

# TENNESSEE PUBLIC UTILITY COMMISSION



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Electronically Filed in TPUC Docket  
Room on April 11, 2025 at 3:52 p.m.

April 11, 2025

## **Docket No. 24-00044**

### ***In re: Petition Limestone Water Utility Operating Company, LLC, to Increase Charges, Fees, and Rates and for Approval of a General Rate Increase and Consolidated Rates***

This matter is a complex rate case in which the proposed rulings are lengthy and require additional time to review the detailed analysis of the various monetary and numerical components included in determining the revenue requirements and customer rates for Limestone Water Utility Operating Company, LLC. Thus, as a courtesy to the panel, the parties, and the public, the Chairman files this motion before the deliberations scheduled on Monday, April 14, 2025, to allow sufficient time for the panel to consider the proposed motion before voting.

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

### **Chairman David F. Jones's Motion on the Merits of the Rate Case**

My motion sets forth the revenue requirements for water and wastewater operations separately and an overall rate design to recover the Company's combined water and wastewater revenue requirements.

### **WATER REVENUE REQUIREMENTS**

For water service: Limestone requests a \$575,061 annual rate increase. Based upon my findings, relative to the Company's revenues, expenses, taxes, rate base, and rate of return, I find Limestone's annual water revenue deficiency is \$432,751.

#### **Test Period**

I adopt the test period for the twelve months ended April 30, 2024. I find that utilizing the normalized adjusted test period amounts to determine the Revenue Requirement is reasonable and should be adopted.

#### **Revenues**

I adopt the adjusted test period Water Sales Revenues of \$197,053 and Other Revenues of \$24,641, bringing total operating water revenues for the adjusted test period to \$221,694.

### Expenses

I move the adoption of \$452,751 for adjusted test period operation and maintenance expenses consisting of the following:

- 1) Gain/Loss of Utility Property of \$0;
- 2) Customer Record Collect (Billing) of \$16,069;
- 3) Customer Collection Expenses of \$71;
- 4) Customer Record Collect (Bank Fees) of \$4,612;
- 5) Uncollectibles of \$1,487;
- 6) Meals & Travel of \$0;
- 7) Communication of \$0;
- 8) Support Services (Admin Expenses Transferred) of \$87,343;
- 9) Bank Fees of \$5,847;
- 10) Legal of \$754;
- 11) Audit and Accounting of \$880;
- 12) MGMT Consult of \$1,452;
- 13) IT of \$0;
- 14) Property Insurance-Commercial of \$12,340;
- 15) Regulatory Expense of \$895;
- 16) Miscellaneous of \$5,193;
- 17) Purchased Water of \$159,188;
- 18) Purchased Power of \$5,140;
- 19) Chemicals of \$1,907;
- 20) Materials and Supplies of \$1,801;
- 21) Mowing and Lawn Maintenance of \$1,699;
- 22) Contract Services of \$113,891;
- 23) Maintenance Expense of \$25,529;
- 24) Testing of \$850; and
- 25) Bad Debt of \$1,477.

In addition to operations and maintenance expenses, I also move the adoption of the following:

- 1) Depreciation Expense of \$46,753;
- 2) Amortization of Contributions in Aid of Construction of negative \$7,617;
- 3) Amortization of Regulatory Asset Expense for Acquisition Adjustments of \$16,730;
- 4) Amortization of Regulatory Asset Expense for Transaction Costs of \$8,430;
- 5) Property Tax of \$5,749; and
- 6) General Tax of \$620.

I also move to adopt a State Excise Tax of negative \$21,770 and a Federal Income Tax of negative \$65,761 based on revenues at current rates.

### Net Operating Loss

Based on the preceding determinations, I find a Net Operating Loss of \$209,864 for the adjusted test period, based on current rates, before accounting for taxes related to additional revenues authorized by my motion.

