

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

July 10, 2025

IN 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**

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**DOCKET NO.
24-00044**

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 a scheduled Commission Conference held on April 14, 2025. The panel convened to consider and deliberate the *Petition* filed by Limestone Water Utility Operating Company, LLC (“Limestone,” or “Company”) on July 16, 2024, seeking to increase its charges, fees, and rates, and for approval of a general rate increase and consolidated rates.

I. BACKGROUND AND PETITION

Limestone is an indirect wholly-owned subsidiary of Central States Water Resources, LLC (“CSWR”) located in St. Louis, Missouri. The Company provides water service to 573 water connections served by two systems and 1,914 sewer connections served by eight systems in Tennessee. The service areas include customers located in Hardin, Williamson, Marshall, Hardeman, and Campbell counties.¹ As a regulated public utility, Limestone must request permission to adjust the rates paid by its customers. This process is referred to as a rate case. While there are other regulatory tools available to change rates, this docket is Limestone’s first general rate case under the provisions of Tenn. Code Ann. § 65-5-103(a).

A. OVERVIEW OF THE RATE CASE PROCESS

Setting utility rates is a complicated process that entails the analysis of financial data and projecting a public utility’s revenues, operating expenses, and rate base² to arrive at a rate that will allow a utility the opportunity to earn a reasonable rate of return on its investment. The rate case process allows for the intervention of interested parties and generally includes the participation of the

¹ *Petition*, pp. 1-2 (July 16, 2024).

² Rate Base is the term for the investment of a public utility made to provide service, ranging from physical infrastructure (i.e., pipes in the ground) to office computers.

Consumer Advocate Division of the Office of the Tennessee Attorney General (“Consumer Advocate”), which represents the interests of utility customers.

Rate cases involve a multitude of accounting and financial issues that include troves of documents and thousands of calculations sponsored by witnesses who are subject to discovery requests and cross-examination. Using the evidentiary record developed by the parties, the Commission sets rates that are just and reasonable. The record of this rate case, as with all matters before the Commission, is available online through the Commission’s website for public inspection. Customers may participate in the process through public comment hearings hosted by the Commission and by submitting written comments that are filed in the docket and available to the public on the Commission’s website alongside the Parties’ accounting and legal filings.

B. PETITION

On July 16, 2024, Limestone filed its *Petition* seeking to increase customer rates for water service by \$450,561 and to increase its customer rates for wastewater service by \$1,223,275. In total, Limestone requested an increase of customer rates of \$1,673,836 in its *Petition*.³ The Company asserted that proposed rate increases were necessary because several of the systems it purchased have significant long-term compliance and operational issues and most of the systems have not had rate increases in years or decades. As a result, Limestone claimed the current rates do not provide for an adequate recovery of operating costs and capital investments, thereby preventing the Company from the opportunity to earn a fair return.⁴

Limestone determined its revenue requirement based on the actual revenue, expenses, and rate base reflected on the Company’s books and records for the 12-month Test Period ended April 30,

³ *Petition*, p. 4 (July 16, 2024).

⁴ *Id.* at 3.

2024. Limestone made normalizing adjustments to Test Period data to make it more representative of ongoing operations but did not include any projected data, such as growth rates.⁵

Limestone stated that its current return on equity (“ROE”) for water operations is -35.6% based on current water revenues of \$198,894. The Company requested additional water revenues of \$450,561, resulting in an overall increase in water rates of 226%.⁶ Likewise, Limestone stated that its current ROE for sewer operations is -38.8% based on current sewer revenues of \$1,187,678. Limestone requested additional sewer revenues of \$1,223,275, resulting in an overall increase in sewer rates of 103%.⁷ These rate increases included a requested ROE of 11.90% and a capital structure of 43.00% debt and 57.00% equity. Using an embedded debt rate of 6.64% yielded an overall requested return of 9.64%.⁸

