essential data, the Company is asking the Commission to authorize a rate design tailored to a public policy without a firm grasp of the financial consequences.

²⁹⁷ Clark D. Kaml, Pre-Filed Direct Testimony, pp. 7-8 (September 17, 2024).

²⁹⁸ *Id.* at 9-10.

²⁹⁹ Charles Rea, Pre-Filed Rebuttal Testimony, p. 5 (October 22, 2024).

³⁰⁰ *Id.* at 6.

Low-income tariff programs of this nature are relatively new.³⁰¹ Only a handful have been approved in other jurisdictions and there are no reports or documentation available in the record to indicate how efficient the Company's affiliates are in administering such programs in other jurisdictions. The approach in other jurisdictions to provide discounts or relief to low-income households is varied and has been authorized under different regulatory and statutory approaches. For example, while Pennsylvania has a program similar to the UAT for TAWC's Pennsylvania affiliate, it also includes a voluntary shareholder contribution to a dedicated fund to offset the water bills of households with financial hardships.³⁰² Additional time and observing the costs and results of similar programs in other states would yield a track record and could contribute to future consideration of similar proposals.

K. NOTICE OF INTENT REQUIREMENT FOR FUTURE RATE CASE PETITIONS

The Commission received less than one day's notice that TAWC was filing a large and complicated rate case. It is evident that the Company's *Petition*, corresponding exhibits, and the pre-filed testimony of fifteen supporting witnesses were carefully prepared, not hastily thrown together. Rate cases of this size and complexity require a substantial commitment of the Commission's resources to review the evidence and test the veracity of the Company's accounting, proposed rate of return, and forecasts for both revenues and expenses. At the same time, the Commission's finite resources must also be applied to other matters. This work includes reviewing and analyzing various alternative regulatory rate mechanism filings for several utilities, including Tennessee-American, with relatively short statutory deadlines.

³⁰¹ *In re: Illinois-American Water Company – Proposed Rates for Water and Sewer Service*, Illinois Public Utility Commission, Docket No. 22-0210, *Order*, p. 183 (December 15, 2022).

³⁰² *In re: Pennsylvania Public Utility Commission, et al, v. Pennsylvania-American Water Company*, Pennsylvania Public Utility Commission, Docket No. R-2023-3043189, *Recommended Decision*, pp. 323-324 (May 7, 2024).

While it is the prerogative of a public utility to determine the time it may file a rate case, the Commission must have sufficient notice to plan and allocate its resources. Henceforth, the Company shall provide the Commission and the intervening parties to this docket with written notice of an intention to file a rate case thirty days before the rate case is filed. This will allow the Commission to plan ahead and organize its resources in anticipation of a rate case. The written notice need not include details other than the Company's intention to file a rate case in thirty days. Further, the notice of intent may be withdrawn or amended, and the Commission's requirement may be waived altogether for good cause.

L. CAPITAL RIDERS RESET

This rate case will impact the future filing of the Company's PCOP and Capital Riders. The base rates established in this proceeding will serve as the new baseline for calculating changes to certain nondiscretionary costs related to water treatment and production that are recovered through the PCOP Rider. In addition, the capital investments recovered through the Capital Riders have been included in the rate base authorized in this proceeding, with related costs being recovered through base rates. Accordingly, the Capital Riders, which are designed to recover certain costs of capital investments made between general rate cases, will be reset and may be used to recover the costs of eligible investments made after the Attrition Year.

VII. IT IS THEREFORE ORDERED THAT:

1. Tennessee American Water Company's *Petition*, including the proposed rates and rate design, filed on May 1, 2024, is denied.
2. For the rates set herein, the test period shall be the twelve months ended December 31, 2023, and the attrition period for the twelve months ending December 31, 2025.

3. For the rates herein, the panel adopted Water Sales Revenues of \$71,219,854 and Other Revenues of \$1,180,170, for total operating revenues of \$72,400,024.