#### Rate Base

I adopt a Rate Base of \$1,255,786 for the adjusted test period consisting of:

#### Additions:

- 1) Utility Plant in Service of \$1,555,361, based on reclassification of \$133,458 of Land and Land Rights for consideration of recovery as Transaction Costs;
- 2) Regulatory Asset for Acquisition Adjustments of \$317,873, based on recovery of total Acquisition Adjustments of \$334,604 over twenty years;
- 3) Regulatory Asset for Deferred Transaction Costs of \$160,164, based on recovery of total Deferred Transaction Costs of \$168,593 over twenty years;
- 4) Deferred Rate Case Cost of \$0;
- 5) Prepayments of \$902; and
- 6) Working Capital of \$39,210.

#### Deductions:

- 1) Accumulated Depreciation of \$673,587;
- 2) Accumulated Amortization of \$0; and
- 3) Contributions in Aid of Construction of \$144,137, based on reclassification of \$22,800 of water tap fees as other revenues.

#### Revenue Conversion Factor

I propose an overall Revenue Conversion Factor of 1.367496 based upon an Uncollectible Ratio of 0.0100, a state excise tax rate of 6.5%, and a Federal Income Tax rate of 21%.

#### Rate of Return

I move to adopt a capital structure of 45.00% long-term debt and 55.00% common equity. I also recommend a long-term debt cost of 6.64% and a return on equity of 10.00%. Using these recommended values, I propose an overall rate of return of 8.488% for Limestone's water operations.

#### Revenue Deficiency

Based upon the preceding determinations, I find a Water Revenue Deficiency of \$432,751 for the adjusted test period.

### WASTEWATER REVENUE REQUIREMENTS

For wastewater service: Limestone seeks a \$1,688,011 annual rate increase. Based upon my findings, which are detailed below relative to the Company's revenues, expenses, taxes, rate base, and rate of return, I find Limestone's annual wastewater revenue deficiency is \$929,573.

#### Test Period

I move the adoption of the test period for the twelve months ended April 30, 2024. I find that utilizing the normalized adjusted test period amounts to determine the Revenue Requirement is reasonable and should be adopted.

#### Revenues

I adopt Wastewater Sales Revenues of \$1,263,575 and Other Revenues of \$206,958, which brings total wastewater operating revenues to \$1,470,533 for the adjusted test period.

#### Expenses

I move the adoption of \$1,537,944 for adjusted test period operation and maintenance expenses consisting of the following:

- 1) Gain/Loss of Utility Property of \$0;
- 2) Customer Record Collect (Billing) of \$55,163;
- 3) Customer Collection Expenses of \$236;
- 4) Customer Record Collect (Bank Fees) of \$15,407;
- 5) Uncollectibles of \$4,966;
- 6) Meals & Travel of \$0;
- 7) Communication of \$3,553;
- 8) Support Services (Admin Expenses Transferred) of \$291,728;
- 9) Bank Fees of \$19,531;
- 10) Legal of \$1,312;
- 11) Audit and Accounting of \$2,941;
- 12) MGMT Consult of \$4,851;
- 13) IT of \$417;
- 14) Property Insurance-Commercial of \$45,061;
- 15) Regulatory Expense of \$28,158;
- 16) Purchased Treatment of \$352;
- 17) Sludge Removal of (\$80);
- 18) Purchased Power of \$175,420;
- 19) Fuel for Power Production of \$38;
- 20) Chemicals of \$18,508;
- 21) Materials and Supplies of \$7,906;
- 22) Mowing and Lawn Maintenance of \$141,876;
- 23) Contract Services of \$498,149;
- 24) Contract Services - Collections of \$31,578;
- 25) Maintenance Expense of \$87,295;
- 26) Contract Operations – Pumping Ops of \$480;
- 27) Pumping Maintenance of \$100;
- 28) Treatment & Disposal of \$33,333;
- 29) Contract services - Testing of \$42,914;
- 30) Bad Debt of \$6,749; and
- 31) Miscellaneous Expense of \$20,003.