In its *Petition*, Limestone also proposed to consolidate customer terms, conditions, and rates statewide across the two water and eight wastewater systems included in this proceeding. The Company asserted that rate consolidation allows it to spread costs to a larger customer base to mitigate rate impacts to smaller systems that need large capital investments, thereby resulting in more affordable rates for all customers.⁹

In support of its *Petition*, Limestone presented the Pre-Filed Testimonies of several Company Representatives covering various subjects discussed in the *Petition*, as follows:

- Clare Donovan on accounting controls and budget procedures, Test Year Revenues, and Operating Expenses;
- Mike Duncan on operations, rate case overview, rate consolidation, compliance functions, acquisition adjustment recovery, and alternative ratemaking mechanisms;
- Jacob Freeman on systems to be acquired, scheduled capital projects for Grasslands, Shiloh Falls, and Candlewood Lakes, and acquisition adjustment recovery;
- Dylan W. D’Ascendis on capital structure, cost of debt, and return on equity;

⁵ *Id.* at 4.

⁶ *Id.* at 5.

⁷ *Id.*

⁸ *Id.*

⁹ *Id.* at 3-4.

- Aaron Silas on strategic communications, customer service and metrics, acquisition adjustment recovery, rate design, and proposed tariffs;
- Brent Thies on Test Year development, revenue requirement calculation, rate base items including recovery of acquisition adjustments and transaction costs, depreciation expense/contributions in aid of construction (“CIAC”) amortization, income taxes, termination of financial security escrows, and alternative ratemaking mechanisms; and
- Todd Thomas on operation and maintenance (“O&M”) expense, Tennessee O&M Partner and State manager, system improvements made by operations team, and recovery of acquisition adjustments.

Many of these witnesses sponsored schedules with their testimonies that supported the calculations that were presented as part of the proposed increase in customer rates.

II. TRAVEL OF THE CASE

The Administrative Judge entered a protective order on July 18, 2024, shortly after the filing of the *Petition*, to expedite the flow of confidential information among any participating intervening parties. The Consumer Advocate filed a *Petition to Intervene* on August 2, 2024. The Administrative Judge entered an order granting the Consumer Advocate’s intervention on August 15, 2024.¹⁰ No other parties sought to intervene. A procedural schedule was established and filed on September 12, 2024.¹¹ The Parties engaged in discovery to gather additional information necessary for the presentation of the rate case.

Following discovery, the Consumer Advocate filed Pre-Filed Testimonies of Alex Bradley, Aaron L. Rothschild, Clark Kaml, and William H. Novak contesting various accounting issues, the rate of return, and certain policy aspects of the proposed rate increase. Subsequently, David Dittmore filed Pre-Filed Testimony adopting and submitting corrections to the testimony of Alex Bradley.¹² The Consumer Advocate urged the Commission to defer any ratemaking decision until the Company could provide additional historical data on revenue.¹³ However, as an alternative position, the

¹⁰ *Order Granting the Petition to Intervene Filed by the Consumer Advocate* (August 15, 2024).

¹¹ *Order Establishing Procedural Schedule* (September 12, 2024).

¹² See David N. Dittmore, Pre-Filed Direct Testimony (February 6, 2025).

¹³ William H. Novak, Pre-Filed Direct Testimony, p. 10 (December 19, 2024).

Consumer Advocate proposed a more modest total increase to customer rates of \$633,669.¹⁴

On January 13, 2025, the Company filed the Pre-Filed Rebuttal Testimonies of the following Company Representatives:

- Clare Donovan on Cartwright Creek commercial revenues, O&M adjustments, and rate case expense;
- Mike Duncan on witness introduction, rebuttal policy overview, acquisition adjustments, and rate consolidation;
- Jacob Freeman on systems to be acquired, scheduled capital projects for Grasslands, Shiloh Falls, and Candlewood Lakes, and acquisition adjustment recovery;
- Dylan W. D'Ascendis on capital structure, cost of debt, and return on equity;
- Aaron Silas on rate design and production cap;
- Brent Thies on land and land rights, transaction costs, financial security escrow termination, retention of billing determinants, recording of tap fees and inspection fees, attrition period revenue, and income tax expense; and
- Todd Thomas on vegetation management.