4. For the rates set herein, the panel adopted \$27,216,406 for attrition period operation and maintenance expenses.

5. For the rates set herein, the panel adopted \$5,502,129 for Taxes Other Than Income Taxes.

6. For the rates set herein, the panel adopted State Excise Tax of \$843,487 and Federal Income Tax of \$3,229,112 for the attrition period, which is based on the normalization method of accounting for the Repairs Deduction.

7. For the rates set herein, the panel adopted Operating Income of \$19,843,902 for the attrition period based on current rates before applying taxes for the additional attrition period revenues.

8. For the rates set herein, the panel adopted a Rate Base of \$300,742,017 for the attrition period.

9. For the rates set herein, the panel adopted an overall Revenue Conversion Factor of 1.355850 based upon a Forfeited Discounts Factor of 0.005373, an Uncollectible Ratio of 0.006833, State excise tax rate of 6.5%, and a federal income tax rate of 21%.

10. For the rates set herein, the panel adopted a capital structure composed of 55.00% long-term debt, 0.81% short-term debt, and 44.19% equity. The panel adopted a long-term debt cost of 4.59%, a short-term debt cost of 4.27%, an equity return of 9.7%, and an overall rate of return of 6.8455%.

11. For the rates set herein, the panel adopted a Revenue Deficiency of \$1,007,930 for the attrition period.

12. For the rates set herein, Tennessee-American Water Company shall file tariffs reflecting an equal percentage rate increase to residential, commercial, industrial, municipal, and other public authorities, and private fire service, representing an across-the-board increase of 1.45% to base rates. Such increase shall be applied to the minimum fixed charge for each customer class in all service zones and territories.

13. No rate increase shall be applied to Tennessee-American Water Company's Sales for Resale and special contract customers. Special contract rates shall be updated to include the amounts recovered through the Capital Recovery and the Production Costs and Other Pass-Throughs Riders, which shall be reset to zero in this docket.

14. Tennessee-American Water 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 are denied. The remaining tariff changes proposed by the Tennessee-American Water Company are approved.

15. A new docket shall be opened to consider any requested replacement program for customer-owned lead service lines, by the order of the Administrative Judge, should Tennessee-American Water Company seek approval of such a program.

16. The estimated \$1,554,000 in rate case expenses sought by Tennessee-American Water Company is denied without prejudice. A separate docket shall be opened to determine the recoverable amount of rate case costs and the time period and mechanism for recovery. However, the amount of regulatory costs to be recovered shall not exceed the \$1,554,000 requested by Tennessee-American Water Company.

17. Tennessee-American Water Company shall file with the Commission a notice of intent to file a rate case thirty days before filing its next rate case. The notice is intended to alert the Commission and the interested parties intervening in this docket that a rate case filing is being prepared. The notice may be modified, altered, or amended, and may be waived for good cause.

18. Any person(s) aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within fifteen (15) days from the date of this Order.


19. Any person(s) aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order.

FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:

**Chairman David F. Jones,
Vice Chairman John Hie,
Commissioner Herbert H. Hilliard,
Commissioner Clay R. Good, and
Commissioner David Crowell concurring.**

None dissenting.

ATTEST:

A handwritten signature in dark ink, appearing to read "Earl Taylor", with the initials "abh" written below it.

Earl R. Taylor, Executive Director

Exhibit 1

TENNESSEE-AMERICAN WATER COMPANY
INDEX TO SCHEDULES
For the 12 Months Ending December 31, 2025

	<u>Schedule</u>
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TENNESSEE-AMERICAN WATER COMPANY
Results of Operations
For the 12 Months Ending December 31, 2025

Line No.		TAWC A/	Consumer Advocate B/	Commission Staff
1	Rate Base	\$ 305,777,368	\$ 298,049,420	\$ 300,742,017
2	Operating Income At Current Rates	14,437,151	22,694,325	19,843,902
3	Earned Rate Of Return	4.72%	7.61%	6.60%
4	Fair Rate Of Return	7.94%	6.46%	6.85%
5	Required Operating Income	24,278,723	19,259,357	20,587,295
6	Operating Income Deficiency	9,841,572	-3,434,968	743,393
7	Gross Revenue Conversion Factor	<u>1.414331</u>	<u>1.355850</u>	<u>1.355850</u>
8	Revenue Deficiency	\$ <u>13,919,240</u>	\$ <u>-4,657,302</u>	\$ <u>1,007,930</u>

