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Hon. David Jones, Chairman
c/o Ectory Lawless, Docket Room Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243
TPUC.DocketRoom@tn.gov

RE: *Petition of Limestone Water Utility Operating Company, LLC to Increase Charges, Fees and Rates and for Approval of a General Rate Increase and Consolidated Rates, TPUC Docket No. 24-00044*

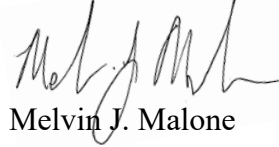
Dear Chairman Jones:

Attached for filing please find *Limestone Water Utility Operating Company, LLC's Rebuttal Testimony for (1) Dylan D'Ascendis; (2) Clare Donovan; (3) Mike Duncan; (4) Aaron Silas; (5) Brent Thies; and (6) Todd Thomas* in the above-captioned matter.

Hard copies will follow. Should you have any questions concerning this filing, or require additional information, please do not hesitate to contact me.

Very truly yours,

BUTLER SNOW LLP



Melvin J. Malone

clw

Attachments

cc: Russ Mitten, Limestone Water Utility Operating Company, LLC
Karen H. Stachowski, Consumer Advocate Division
Victoria B. Glover, Consumer Advocate Division
Shilina B. Brown, Consumer Advocate Division

**STATE OF TENNESSEE
BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION**

IN RE:

LIMESTONE WATER UTILITY OPERATING COMPANY

REBUTTAL TESTIMONY

OF

AARON SILAS

ON

RATE DESIGN AND PRODUCTION CAP

FILED: JANUARY 13, 2025

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A. At pages 17-22 of my Direct Testimony I describe the rate design proposed by the Company. My proposed rate design builds upon the Company's recommendation, as presented at pages 14-19 of Mr. Duncan's Direct Testimony, that Limestone Water's water and wastewater rates be consolidated. I then propose that the Company's wastewater revenue requirement be collected through a single flat charge multiplied by the appropriate equivalent residential unit. As I explain, a flat monthly wastewater charge is "typical in the wastewater industry and reflects the fact that wastewater customers do not normally have a meter on their wastewater output or that the wastewater provider does not have access to water usage information."¹ Moreover, the flat monthly charge reflects the fact that the "demand for sewer service is inelastic and there is little to no variance in the cost of service on the residential level due to higher demands placed on the system by varying water usage."²

As described as pages 21-22 of my Direct Testimony, as regards the establishment of water rates, the Company proposes to use a combination of a base rate, which includes an assumed minimum level of monthly usage, and a volumetric charge for all usage above this assumed minimum monthly usage. The fixed base rate provides the Company assurances of recovering its fixed cost of providing

² *Id.* at 19.

1 services which must be incurred regardless of any customer usage. The volumetric
2 component, however, reflects the incremental cost of additional usage, including
3 power and chemical expense, while also providing customers with some ability to
4 control their bills through water conservation.

5 **Q. HOW DOES CAD PROPOSE TO DESIGN RATES?**

6 A. CAD recommends that the Commission reject Limestone Water's proposal to
7 consolidate rates. As such, CAD proposes to simply apply a 52.21% increase to all
8 service areas. Limestone Witness Duncan addresses the problems associated with
9 this recommendation. Beyond this, however, CAD proposes to apply the same
10 52.21% increase to "each of the Company's existing service rates."³

11 **Q. DO YOU AGREE WITH CAD'S PROPOSAL OR RECOMMENDATION**
12 **ON RATE DESIGN?**

13 A. No. CAD's proposal is unwieldy and unworkable. For instance, as Mr. Novak
14 readily acknowledges, he would apply his 52.21% increase to each of the multitude
15 of Grassland rates. Simply by itself, the Grassland wastewater tariff is unworkable
16 with various charges that vary depending on the number of bedrooms in the
17 residence.

18 **Q. CAN YOU ELABORATE ON THE SPECIFIC LANGUAGE IN THE**
19 **GRASSLAND WASTEWATER TARIFF AND HOW THE CAD'S**
20 **RECOMMENDATION ON RATE DESIGN WOULD BE UNWORKABLE?**

21 A. Yes. I do elaborate further below later in my testimony.

³ *Pre-filed Testimony of Consumer Advocate Witness William Novak*, p. 19, TPUC Docket No. 24-00044 (Dec. 19, 2024) (hereinafter "*Novak Pre-filed*").