The Commission held two Public Comment Meetings since Limestone operates utilities in various parts of the State. The first of these Public Comment Meetings occurred on January 30, 2025, in Counce, Tennessee, where customers of Limestone provided statements regarding their experiences with the services provided by the Company and the rates proposed in the *Petition*.¹⁵ Customers of Limestone also provided statements at the Public Comment Meeting held on February 13, 2025, in Nashville, Tennessee.¹⁶ Additionally, the Commission received approximately 300 written comments filed by members of the public concerning this rate case. On February 17, 2025, Limestone filed copies of the legal notices concerning the Hearing date and the proposed rate changes that were published in appropriate newspapers of general circulation in counties where the Company provides utility service, as required by TPUC Rule 1220-4-1-.05.¹⁷

III. THE HEARING AND POST-HEARING FILINGS

The Hearing on the merits of the *Petition* commenced in Nashville and was held on February

¹⁴ David N. Dittmore, Pre-Filed Direct Testimony, pp. 3-4 (February 6, 2025).

¹⁵ *Notice of Public Comment* (January 6, 2025); Transcript of Public Comment Hearing (January 30, 2025).

¹⁶ *Notice of Public Comment* (February 4, 2025); Transcript of Public Comment Hearing (February 13, 2025).

¹⁷ Limestone Water Utility Operating Company, LLC Publication of Legal Notice of Hearing (February 17, 2025).

18, 19, and 20, 2025, as noticed by the Commission on February 7, 2025.¹⁸ Participating in the Hearing were the following parties and their respective counsel:

Limestone Water Utility Operating Company, LLC – **Melvin J. Malone, Esq., Katherine Barnes Cohn, Esq., and John H. Dollarhyde, Esq.,** Butler Snow, LLP, 150 3rd Avenue South, Suite 1600, Nashville, Tennessee 37201;

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

The panel heard testimony from Limestone witnesses: Mike Duncan, Clare Donovan, Brent Thies, Dylan D’Ascendis, Todd Thomas, Jacob Freeman, and Aaron Silas. The Consumer Advocate presented witness testimony from William H. Novak, David Dittmore, Clark Kaml, and Aaron Rothschild. Each witness was available for questions from the Commissioners and Commission Staff.

On the first day of the Hearing, the panel solicited comments from the public. Four members of the public, each a customer of one of Limestone’s utility systems, gave public comments concerning customer experiences with the utility and the proposed rate increase presented in the Company’s *Petition*.¹⁹ On the second and third days of the Hearing, since inclement weather necessitated the Hearing to proceed in an electronic audio/visual format, the Commissioners solicited members of the public to submit written comments to the Commission docket.²⁰

The Parties waived closing arguments at the Hearing in favor of filing Post-Hearing Briefs.²¹ In addition, during the Hearing, based upon the testimony presented, the Commission directed Limestone to file updated calculations and exhibits concerning revenue deficiencies for water and wastewater and for rate design.²² Limestone filed the requested data and exhibit updates on February

¹⁸ Due to an inclement weather event, State office buildings in Nashville were closed on February 19 and 20, 2025. The Hearing was conducted by electronic audio/visual means via WebEx on these dates.

¹⁹ Transcript of Hearing, Vol. I, pp. 9-23 (February 18, 2025).

²⁰ Transcript of Hearing, Vol. II, p. 136 (February 19, 2025); Transcript of Hearing, Vol. III, p. 404 (February 20, 2025).

²¹ *Pre-Hearing Order*, p. 4 (February 13, 2025).

²² *Order Establishing Post-Hearing Procedural Schedule* (February 24, 2025).