A/ Bob Lane Rebuttal Exhibit BL-1 (October 22, 2024)

B/ CAPD Revised Exhibit, Schedule 1. (November 14, 2024)

TENNESSEE-AMERICAN WATER COMPANY
Average Rate Base
For the 12 Months Ending December 31, 2025

Line No.		Test Period	A/	Adjustments	Attrition Period	B/
Additions:						
1	Utility Plant in Service	\$ 472,080,671		\$ 43,058,035	\$ 515,138,706	
2	Construction Work in Progress	0		0	0	
3	Materials & Supplies	1,366,374		532,977	1,899,351	
4	Lead/Lag Study	4,881,000		-3,278,919	1,602,081	
5	Working Capital	<u>1,206,999</u>		<u>-140,587</u>	<u>1,066,412</u>	
6	Total Additions	\$ <u>479,535,044</u>		\$ <u>40,171,507</u>	\$ <u>519,706,551</u>	
Deductions:						
7	Accumulated Depreciation	\$ 112,114,198		\$ 14,705,575	\$ 126,819,773	
8	Accumulated Deferred FIT	55,861,409		4,231,595	60,093,004	
9	Customer Advances for Construction	7,500,963		750,002	8,250,965	
10	Contributions in Aid of Construction	19,183,109		272,694	19,455,803	
11	Unamortized Investment Tax Credit	12,156		-7,146	5,010	
12	Jasper Highlands Reg Liability	682,200		-91,800	590,400	
13	Utility Plant Acquisition Adjustment	<u>3,749,579</u>		<u>0</u>	<u>3,749,579</u>	
14	Total Deductions	\$ <u>199,103,614</u>		\$ <u>19,860,920</u>	\$ <u>218,964,534</u>	
15	Rate Base	\$ <u>280,431,430</u>		\$ <u>20,310,587</u>	\$ <u>300,742,017</u>	

A/ Petitioner's Exhibit RB-1-Summary-DD

B/ Staff Rate Base Workpaper

TENNESSEE-AMERICAN WATER COMPANY
Comparative Rate Base
For the 12 Months Ending December 31, 2025

Line No.		<u>TAWC</u> B/	<u>Consumer Advocate</u> C/	<u>Commission Staff</u> A/
	Additions:			
1	Utility Plant in Service	\$ 515,830,424	\$ 515,138,706	\$ 515,138,706
2	Construction Work in Progress	0	0	0
3	Materials and Supplies	1,899,351	1,899,351	1,899,351
4	Lead/Lag Study	4,391,000	-122,925	1,602,081
5	Working Capital	<u>2,549,849</u>	<u>924,320</u>	<u>1,066,412</u>
6	Total Additions	\$ <u>524,670,624</u>	\$ <u>517,839,452</u>	\$ <u>519,706,551</u>
	Deductions:			
7	Accumulated Depreciation	\$ 126,748,495	\$ 126,819,773	\$ 126,819,773
8	Accumulated Deferred FIT	60,093,004	56,451,415	60,093,004
9	Customer Advances for Construction	8,250,965	10,636,908	8,250,965
10	Contributions in Aid of Construction	19,455,803	21,536,948	19,455,803
11	Unamortized Investment Tax Credit	5,010	5,010	5,010
12	Jasper Highlands Reg Liability	590,400	590,400	590,400
13	Utility Plant Acquisition Adjustment	<u>3,749,579</u>	<u>3,749,579</u>	<u>3,749,579</u>
14	Total Deductions	\$ <u>218,893,256</u>	\$ <u>219,790,032</u>	\$ <u>218,964,534</u>
15	Rate Base	\$ <u>305,777,368</u>	\$ <u>298,049,420</u>	\$ <u>300,742,017</u>

A/ Staff Rate Base Workpaper
B/ Petitioner's Exhibit RB-1-Summary-DD
C/ CAPD Revised Exhibit, Schedule 3.