In addition to operations and maintenance expenses, I adopt the following:

- 1) Depreciation Expense of \$443,445;
- 2) Amortization of Contributions in Aid of Construction of negative \$25,441;
- 3) Amortization of Regulatory Asset Expense for Acquisition Adjustments of \$59,898;
- 4) Amortization of Regulatory Asset Expense for Transaction Costs of \$28,503;

- 5) Property Tax of \$25,379; and
- 6) General Tax of \$2,073.

Based on revenues at current rates, I also adopt a state excise tax of negative \$45,020 and a federal income tax of negative \$135,996.

#### Net Operating Loss

Based on the preceding determinations, I find a Net Operating Loss of \$420,251 for the adjusted test period, based on current rates, before accounting for taxes related to additional revenues authorized by my motion.

#### Rate Base

I move to adopt a Rate Base of \$3,057,402 for the adjusted test period consisting of:

#### Additions:

- 1) Utility Plant in Service of \$10,417,927, based on reclassification of \$543,901 of Land and Land Rights for consideration of recovery as Transaction Costs;
- 2) Regulatory Asset for Acquisition Adjustments of \$1,138,065, based on recovery of total Acquisition Adjustments of \$1,197,963 over twenty years;
- 3) Regulatory Asset for Deferred Transaction Costs of \$541,549, based on recovery of total Deferred Transaction Costs of \$570,052 over twenty years;
- 4) Deferred Rate Case Cost of \$0;
- 5) Prepayments of \$5,545; and
- 6) Working Capital of \$129,461.

#### Deductions:

- 1) Accumulated Depreciation of \$3,199,129;
- 2) Contributions in Aid of Construction for Finance and Escrow Riders of \$653,857; and
- 3) Contributions in Aid of Construction of \$5,322,159, based on reclassification of \$191,625 of sewer tap and facility inspection fees as other revenues.

#### Revenue Conversion Factor

I propose an overall Revenue Conversion Factor of 1.367496 based upon an Uncollectible Ratio of 0.0100, a state excise tax rate of 6.5%, and a Federal Income Tax rate of 21%.

#### Rate of Return

I adopt a capital structure of 45.00% long-term debt, 0.00% short-term debt, and 55.00% equity. I also move to adopt a long-term debt cost of 6.64%, a short-term debt cost of 0.00%, and an equity return of 10.00%. Using these recommended values, I propose an overall rate of return of 8.4880% for Limestone's wastewater operations.

#### Revenue Deficiency

Based on the preceding determinations, I find a Wastewater Revenue Deficiency of \$929,573 for the adjusted test period.

## RATE DESIGN

I move that the overall revenue deficiencies for water and wastewater operations be combined to establish overall rates instead of strictly recovering the water revenue deficiency from water customers and the wastewater revenue deficiency from wastewater customers. This approach is necessary to lessen the disparate rate impact on water customers. To further lessen the impact on all Limestone customers, I propose that the overall revenue deficiency be recovered in two phases: the first beginning May 1, 2025, and the second phase beginning May 1, 2026. Each phase of the rate design will recover approximately 50% of the required revenue increases. The second phase will recover the deferred revenue deficiency plus carrying charges at the Company's authorized rate of return.

Based on this approach, I approve the Rate Design Exhibit attached to this motion. The exhibit contains rates by system for all water customers and residential wastewater customers. Of note for Aqua Water customers, I deny the Company's requested flow-through charge for purchased water. Instead, I include purchased water expense in operation and maintenance expenses for recovery through base rates.

The exhibit does not contain specific rates for commercial wastewater customers. This is because it is unclear from Limestone's billing data what the impact would be to individual customers across its wastewater systems. Therefore, Limestone is directed to file commercial wastewater rates for each individual system, as opposed to a consolidated rate for all systems, to recover the revenue amounts by system as contained in the phase-one rate design. I instruct Commission Staff to provide the parties with an Excel file of the attached phase-one rate design exhibit and provide clarification as needed.