27, 2025. The Company and the Consumer Advocate filed their Post-Hearing Briefs on March 12, 2025.²³

On April 11, 2025, Chairman David F. Jones pre-filed in the docket a written motion proposing specific calculations and conclusions to resolve the Company's *Petition*.²⁴ The Commission convened a public meeting for deliberations of the panel via the Webex teleconferencing platform on April 14, 2025, as duly noticed on April 4, 2025.²⁵ The panel assigned to this matter deliberated, announced its findings and conclusions upon consideration of the entire record, including all exhibits and the testimony of witnesses, and voted unanimously in favor of the findings and conclusions.

IV. CRITERIA FOR ESTABLISHING JUST AND REASONABLE RATES

The Commission has jurisdiction to set the rates of public utilities operating in Tennessee.²⁶ 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.²⁷ A public utility possesses the burden of proof on a petition to approve an adjustment of its rates.²⁸

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.²⁹ The Commission considers petitions for a rate increase, filed pursuant to Tenn. Code Ann. § 65-5-103, in light of the following criteria:

1. The investment or rate base upon which the utility should be permitted to earn a fair rate of return;

²³ See *Limestone Water Utility Operating Company, LLC Post-Hearing Brief* (March 12, 2025); *Consumer Advocate Division's Post-Hearing Brief* (March 12, 2025).

²⁴ Chairman David F. Jones Pre-Filed Motion on the Merits of the Limestone Water Utility Operating Company LLC Rate Case (April 11, 2025).

²⁵ *Notice of Panel Convening Electronically Via WebEx* (April 4, 2025).

²⁶ Tenn. Code Ann. §§ 65-4-101(6); 65-4-104; 65-5-101, *et seq.* (2022).

²⁷ Tenn. Code Ann. § 65-5-101 (2022).

²⁸ Tenn. Code Ann. § 65-5-103(a) (2022).

²⁹ *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).

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 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.³⁰

The United States Supreme Court has determined that regulated utilities are entitled to a reasonable return.³¹ 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.”³²

The general standards to be considered in establishing the fair rate of return for a public utility are financial integrity, capital attraction and setting a return on equity that is commensurate with returns investors could achieve by investing in other enterprises of corresponding risk.³³ 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 provision service. Further, a rate should be reasonable not only when it is first established, but also for a reasonable time thereafter.³⁴

³⁰ *Id.* at 692-693; *see also Duquesne Light Co. v. Barasch*, 488 U.S. 299, 310 (1989).

³¹ *Federal Power Comm’n v. Hope Natural Gas Co.* 320 U.S. 591, 605 (1944).

³² *Id.*

³³ *Id.* at 603.

³⁴ *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.W2d 640, 647 (1944).

The Commission has wide discretion regarding 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.”³⁵ 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.”³⁶

Accordingly, the Commission is not limited to adopting any particular approach or to adopting a specific test period in making known and measurable adjustments to produce just and reasonable rates.³⁷ 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.

V. FINDINGS AND CONCLUSIONS

A. REVENUES

In a rate case, the Commission must decide the appropriate test period and attrition period to be utilized in the calculation of rates. A test period “is a measure of a utility’s financial operations and investments over a specific twelve-month period. A test year is used to build an ‘attrition year,’ which is the forecast used to set rates.”³⁸ 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

³⁵ *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).

³⁶ *Powell*, 660 S.W.2d at 46.

³⁷ *CF Industries v. Tennessee Pub. Serv. Comm’n*, 599 S.W.2d 536, 543 (Tenn. 1980).

³⁸ *Tenn. Am. Water Co. v. Tenn. Reg. Auth.*, No. M2009-00553-COAR12CV, 2011 WL 334678 at 2 (Tenn. Ct. App. 2011).

effect of calculations related to revenues, expenses, and investments. As previously stated, the Commission has wide discretion regarding this decision.