TENNESSEE-AMERICAN WATER COMPANY
Comparative Working Capital
For the 12 Months Ending December 31, 2025

<u>Line No.</u>		<u>TAWC</u> A/	<u>Consumer Advocate</u> B/	<u>Commission Staff</u>
1	Deferred Regulatory Expenses	1,295,000	0	0
2	Unamortized Debt Expense	1,400,710	1,258,618	1,400,710
3	Incidental Collections	-145,861	-334,298	-334,298
4	Working Capital Requirement	\$ <u>2,549,849</u>	\$ <u>924,320</u>	\$ <u>1,066,412</u>

A/ Petitioner's Exhibit RB-1-Summary-DD
B/ CAPD Revised Exhibit, Schedule 4.

TENNESSEE-AMERICAN WATER COMPANY
Lead Lag Results
For the 12 Months Ending December 31, 2025

<u>Line No.</u>		<u>Commission Staff</u>
1	Revenue Lag	44.46 A/
2	Expense Lag	<u>35.13</u> B/
3	Net Lag	9.33
4	Daily Cost of Service	\$ <u>171,670</u> B/
5	Lead Lag Study	\$ <u><u>1,602,081</u></u>

A/ TAWC Response to CA DR1-51
B/ TPUC Exhibit, Schedule 6

TENNESSEE-AMERICAN WATER COMPANY
Working Capital Expense Lag
For the 12 Months Ending December 31, 2025

Line No.		Amount A/	Lag B/	Dollar Days
	Operating & Maintenance Expenses:			
1	Purchased Water	\$ 176,500	37.90	\$ 6,689,368
2	Purchased Power	2,672,005	28.00	74,816,128
3	Chemicals	2,116,184	48.30	102,211,672
4	Waste Disposal	759,106	65.70	49,873,294
5	Labor	5,732,989	10.50	60,196,385
6	Group Insurance	323,187	10.50	3,393,465
7	Other Benefits	559,911	9.00	5,039,202
8	Support Services	7,581,319	10.50	79,603,848
9	Contracted Services	886,174	48.50	42,979,447
10	Pensions	619,489	-1.20	-743,387
11	Regulatory Expense	0	0.00	0
12	Insurance Other Than Group	1,205,504	-59.80	-72,089,139
13	Customer Accounting	87,556	61.80	5,410,972
14	Rents	30,115	-234.90	-7,074,111
15	Telecommunications	336,870	21.50	7,242,711
16	Transportation	428,594	49.10	21,043,965
17	Miscellaneous	1,498,752	45.90	68,792,717
18	Maintenance Expense	1,710,996	12.10	20,703,053
19	Total O&M Expenses	\$ 26,725,253	17.51	\$ 468,089,590
	Taxes & Other Expenses:			
20	Federal Income Tax	3,229,112	36.50	117,862,598
21	State Excise Taxes	843,487	44.30	37,366,464
22	Property Taxes	3,576,571	218.10	780,050,135
23	Gross Receipts Tax	217,895	-157.50	-34,318,463
24	Franchise Tax	982,116	44.30	43,507,739
25	Utility Tax	289,493	269.00	77,873,617
26	Taxes Other Than Income	436,054	10.50	4,578,567
27	Interest Expense - Long-Term Debt	7,592,232	92.80	704,559,150
28	Interest Expense - Short-Term Debt	104,057	14.60	1,519,228
29	Deferred Taxes	2,898,398	0.00	0
30	Depreciation Expense	15,763,872	0.00	0
31	Amortization Expense	1,116	0.00	0
	Total Taxes & Other Expenses	\$ 35,934,403	48.23	\$ 1,732,999,036
31	Total Lead/Lag Expenses	\$ 62,659,656	35.13	\$ 2,201,088,626
32	Daily Working Capital Requirement	\$ 171,670		
32	Return on Equity	12,147,613		
33	Total Cost of Service	12,147,613		