1 **Q. DOES THE CAD RATE DESIGN PROPOSAL COMPLY WITH THE**
2 **CAD’S OWN “GENERAL GUIDING PRINCIPLES OF RATE DESIGN”?**

3 A. No. At pages 28-29 of his testimony, Mr. Kaml sets out “several basic principles
4 of rate design that are generally accepted in utility regulation.”⁴ Included among
5 these principles are the following:

- 6 • Practical attributes of simplicity, understandability, public acceptance,
7 and feasibility of application;
- 8 • Freedom from controversies as to proper interpretation;
- 9 • Effectiveness of yielding total revenue requirements under the fair
10 return standard;
- 11 • Fairness of the specific rates in the apportionment of total costs of
12 service among different consumers.

13 Mr. Kaml then offers another principle: “Cost Causation – the price of utility
14 service should reflect the economic cost of providing service to the customers who
15 cause the utility to incur the expense.”⁵

16 As set forth below in my testimony, CAD’s proposal to steadfastly maintain
17 the existing rate structures no matter the changing circumstances and
18 accompanying customer benefits fails each of these factors that Mr. Kaml labels as
19 “basic principles of rate design.”

20 **Q. DOES MR. NOVAK’S PROPOSAL TO MAINTAIN THE CURRENT RATE**
21 **DESIGN FOR EACH SERVICE AREA COMPLY WITH THE “BASIC**
22 **PRINCIPLE” THAT RATES BE SIMPLE, UNDERSTANDABLE,**
23 **ACCEPTABLE AND FEASIBLE?**

⁴ *Pre-filed Testimony of Consumer Advocate Witness Clark Kaml*, pp. 28-29, TPUC Docket No. 24-00044) Dec. 19, 2024).

⁵ *Id.* at 29.

1 A. Certainly not. For example, just looking at the Cartright Creek - Grassland rate
2 structure, with multiple different rates depending on the number of bedrooms, the
3 CAD's recommended rate design is certainly not simple, understandable,
4 acceptable and feasible. As Mr. Novak sets out at page 22 of his Pre-filed
5 Testimony:

Table 7 – Current & Proposed Billing Rates for Cartwright Creek Customers			
Billing Charge	Current Rate	Proposed Rate	Percentage Change
Customer Charges:			
Grassland – 2 Bedroom	\$42.00	\$63.93	52.21%
Grassland – 3 Bedroom	\$46.50	\$70.78	52.21%
Grassland – 4 Bedroom	\$52.00	\$79.15	52.21%
Grassland – 5 Bedroom	\$55.25	\$84.10	52.21%
Other Residential	\$55.25	\$84.10	52.21%
Commercial	\$37.00	\$56.32	52.21%
Usage Charges:			
Commercial / 1,000 Gallons	\$8.75	\$13.32	52.21%

6
7 Among other things, Mr. Novak's rate design invites the dispute with
8 customers regarding the functionality of a room. While the Company may assert
9 for supportable traditional reasons that a room is a bedroom, the customer may
10 contend that the room is an office, den, or theater room. Still further, the Company
11 may be placed in a position of monitoring the local building permits to determine
12 if a residence has added a bedroom to the home. Certainly this rate design is the
13 antithesis of simple, understandable, acceptable and feasible. Undoubtedly this is
14 the reason that each of the other service area rate designs maintains a single
15 customer charge.⁶ Even the other Cartwright Creek service areas (Arrington

⁶ See Novak Pre-filed, Attachment WHN-2.

1 Retreat, Hardeman Springs, Hideaway) utilize a flat monthly charge rate design
2 identical to that now proposed by the Company. Yet, Mr. Novak desires to continue
3 the convoluted rate design for Grasslands.

4 **Q. DOES MR. NOVAK’S PROPOSAL TO MAINTAIN THE CURRENT RATE**
5 **DESIGN FOR EACH SERVICE AREA COMPLY WITH THE “BASIC**
6 **PRINCIPLE” THAT RATES BE FREE FROM CONTROVERSIES AS TO**
7 **PROPER INTERPRETATION?**

8 A. No. As mentioned above, the Cartwright Creek – Grasslands wastewater rate design
9 invites sure-to-come disputes with customers regarding the functionality of a room
10 simply to reduce their monthly sewer bill.