A(1). WATER/WASTEWATER SERVICE

Limestone selected a Test Period ending April 30, 2024, to calculate Test Period Revenues of the eight wastewater and two water systems.³⁹ The Company employed a methodology for the systems that bill a flat monthly rate whereby the actual number of bills as of April 30, 2024, were multiplied by the monthly flat rate and subsequently multiplied by 12 to provide the annualized revenue for each system. The Company then deducted its actual revenues as of April 30, 2024 from this amount to arrive at the pro forma revenue adjustment ending April 30, 2024.⁴⁰ For systems having a usage rate, the Company used the number of bills at the end of the Test Period, multiplied by the flat rate and then estimated the average daily flow⁴¹ times number of days in a year to calculate the usage for the Test Year. This usage was multiplied by the usage rate to produce the monthly and annual revenues.⁴² Based upon this methodology, Limestone presented the following Total Revenues:

Origin	4/30/24 At Present Rates	4/30/24 At Proposed Rates	Revenue Deficiency
Sewer	\$1,187,678	\$2,410,952	\$1,223,275 ⁴³
Water	\$198,894	\$649,455	\$450,561 ⁴⁴
Total	\$1,386,572	\$3,060,407	\$1,673,836

The Consumer Advocate argued that since Limestone has not charged the commercial customers of Cartwright Creek for usage since its acquisition of Cartwright Creek in January 2022, Limestone's revenues are understated, and the resulting revenue deficiency is overstated.⁴⁵ While

³⁹ Clare Donovan, Pre-Filed Direct Testimony, p. 5 (July 16, 2024).

⁴⁰ *Id.* at 6.

⁴¹ In instances where commercial equivalencies were not available because a system was unmetered, Limestone used 2,958 gallons, derived from the Aqua Utilities water system, as an estimate.

⁴² Clare Donovan, Pre-Filed Direct Testimony, p. 6 (July 16, 2024).

⁴³ Brent Thies, Pre-Filed Direct Testimony, Exh. BT-3.1 (July 16, 2024).

⁴⁴ *Id.* at Exh. BT-3.2.

⁴⁵ William H. Novak, Pre-Filed Direct Testimony, pp. 5-6 (December 19, 2024).

Limestone defended this omission, stating that it did not have the proper information to estimate the usage for each commercial type, the Consumer Advocate recommended that the Commission have the Company correct this error before any rate changes are approved. To account for this omission, Consumer Advocate witness, William H. Novak, included an amount for commercial usage charges that was derived by utilizing the amount included by Commission Party Staff in Cartwright Creek's most recent rate case.⁴⁶

In addition, the Consumer Advocate asserted that it is problematic that Limestone failed to obtain the historical billing records for the utility properties it now holds, as required in Docket No. 21-00053,⁴⁷ as the parties cannot examine billing data for a minimum four-year period.⁴⁸ Mr. Novak testified that examination of a four-year period of billing records is needed to appropriately set new rates to adjust for billing anomalies and end-of-year adjustments. Mr. Novak recommended that a change in rates be deferred until at least four years of billing data can be obtained and reviewed.⁴⁹

The Consumer Advocate prepared an Attrition Period forecast for the Company's water and sewer revenues should the Commission decide against its recommendation to defer rate adjustments. Mr. Novak testified that he calculated these revenues by applying a historic growth rate to the Test Period bills and water usage for those properties with anticipated growth. He then applied the current tariff charges to the Attrition Period billing determinants to get the Attrition Period service revenues.⁵⁰ Mr. Novak arrived at total Attrition Period Water/Sewer Revenues of \$1,186,981.⁵¹

⁴⁶ *Id.* at 6. See also *In re: Joint Petition of Cartwright Creek, LLC and TRA Staff (As a Party) to Increase Rates and Charges*, Docket No. 16-00127, Daniel Ray, Pre-Filed Direct Testimony, Exh. 7 (November 10, 2016).

⁴⁷ See *In re: Application of Limestone Watery Utility Operating Company, LLC for Authority to Sell or Transfer Title to the Assets, Property, and Real Estate of a Public Utility, Cartwright Creek, LLC. And for a Certificate of Public Convenience and Necessity*, Docket No. 21-00053, *Order Approving Settlement Agreement and Transfer of Systems, and Granting Certificate of Convenience and Necessity*, p. 5, Exh.1 at p. 5 (January 24, 2022) ("*Cartwright Creek Acquisition Order*").