A/ TPUC Exhibit, Schedule 7

B/ Petitioner's Exhibit RB-4 Cash Working Capital -DD

TENNESSEE-AMERICAN WATER COMPANY
Income Statement at Current Rates
For the 12 Months Ending December 31, 2025

Line No.		Test Period	A/	Adjustments	Attrition Amount
	Operating Revenues:				
1	Water Sales Revenues	\$ 68,124,042		\$ 3,095,812	\$ 71,219,854 B/
2	Other Revenues	1,180,170		0	1,180,170 B/
3	Total Water Revenue	\$ 69,304,212		\$ 3,095,812	\$ 72,400,024
	Operating & Maintenance Expenses:				
4	Purchased Water	\$ 175,295		\$ 1,206	\$ 176,500
5	Purchased Power	2,764,927		-92,923	2,672,005
6	Chemicals	2,518,430		-402,247	2,116,184
7	Waste Disposal	675,128		83,978	759,106
8	Labor	5,719,662		13,327	5,732,989
9	Group Insurance	250,737		72,450	323,187
10	Other Benefits	494,871		65,040	559,911
11	Support Services	8,452,669		-871,350	7,581,319
12	Contracted Services	918,751		-32,577	886,174
13	Pensions	587,398		32,092	619,489
14	Regulatory Expense	0		0	0
15	Insurance Other Than Group	1,150,221		55,283	1,205,504
16	Customer Accounting	85,206		2,351	87,556
17	Uncollectibles	382,661		108,493	491,153
18	Rents	26,717		3,399	30,115
19	Telecommunications	313,502		23,368	336,870
20	Transportation	449,680		-21,086	428,594
21	Miscellaneous	1,537,021		-38,269	1,498,752
22	Maintenance Expense	1,562,322		148,674	1,710,996
23	Total Operating & Maintenance Expenses	\$ 28,065,198		\$ -848,791	\$ 27,216,406
24	Depreciation Expense	\$ 11,635,460		\$ 4,128,412	\$ 15,763,872
25	Amortization Expense	1,116		0	1,116
26	General Taxes	5,359,014		143,115	5,502,129 C/
27	State Excise Taxes	670,658		172,829	843,487 D/
28	Federal Income Taxes	1,752,717		1,476,395	3,229,112 D/
29	Total Operating Expenses	\$ 47,484,162		\$ 5,071,960	\$ 52,556,123
30	Utility Operating Income	\$ 21,820,050		\$ -1,976,148	\$ 19,843,902

A/ Petitioner's Exhibit FS-2-Income Statement-BL - Schedule FS-2.1

B/ TPUC Exhibit, Schedule 9

C/ TPUC Exhibit, Schedule 10

D/ TPUC Exhibit, Schedule 11

TENNESSEE-AMERICAN WATER COMPANY
Comparative Income Statement at Current Rates
For the 12 Months Ending December 31, 2025