11 **Q. DOES MR. NOVAK’S PROPOSAL TO MAINTAIN THE CURRENT RATE**
12 **DESIGN FOR EACH SERVICE AREA COMPLY WITH THE “BASIC**
13 **PRINCIPLE” THAT RATES BE EFFECTIVE IN YIELDING TOTAL**
14 **REVENUE REQUIREMENTS?**

15 A. No. The radically different rate designs proposed by Mr. Novak for the various
16 service areas subject the Company to heightened risk of not achieving its authorized
17 revenue requirement. For instance, not only is the potential for disputes regarding
18 the functionality of rooms in the Grasslands service area a risk of not achieving the
19 revenue requirement, the continuation of the wastewater usage components for
20 Cartwright Creek – Commercial, Aqua Utilities, Lake Estates (DSH), and Shiloh
21 also subjects the Company to revenue swings. Specifically, since wastewater usage
22 revenues would be directly tied to water usage, they would be susceptible to
23 weather variations. Thus, in periods of heavy rain, when residences are not

1 watering the yard and washing their cars, water usage would decline, and
2 wastewater revenues would decrease with no corresponding decrease to the level
3 of wastewater services used. As a result, Limestone Water would be at risk of not
4 achieving its revenue requirement. Recognizing that operating costs for a
5 wastewater utility do not vary significantly with flow, it is not reasonable nor
6 regulatorily sound or supportable to keep a usage component and subject the utility
7 to not achieving its authorized return.

8 **Q. DOES MR. NOVAK’S PROPOSAL TO MAINTAIN THE CURRENT RATE**
9 **DESIGN FOR EACH SERVICE AREA COMPLY WITH THE “BASIC**
10 **PRINCIPLE” THAT RATES BE FAIR IN THE APPORTIONMENT OF**
11 **TOTAL COSTS OF SERVICE AMONG DIFFERENT CONSUMERS?**

12 A. No. As I explain in my Direct Testimony:

13 [S]ewer infrastructure is commonly designed to handle fluctuations
14 efficiently, ensuring that increases in residential water usage do not
15 proportionally increase the costs of sewage treatment. Furthermore,
16 necessary regulatory standards and permit limits are consistent
17 regardless of the flow volume, indicating that additional flow does
18 not result in higher treatment costs.⁷

19
20 Given that increased water usage and wastewater flow does not cause an
21 increase in wastewater operating costs, it is inherently unfair to charge residential
22 wastewater customers in Cartwright Creek – Grassland service area dramatically
23 different amounts simply because they have another bedroom. Similarly, there is
24 no justifiable reason for the Commission to support a Lakeside Estates (DSH)
25 customer that uses 500 gallons of water / day to pay 66% more for wastewater than

⁷ *Silas Direct* at 19.

1 a customer that uses 100 gallons of water / day.⁸ Such an unwieldy outcome would
2 not serve the public interests.

3 **Q. DOES MR. NOVAK’S PROPOSAL TO MAINTAIN THE CURRENT RATE**
4 **DESIGN FOR EACH SERVICE AREA COMPLY WITH THE “BASIC**
5 **PRINCIPLE” THAT RATES REFLECT COST CAUSATION?**

6 A. No. As already noted above in my testimony, wastewater operating costs vary little
7 based upon actual flow. Given this, it makes little sense to charge residential
8 customers based upon water usage. By maintaining a rate variable that considers
9 the number of bedrooms or water usage, Mr. Novak necessarily renders his rates
10 violative of CAD’s own guideline that rates reflect cost causation. In fact, Mr.
11 Novak creates a system of winners and losers by which households with multiple
12 bedrooms or larger water usage will subsidize households with fewer bedrooms and
13 less water usage.