## OTHER ITEMS

For rate case expense: Limestone seeks to recover an estimated \$250,000 over two years. Instead, I move that the actual rate case costs be recovered through a separate line item surcharge. Limestone shall file a tariff to begin surcharging customers based on the Company's estimated rate case cost of \$250,000 using an amortization period of three years, which shall only be charged to current customers within the systems included in this rate case. The amount to be recovered by the Company through the customer surcharge shall not exceed the \$250,000 estimate requested by Limestone. Supporting documentation of the actual rate case costs shall be filed for review no later than July 1, 2025. Further, the rate case surcharge shall terminate upon recovery of the actual rate case costs filed with the Commission as of July 1st.

I approve Limestone's request to discontinue the \$10.24 existing escrow charge for Lakeside Estates and the \$7.50 Capital Surcharge for customers formerly part of the Cartwright Creek wastewater systems. In addition, Limestone has asked that the Commission remove or waive its requirement that the Company obtain approval before spending escrow funds. I deny this request and reiterate that Commission approval must be obtained before any escrow or capital surcharge funds may be spent or disbursed.

Finally, I direct Limestone to immediately comply with Commission Rule 1220-04-01-.10, titled Reports—Uniform Financial Report Forms. This rule is mandatory, and Limestone is required to promptly file complete and accurate quarterly reports with the Commission. Failure to comply with the Commission's rules will subject the Company to enforcement proceedings, which may result in statutory penalties. Further, the Company is directed to include within its quarterly reports a line item detailing the monthly charge and accrued dollar amount of rate case expense recovered through the rate case expense surcharge on customer bills.

[MOTION ENDED ]