Line No.		TAWC A/	Consumer Advocate B/	Commission Staff
	Operating Revenues:			
1	Water Sales Revenues	\$ 70,640,367	\$ 71,219,854	\$ 71,219,854
2	Other Revenues	1,218,615	1,180,170	1,180,170
3	Total Water Revenue	\$ 71,858,982	\$ 72,400,024	\$ 72,400,024
	Operating & Maintenance Expenses:			
4	Purchased Water	\$ 194,199	194,199	\$ 176,500
5	Purchased Power	3,062,540	2,809,231	2,672,005
6	Chemicals	2,307,000	2,116,184	2,116,184
7	Waste Disposal	749,830	749,830	759,106
8	Labor	6,934,578	5,739,414	5,732,989
9	Group Insurance	481,683	333,536	323,187
10	Other Benefits	643,491	562,861	559,911
11	Support Services	8,636,676	7,631,522	7,581,319
12	Contracted Services	966,015	815,810	886,174
13	Pensions	619,489	619,489	619,489
14	Regulatory Expense	518,000	0	0
15	Insurance Other Than Group	1,205,504	1,205,504	1,205,504
16	Customer Accounting	577,105	87,229	87,556
17	Uncollectibles	490,096	491,153	491,153
18	Rents	29,985	27,351	30,115
19	Telecommunications	352,451	320,950	336,870
20	Transportation	428,594	428,594	428,594
21	Miscellaneous	1,582,286	1,462,123	1,498,752
22	Maintenance Expense	1,691,431	1,599,432	1,710,996
23	Total Operating & Maintenance Expenses	\$ 31,470,953	\$ 27,194,414	\$ 27,216,406
24	Depreciation Expense	15,659,739	15,763,872	15,763,872
25	Amortization Expense	1,116	1,116	1,116
26	General Taxes	7,772,089	6,242,026	5,502,129
27	State Excise Taxes	694,176	-43,987	843,487
28	Federal Income Taxes	1,823,758	548,259	3,229,112
29	Total Operating Expenses	\$ 57,421,831	\$ 49,705,699	\$ 52,556,123
30	Utility Operating Income	\$ 14,437,151	\$ 22,694,325	\$ 19,843,902

A/ Bob Lane Rebuttal Exhibit BL-1 (October 22, 2024)

B/ CAPD Revised Exhibit, Schedule 1. (November 14, 2024)

TENNESSEE-AMERICAN WATER COMPANY
Comparative Water Revenue Summary
For the 12 Months Ending December 31, 2025

Line No.	Customer Class	Company A/	Consumer Advocate B/	Commission Staff
1	Residential	\$ 32,458,901	\$ 32,040,156	\$ 32,040,156
2	Commercial	22,715,453	22,921,882	22,921,882
3	Industrial	5,883,540	6,162,032	6,162,032
4	Municipal & OPA	4,322,067	4,280,488	4,280,488
5	Sales For Resale	1,286,516	1,733,026	1,733,026
6	Private Fire Service	<u>3,973,889</u>	<u>4,082,272</u>	<u>4,082,272</u>
7	Total Water Sales Revenue	\$ 70,640,367	\$ 71,219,854	\$ 71,219,854
8	Activity Fee	224,355	241,140	241,140
9	New Service Fee	27,800	0	0
10	Activation Fee	0	0	0
11	Disconnection/Reconnection Charge - Water	111,555	112,877	112,877
12	Disconnection/Reconnection Charge - Sewer	142,515	161,715	161,715
13	NSF Charge	40,800	41,640	41,640
14	Usage Data	17,748	17,932	17,932
15	After-Hours Fee	0	0	0
16	Meter Tampering Charge	0	0	0
17	Late Paymenet Fee	437,136	382,652	382,652
18	Rent	214,303	216,998	216,998
19	Miscellaneous Service	2,403	4,180	4,180
20	Other Revenue	<u>0</u>	<u>1,036</u>	<u>1,036</u>
21	Total Other Operating Revenue	\$ 1,218,615	\$ 1,180,170	\$ 1,180,170
22	Total Revenues	\$ <u>71,858,982</u>	\$ <u>72,400,024</u>	\$ <u>72,400,024</u>

A/ Bob Lane Rebuttal Exhibit BL-1 (October 22, 2024)

B/ CAPD Revised Exhibit, Schedule 1. (November 14, 2024)

TENNESSEE-AMERICAN WATER COMPANY
Taxes Other than Income Taxes
For the 12 Months Ending December 31, 2025

Line No.		TAWC	Consumer Advocate	Commission Staff ^{A/}
1	Property Taxes	\$ 4,920,461	\$ 3,576,571	\$ 3,576,571
2	Franchise Tax	982,116	915,278	982,116
3	Gross Receipts Tax	1,042,208	1,014,093	217,895
4	TPUC Inspection Fee	286,779	289,493	289,493
5	Payroll Taxes	<u>516,450</u>	<u>446,591</u>	<u>436,054</u>
6	Total	\$ <u>7,748,014</u>	\$ <u>6,242,026</u>	\$ <u>5,502,129</u>