14 **Q. WAS THE BEDROOM VARIABLE LANGUAGE YOU REFERENCED**
15 **ABOVE IN THE CARTWRIGHT CREEK – GRASSLAND SERVICE AREA**
16 **TARIFF DEVELOPED BY LIMESTONE WATER?**

17 A. No. This language was already established and approved in the tariff prior to
18 Limestone Water’s acquisition.

⁸ As I indicated in my Direct Testimony, the Company does account for variations in cost between residential and commercial wastewater customers by utilizing the concept of Equivalent Residential Units. *See Silas Direct* at 19-21. That said, however, because residential flow is largely comparable and these variations are not likely to cause significant changes in operating costs, under my proposal, all residential users would pay the same flat rate for wastewater regardless of the number of bedrooms and the usage of water.

1 **Q. WHAT IS YOUR RECOMMENDATION?**

2 A. Given the multitude of problems inherent in Mr. Novak's short-sighted
3 continuation of the current rate structure for numerous different service areas,
4 consistent with my Pre-filed Direct Testimony and Mr. Duncan's Pre-filed Direct
5 Testimony, I recommend that the Commission adopt my recommended rate design.
6 Specifically, recognizing that there is little variation in wastewater operating costs
7 for residential users based upon bedrooms and water usage, I recommend that the
8 wastewater rate design consist of a single flat monthly charge. I do recognize some
9 degree of cost variability in the commercial class by utilizing the concept of
10 Equivalent Residential Units. The use of a flat monthly fee reflects a rate design
11 that the Commission is very familiar with as it mirrors that used for Cartwright
12 Creek – Arrington Retreat; Cartwright Creek – Hideaway Hills; Cartwright Creek
13 – Hardeman; and Chapel Woods.

14 On the water side, the Commission should utilize a water design that
15 provides for a monthly charge that includes some monthly amount of usage, but
16 then has a flat rate for each 1,000 gallons / month above this monthly usage. This
17 is also comparable to that already adopted by the Commission for Aqua Utilities –
18 water. For unmetered water customers, the Commission should utilize a flat rate
19 that is comprised of the monthly base charge and assumed usage.

20

21

III. PRODUCTION COST CAP

22 **Q. PLEASE DESCRIBE THE PRODUCTION COST CAP.**

23 A. Limestone Water has two drinking water systems: Aqua Utilities and Candlewood
24 Lakes. While Candlewood Lakes relies on its own production facilities, the Aqua

1 Utilities system purchases water from the Savannah Utility Department
2 (“Savannah”) on a wholesale basis. At pages 22-24 of my Direct Testimony, I
3 address the manner by which Savannah bills Limestone Water and, as applies to
4 this issue, the manner by which Limestone Water passes through the Savannah
5 wholesale cost to customers. Specifically, Limestone Water takes the entire invoice
6 amount from Savannah and, after accounting for a water loss component, breaks it
7 down to a flat amount per 1,000 gallons. In my Direct Testimony (page 23), I
8 propose that the water loss component, referred to as a production cost cap in Mr.
9 Bradley’s Pre-filed Testimony, be set at 18.45%.

10 **Q. WHAT IS CAD’S POSITION ON THE PASS THROUGH OF THE**
11 **SAVANNAH WHOLESALE WATER COSTS?**

12 A. In his Pre-filed Testimony, Mr. Bradley discusses the pass-through mechanism for
13 the recovery of the wholesale cost of water for the Aqua Utilities system. At page
14 14 of his testimony, however, Mr. Bradley proposes to limit the water loss
15 component to 15%. Mr. Bradley claims that this is the “Commission approved
16 standard.”

17 **Q. PLEASE EXPLAIN HOW THE DIFFERENCE IN THE WATER LOSS**
18 **COMPONENT WOULD AFFECT RATES?**

19 A. Effectively, by setting a water loss component below that proposed by the
20 Company, CAD would prevent the Company from billing customers for 3.45%
21 (18.45% - 15.00%) of the invoiced amount from Savannah. Thus, the Company
22 would effectively eat 3.45% of every monthly invoice from Savannah.

1 **Q. DO YOU AGREE WITH MR. BRADLEY’S PROPOSAL TO ESTABLISH A**
2 **WATER LOSS CAP OF 15%.**

3 A. No. The 18.45% cap proposed by Limestone Water is an actual amount and
4 recognizes the significant improvements made by the Company since acquiring the
5 Aqua Utilities service area. Specifically, the Aqua Utilities service area has
6 historically suffered from underinvestment and neglect. As a result, in TPUC
7 Docket No. 06-00187, Aqua Utilities reported a “lost and unaccounted for water”
8 gross up percentage of 49.94%.