⁴⁸ William H. Novak, Pre-Filed Direct Testimony, pp. 8-9 (December 19, 2024).

⁴⁹ *Id.* at 9-10.

⁵⁰ *Id.* at 17-18.

⁵¹ *Id.* at 17, WHN Revenue Workpaper R-1-1.00.

Limestone rebutted the Consumer Advocate’s testimony concerning the omission of usage charges to commercial customers, citing its lack of the necessary information to bill for usage. Therefore, the Company only billed these customers the monthly minimum amount.⁵² Limestone’s witness, Claire Donovan, stated that three of the four Cartwright Creek service areas are receiving water from the Nolensville College Grove Utility District (“Nolensville”) and that Nolensville has repeatedly refused to provide the Company with water usage data.⁵³ Ms. Donovan asserted that including the amount of usage revenues from the last Cartwright Creek rate case, as the Consumer Advocate proposed, would continue the current wastewater rate design that places the Company in a dependent position of a third party. Accepting the Consumer Advocate’s proposal would result in the Company under-collecting its revenue requirement by approximately \$100,000. However, Ms. Donovan agreed to accept the Consumer Advocate’s imputation of Cartwright Creek wastewater revenues as long as the Cartwright Creek commercial rate design is modified so that Limestone is not dependent upon Nolensville to obtain data necessary to bill its commercial customers.⁵⁴

Limestone takes the position that the *Cartwright Creek Acquisition Order* obligated the seller, not Limestone, to produce complete billing data. In addition, Mr. Thies asserted that billing determinants are not considered as part of a utility’s accounting records.⁵⁵ He further stated that Limestone has on numerous occasions attempted to obtain various records from the seller post-closing, but the seller has failed to provide the records and, in some instances, has advised that such records “are not available or simply never really existed in any substantively usable manner going forward.”⁵⁶

⁵² Clare Donovan, Pre-Filed Rebuttal Testimony, p. 2 (January 13, 2025).

⁵³ *Id.* at 3.

⁵⁴ *Id.* at 3-4.

⁵⁵ Brent Thies, Pre-Filed Rebuttal Testimony, pp. 13-14 (January 13, 2025). *See also Limestone Water Utility Operating Company, LLC Post-Hearing Brief*, pp.71-72 (March 12, 2025).

⁵⁶ *Id.* at 14.

Mr. Thies explained the Company is proposing a fully historic Test Period for the period the rates will be in effect for three reasons: the historic test year is representative of the conditions during the period in which rates will be in effect; the historic test year makes this case easier for the parties, avoiding debate over forecast of a future period; and, the historic test year allows new customers to receive the benefit of service improvements prior to incurring a rate increase.⁵⁷ He further asserted the Consumer Advocate projected revenues for an Attrition Period but did not project investment and operating expenses which would increase the revenue deficiency. Mr. Thies argued the Consumer Advocate's revenue proposal violated the matching principle of ratemaking by using future revenues compared to existing investment and expenses.⁵⁸

While the Consumer Advocate urged the Commission to delay any rate-setting procedure until the Company could provide necessary historical billing data, using the Consumer Advocate's alternative position, the Parties agreed on the usage of the 12 months ended April 30, 2024, for purposes of setting rates, utilizing pro forma adjustments to normalize the rate setting period. The panel found that the use of a recent, normalized historical period for rate-setting is appropriate in this case due to Limestone's relatively short operational history of the systems, as well as the dissimilar characteristics of the acquired systems.

The panel found that the Company's Test/Attrition Year is a reasonable and appropriate measure of the Company's service revenues. Therefore, the panel voted unanimously to adopt \$1,172,345 as Sewer service revenues and \$197,053 as Water service revenues for a total service revenue of \$1,369,398 for the Test/Attrition Year as presented by the Company. However, several revenue items were omitted from the Test/Attrition Year which necessitated normalizing adjustments

⁵⁷ *Id.* at 19.