A/ TPUC Staff Workpapers TOTIT-1

TENNESSEE-AMERICAN WATER COMPANY
Excise and Income Taxes
For the 12 Months Ending December 31, 2025

Line No.		Commission Staff A/
1	Operating Revenues	\$ 72,400,024
	Operating Expenses:	
2	Maintenance	\$ 176,500
3	Chemicals	2,672,005
4	Contract Services	2,116,184
5	Labor	759,106
6	Group Insurance	5,732,989
7	Other Benefits	323,187
8	Pension	559,911
9	Other Insurance	7,581,319
10	Purchased Power	886,174
11	Purchased Water	619,489
12	Rents	0
13	Support Services	1,205,504
14	Customer Accounting	87,556
15	Telecom	491,153
16	Transportation	30,115
17	Waste Disposal	336,870
18	Uncollectible	428,594
19	Miscellaneous	1,498,752
20	Regulatory Expense	1,710,996
21	Depreciation Expense	15,763,872
22	Amortization Expense	1,116
23	General Taxes	5,502,129
24	Total Operating Expenses	\$ 48,483,523
25	NOI Before Excise and Income Taxes	\$ 23,916,501
26	Less Interest Expense	7,696,289 B/
27	Less Repair Deduction	0
28	Pre-tax Book Income	\$ 16,220,212
29	Excise Tax Rate	6.50%
30	Subtotal State Excise Tax Expense	\$ 1,054,314
31	Less State Tax Credit	210,827 C/
32	State Excise Tax Expense	\$ 843,487
33	Pre-tax Book Income	\$ 16,220,212
34	Less State Excise Tax Expense	843,487
35	FIT Taxable Income	\$ 15,376,725
36	FIT Rate	21.00%
37	Federal Income Tax Expense	\$ 3,229,112
38	Total State & Federal Income Tax Expense	\$ 4,072,599

A/ TPUC Exhibit, Schedule 7.
B/ TPUC Exhibit, Schedule 13.
C/ TAWC Response to CA 2-10

TENNESSEE-AMERICAN WATER COMPANY
Income Statement at Proposed Rates
For the 12 Months Ending December 31, 2025

Line No.		Current Rates	A/ Rate Increase	Proposed Rates
	Operating Revenues:			
1	Water Sales Revenues	\$ 71,219,854	\$ 1,007,930 B/	\$ 72,227,784
2	Other Revenues	1,180,170	5,416	1,185,586
3	Total Water Revenue	\$ 72,400,024	\$ 1,013,345	\$ 73,413,370
	Operating & Maintenance Expenses:			
4	Purchased Water	\$ 176,500	\$ 0	\$ 176,500
5	Purchased Power	2,672,005	0	2,672,005
6	Chemicals	2,116,184	0	2,116,184
7	Waste Disposal	759,106	0	759,106
8	Labor	5,732,989	0	5,732,989
9	Group Insurance	323,187	0	323,187
10	Other Benefits	559,911	0	559,911
11	Support Services	7,581,319	0	7,581,319
12	Contracted Services	886,174	0	886,174
13	Pensions	619,489	0	619,489
14	Regulatory Expense	0	0	0
15	Insurance Other Than Group	1,205,504	0	1,205,504
16	Customer Accounting	87,556	0	87,556
17	Uncollectibles	491,153	6,924	498,078
18	Rents	30,115	0	30,115
17	Telecommunications	336,870	0	336,870
18	Transportation	428,594	0	428,594
19	Miscellaneous	1,498,752	0	1,498,752
20	Maintenance Expense	1,710,996	0	1,710,996
		\$ 27,216,406	\$ 6,924	\$ 27,223,331
21	Depreciation Expense	\$ 15,763,872	\$ 0	\$ 15,763,872
22	Amortization Expense	1,116	0	1,116
23	General Taxes	5,502,129	0	5,502,129
24	State Excise Taxes	843,487	65,417	908,904
25	Federal Income Taxes	3,229,112	197,611	3,426,723
26	Total Operating Expenses	\$ 52,556,123	\$ 269,952	\$ 52,826,075
27	Utility Operating Income	\$ 19,843,902	\$ 743,393	\$ 20,587,295