9 Reflecting its tremendous efforts, Limestone Water has managed to reduce
10 the actual lost and unaccounted for water percentage from 49.94% to 18.45%. It
11 seems inequitable for a Company to invest money to improve a distressed water
12 system and provide demonstrated results and then be asked to simultaneously suffer
13 from the shortfalls of the previous ownership. Such a significant improvement
14 should not result in what would amount to a penalty.

15 The 18.45% water loss takes into consideration the significant efforts made
16 by the Company as well as the necessary ongoing work to bring the system to a
17 state where water loss can be more substantially controlled.

18 **Q. CAN YOU ELABORATE ON THE WORK DONE TO DATE ON THE**
19 **SYSTEM AND HOW THAT IMPACTS THE WATER LOSS**
20 **CONSIDERATION?**

21 A. As Mr. Thomas outlined at pages 129-133 of his Direct Testimony, Limestone
22 Water identified many areas in which line repairs were necessary due to full main

1 breaks and line leaks. Limestone Water has worked quickly to address breaks and
2 leaks, restore water service to customers, and minimize water loss.

3 **Q. TO THE BEST OF YOUR KNOWLEDGE, IS THERE A COMMISSION**
4 **STANDARD, AS ALLUDED TO BY THE CONSUMER ADVOCATE,**
5 **THAT APPLIES TO ALL REGULATED WATER COMPANIES?**

6 A. I am aware that the Commission has established utility-specific goals or parameters
7 depending upon the evidentiary record before it in specific matters. I am not aware
8 of the Commission establishing a general standard for unaccounted water loss
9 applicable to every regulated water utility in Tennessee.

10 **Q. ARE THERE ANY OTHER REGULATORY FRAMEWORKS TO**
11 **CONSIDER?**

12 A. Yes. As stated at page 23 of my Direct Testimony, the Tennessee Board of Utility
13 Regulation has characterized a water loss above 40% as excessive.⁹ While
14 Limestone Water works to correct all issues of non-revenue water, a water loss
15 adjustment of 18.45% ensures that it is able to recover the necessary costs to
16 continue to reinvest in this system while simultaneously acknowledging both the
17 progress made with this system and the realistic capabilities of the system given its
18 historical context.

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

20 A. Yes.

⁹ *Board orders.* Comptroller of the Treasury - Comptroller.TN.gov. (n.d.).
<https://comptroller.tn.gov/boards/utilities/utility-reporting/board-orders.html#:~:text=Water%20Loss%3A&text=Currently%20water%20loss%20is%20reported,been%20reviewed%20by%20Board%20staff>.

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE**

**PETITION OF LIMESTONE WATER)
UTILITY OPERATING COMPANY,)
LLC, TO INCREASE CHARGES, FEES)
AND RATES AND FOR APPROVAL)
OF A GENERAL RATE INCREASE)
AND CONSOLIDATED RATES)**

DOCKET NO. 24-00044

VERIFICATION

**STATE OF MISSOURI)
COUNTY OF ST. LOUIS)**

I, AARON SILAS, being duly sworn, state that I am authorized to testify on behalf of Limestone Water Utility Operating Company, LLC in the above-referenced docket, that if present before the Commission and duly sworn, my testimony would be as set forth in my pre-filed testimony in this matter, and that my testimony herein is true and correct to the best of my knowledge, information, and belief.

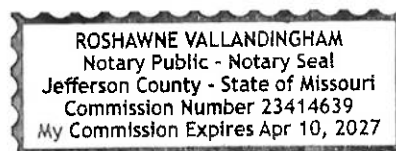


AARON SILAS

Sworn to and subscribed before me
this 7th day of January, 2025.



Notary Public



My Commission Expires: 04-10-2027

CERTIFICATE OF SERVICE

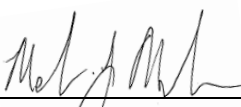
I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

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This the 13th day of January 2025.



Melvin J. Malone