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

**LIMESTONE WATER OPERATING COMPANY**  
**Staff Rate Rate Design Exhibit 1, Page 1**

|   | Base Year<br>Determinants<br>(Customers) | Current<br>Average Bill<br>Rate | Base Year<br>Revenue | Attrition<br>Determinants<br>(customers) | Proposed<br>Rate   | Attrition<br>Period<br>Revenues | Revenue<br>Increase |  |
|---|--|---------------------------------|----------------------|--|--------------------|---------------------------------|---------------------|--|
| <b>Water</b>  |  |                                 |                      |  |                    |                                 |                     |  |
| Candlewood  | 1,452 A/                                 | 40.00                           | 58,080               | 1,452                                    | 50.00              | 72,600                          | 14,520              |  |
| Aqua Utilities- 5/8"                                      | 5,016 A/                                 | 25.62 B/                        | 128,519              | 5,016                                    | 31.00              | 155,496                         | 26,977              |  |
| Aqua Utilities- 3/4"                                      | 120 A/                                   | 25.62 B/                        | 3,075                | 120                                      | 31.00              | 3,720                           | 645                 |  |
| Aqua Utilities- 1"  | 12 A/                                    | 25.62 B/                        | 307                  | 12                                       | 31.00              | 372                             | 65                  |  |
| Aqua Utilities- 1 1/2"                                    | 12 A/                                    | 25.62 B/                        | 307                  | 12                                       | 31.00              | 372                             | 65                  |  |
| Aqua Utilities- 2"  | 36 A/                                    | 25.62 B/                        | 922                  | 36                                       | 31.00              | 1,116                           | 194                 |  |
| Aqua Utilities- unknown                                   | 228 A/                                   | 25.62 B/                        | 5,842                | 228                                      | 31.00              | 7,068                           | 1,226               |  |
| <b>Usage:</b>   |  |                                 |                      |  |                    |                                 |                     |  |
| Candlewood - No meter - (Flat Rate)                       | 0  | 0.00                            | 0                    | 0  |                    | 0                               | 0                   |  |
| Aqua Utilities - usage per 1,000 gallons                  | 0  | 3.05                            | 0                    | 21,240,360 C/                            | 3.05               | 64,783                          | 64,783              |  |
| <b>Total Bill Revenue</b>                                 |  |                                 | <b>\$197,053</b>     | (1770030*12 D/                           |                    | <b>\$305,527</b>                | <b>\$108,474</b>    |  |
|   |  |                                 |                      |  |                    |                                 |                     | <b>Sewer Revenue<br/>Increase (63.61%)</b> |
| <b>Sewer</b>  |  |                                 |                      |  |                    |                                 |                     |  |
| Aqua Utilities-Residential                                | 4,440                                    | 25.62                           | 113,761              | 4,440                                    | 35.00              | 155,400                         | 41,639              |  |
| Aqua Utilities-Commercial                                 | 96                                       | 25.62                           | 2,460                | 96                                       |                    | 2,460                           | 0                   | 1,565                                      |
| Cartwright - Grassland - Comm 1-2 Bedroom                 | 24                                       | 62.88                           | 1,509                | 24                                       |                    | 1,509                           | 0                   | 960  |
| Cartwright - Grassland - Res 1-2 Bedroom                  | 408                                      | 42.00                           | 17,136               | 408                                      | 65.00              | 26,520                          | 9,384               |  |
| Cartwright - Grassland - Res 3 Bedroom                    | 3,348                                    | 46.50                           | 155,682              | 3,348                                    | 70.00              | 234,360                         | 78,678              |  |
| Cartwright - Grassland - Res 4 Bedroom                    | 2,304                                    | 52.00                           | 119,808              | 2,304                                    | 75.00              | 172,800                         | 52,992              |  |
| Cartwright - Grassland - Res 5 Bedroom                    | 96                                       | 55.25                           | 5,304                | 96                                       | 75.00              | 7,200                           | 1,896               |  |
| Cartwright - Commercial                                   | 612                                      | 472.64                          | 289,259              | 612                                      |                    | 289,259                         | 0                   | 184,005                                    |
| Cartwright - Arrington/Hardeman/Hideaway -Res             | 5,316                                    | 55.25                           | 293,709              | 5,316                                    | 75.00              | 398,700                         | 104,991             |  |
| Chapel Woods  | 1,740                                    | 29.00                           | 50,460               | 1,740                                    | 40.00              | 69,600                          | 19,140              |  |
| Shiloh Falls - Residential                                | 3,816                                    | 8.93                            | 34,094               | 3,816                                    | 25.00              | 95,400                          | 61,306              |  |
| Shiloh Falls - Commercial                                 | 108                                      | 517.29                          | 55,868               | 108                                      |                    | 55,868                          | 0                   | 35,539                                     |
| Lakeside Estates (DSH) - Commercial                       | 600                                      | 52.42                           | 31,452               | 600                                      |                    | 31,452                          | 0                   | 20,007                                     |
| Lakeside Estates (DSH) - Residential                      | 60                                       | 30.73 F/                        | 1,844                | 60                                       | 55.00              | 3,300                           | 1,456               |  |
| <b>Total Bill Revenue</b>                                 | <b>\$22,968</b>                          |                                 | <b>\$1,172,345</b>   | <b>\$22,968</b>                          |                    | <b>\$1,543,827</b>              | <b>\$371,482</b>    | <b>\$242,076</b>                           |
| <b>Imputed Cartwright - Commercial</b>                    | <b>10,426</b>                            | <b>\$8.75</b>                   | <b>\$91,230 E/</b>   | <b>0.00</b>                              |                    | <b>\$91,230</b>                 |                     |  |
| <b>Other Revenue: Staff Rate Design Exhibit 1, Page 2</b> |  |                                 | <b>\$231,599</b>     |  |                    | <b>\$231,599</b>                |                     |  |
| <b>Totals</b>   |  |                                 |                      |  |                    |                                 |                     |  |
|   |  |                                 | <b>1,692,227</b>     |  |                    |                                 |                     |  |
|   |  |                                 |                      |  |                    |                                 |                     | <b>Residential Water Increase</b>          |
|   |  |                                 |                      |  |                    |                                 |                     | <b>108,474</b>                             |
|   |  |                                 |                      |  |                    |                                 |                     | <b>Residential Sewer Increase</b>          |
|   |  |                                 |                      |  |                    |                                 |                     | <b>371,482</b>                             |
|   |  |                                 |                      |  |                    |                                 |                     | <b>Commercial Sewer Increase</b>           |
|   |  |                                 |                      |  |                    |                                 |                     | <b>242,076</b>                             |
|   |  |                                 |                      |  |                    |                                 |                     | <b>Total Increase</b>                      |
|   |  |                                 |                      |  |                    |                                 |                     | <b>\$722,032</b>                           |
| <b>Overall Staff Revenue Deficiency</b>                   |  |                                 |                      | \$                                       | <b>\$1,362,324</b> |                                 |                     |  |
| <b>Phase One Increase of Rate Design</b>                  |  |                                 |                      |  | <b>53.00%</b>      |                                 |                     |  |
| <b>Revenue Needed From Phase One</b>                      |  |                                 |                      |  | <b>\$722,032</b>   |                                 |                     |  |
| <b>Increase Without Commercial Sewer</b>                  |  |                                 |                      |  | <b>\$479,956</b>   | <b>(108,474 + 371,482)</b>      |                     |  |
| <b>Increase Needed From Commercial Sewer</b>              |  |                                 |                      |  | <b>\$242,076</b>   | <b>(722,032 - 479,076)</b>      |                     |  |
| <b>Current Sewer Revenue</b>                              |  |                                 |                      |  | <b>\$380,547</b>   |                                 |                     |  |
| <b>Percent Increase From Commercial Sewer</b>             |  |                                 |                      |  | <b>63.61%</b>      |                                 |                     |  |