A/ TPUC Exhibit, Schedule 8
B/ TPUC Exhibit, Schedule 1

TENNESSEE-AMERICAN WATER COMPANY
Rate of Return Summary
For the 12 Months Ending December 31, 2025

Line No.	Class of Capital	Commission Staff		
		Percent of Total	Cost Rate	Weighted Cost Rate
1	Parent Short-Term Debt	0.81%	4.27%	0.0346%
2	Parent Long Term Debt	55.00%	4.59%	2.5245%
3	Parent Preferred	0.00%	0.00%	0.0000%
4	Parent Common Equity	44.19%	9.70%	4.2864%
5	Total	100.00%		6.8455%
Interest Expense Short-Term Debt				
6	Rate Base			\$ 300,742,017 A/
7	Short-Term Weighted Debt Cost			0.0346%
8	Short-Term Debt Interest Expense			\$ 104,057
Interest Expense Long-Term Debt				
9	Rate Base			\$ 300,742,017 A/
10	Long-Term Weighted Debt Cost			2.5245%
11	Long-Term Debt Interest Expense			\$ 7,592,232
12	Total Interest Expense			\$ 7,696,289

A/ TPUC Staff Exhibit, Schedule 2

TENNESSEE-AMERICAN WATER COMPANY
Revenue Conversion Factor
For the 12 Months Ending December 31, 2025

<u>Line No.</u>		<u>Amount</u>	<u>Balance</u>
1	Operating Revenues		1.000000
2	Add: Forfeited Discounts	0.005373 A/	<u>0.005373</u>
3	Balance		1.005373
4	Uncollectible Ratio	0.006833 B/	<u>0.006870</u>
5	Balance		0.998503
6	State Excise Tax	0.065000 C/	<u>0.064903</u>
7	Balance		0.933601
8	Federal Income Tax	0.210000 C/	<u>0.196056</u>
9	Balance		<u>0.737544</u>
10	Revenue Conversion Factor (Line 1 / Line 9)		<u><u>1.355850</u></u>

A/ Attrition Period Late Payment Charges/ Total Sales of Water (382,652 / 71,219,854)

B/ Pre-filed Direct Testimony of Alex Bradley, pg 11

C/ Statutory Rates.

TENNESSEE-AMERICAN WATER COMPANY
CAPD Proposed Revenue Change
For the 12 Months Ending December 31, 2025

Line No.		Current Rates	A/	Proposed Rates	Revenue Change	Percent Change
1	Residential	\$ 32,040,156		\$ 32,504,909	\$ 464,753	1.45053%
2	Commercial	22,921,882		23,254,371	332,490	1.45053%
3	Industrial	6,162,032		6,251,414	89,382	1.45053%
4	Municipal & OPA	4,280,488		4,342,577	62,090	1.45053%
5	Sales For Resale	1,733,026		1,733,026	0	0.00000%
6	Private Fire Service	<u>4,082,272</u>		<u>4,141,486</u>	<u>59,215</u>	<u>1.45053%</u>
7	Total Water Sales Revenues	\$ 71,219,854		\$ 72,227,784 A/	\$ 1,007,930 B/	1.45053%
8	Other Revenues	<u>1,180,170</u>		<u>1,185,586</u>	<u>5,416</u>	
9	Total Revenues	\$ <u>72,400,024</u>		<u>73,413,370</u>	<u>1,013,345</u> A/	

A/ TPUC Exhibit, Schedule 12.

B/ TPUC Exhibit, Schedule 1.