LIMESTONE WATER OPERATING COMPANY  
Staff Rate Design Exhibit 1, Page 2  
Calculation of Other Revenues

|   | Base Year<br>Determinants<br>(Customers) | Current<br>Average Bill<br>Rate | Base Year<br>Revenue    | Attrition<br>Determinants<br>(customers) | Proposed<br>Rate | Attrition<br>Period<br>Revenues | Revenue<br>Increase |
|---|--|---------------------------------|-------------------------|--|------------------|---------------------------------|---------------------|
| <b>Water</b>                                    |  |                                 |                         |  |                  |                                 |                     |
| Misc. Revenues                                  |  |                                 | 1,841                   |  |                  | 1,841                           | 0                   |
| Tap Fees - Aqua Utilities - Water               | 16                                       | 1,425.00                        | 22,800                  | 16                                       |                  | 22,800                          | 0                   |
| <b>Sewer</b>                                    |  |                                 |                         |  |                  |                                 |                     |
| Misc. Revenues                                  |  |                                 | \$15,333                |  |                  | 15,333                          | 0                   |
| Tap Fees - Cartwright - Grassland - Residential | 6  | 10,000.00                       | 60,000                  | 6  |                  | 60,000                          | 0                   |
| Tap Fees -Cartwright - AHH - Residential        | 11                                       | 10,000.00                       | 110,000                 | 11                                       |                  | 110,000                         | 0                   |
| Tap Fees - Cartwright - Commercial              |  | 10,000.00                       | 0                       |  |                  | 0                               |                     |
| Tap Fees - Aqua Utilities - Sewer               | 11                                       | 1,425.00                        | 15,675                  | 11                                       |                  | 15,675                          | 0                   |
| Tap Fees - Shiloh Falls                         | 7  | 850.00                          | 5,950                   | 7  |                  | 5,950                           | 0                   |
| <b>Total Other Revenue</b>                      |  |                                 | <b><u>\$231,599</u></b> |  |                  | <b><u>231,599</u></b>           | <b><u>0</u></b>     |

A/ Limestone's Response to CA 1-35

B/ Includes Usage

C/ Company Exhibit AJS - 5.1

D/ Monthly billable usage multiplied by 12 months

E/ Imputed Amount of Usage Recovered in Commercial Rates

F/ Rate Minus \$10.24 Escrow and \$2.40 Bonding Surcharge