⁵⁸ *Id.* at 19-20.

to service revenues in order to accurately reflect an annual normalized Attrition Year service revenue amount.

First, although Limestone asserted that billing determinants are not accounting records and that it was unable to bill the Cartwright Creek Commercial customers for usage, the panel rejected this position. The panel found that the billing process resulted in revenue earned with an offset to accounts receivable. These amounts were documented with the quantities sold times the selling price. The quantities and selling price were the accounting/data supporting the amount billed and recorded to the accounts. The Company used billing determinants to arrive at the monthly bill, which ultimately determined revenue/accounts receivable. Further, the panel found that this data information is part of the accounting documentation/record, and it was incumbent upon the seller to provide the accounting records, which included billing determinants, and upon the buyer to ensure all account records were provided.

Additionally, Limestone's tariff sets forth the charges for Commercial customers' usage which should have been billed and the revenue included in the Test Year. Using the billing determinants from Cartwright Creek's last rate case, the Consumer Advocate forecasted Commercial Billing and Usage Revenue totaling \$97,446 for the Attrition Period.⁵⁹ Comparing the workpapers of the Consumer Advocate and the billing determinants in Cartwright Creek's last rate case, the panel found them to be consistent and the calculations of bills and usage to be correct. The panel accepted the Consumer Advocate's usage forecast and adopted a normalizing adjustment, adding \$91,230⁶⁰ to Sewer service revenues in order to reflect the commercial usage revenue which should have been billed during the Test/Attrition Period.⁶¹

⁵⁹ William H. Novak, Pre-Filed Direct Testimony, pp. 5-6 (December 19, 2024).

⁶⁰ See also *In re: Joint Petition of Cartwright Creek, LLC and TRA Staff (As a Party) to Increase Rates and Charges*, Docket No. 16-00127, Daniel Ray, Pre-Filed Direct Testimony, Exh. 7 (November 10, 2016).

⁶¹ The panel agreed with Limestone's position that a rate design allowing the Company to recover this revenue amount should be adopted. This issue will be addressed in the Rate Design section of this Order.

Based on the panel's findings, total Water Service Revenue for the Attrition Period is \$197,053, Sewer Service Revenue is \$1,172,345 with Commercial Sewer Service Usage Revenue of \$91,230 added to the Attrition Period. Therefore, the panel voted unanimously to adopt total Service Revenue in the amount of \$1,460,628.

A(2). OTHER REVENUES

Limestone included late fees of \$466 and miscellaneous revenue of \$16,708 for total Attrition Year and Other Miscellaneous Revenues of \$17,174. The Company based these amounts on the Test Year pro forma April 30, 2024, balances of these accounts.⁶²

The Consumer Advocate testified that the Company had been recording Tap Fees and Inspection Fee revenues as CIAC, which Mr. Novak asserted was contrary to the historical ratemaking practice of recording these fees as Other Revenues. Further, he cited the last rate case for Aqua Utilities⁶³ and the Certificate of Public Convenience and Necessity ("CCN") Application for Shiloh Falls Utilities,⁶⁴ where Tap Fees were included in Other Revenues. Absent specific information, Mr. Novak estimated Inspection Fees based on a ratio of Inspections and Re-Inspections from the last Cartwright Creek rate case⁶⁵ to the anticipated growth rate for properties with an Inspection Fee and priced these amounts out at the current tariff rate. For Tap Fees, Mr. Novak applied the anticipated customer growth for each service area to the current tariff rate. The methodology employed by the Consumer Advocate resulted in Inspection Fees of \$11,550 and Tap Fees of \$481,575 for the Attrition Period.⁶⁶ Further, the Consumer Advocate recommended the Company be required to reclassify these

⁶² Brent Thies, Pre-Filed Direct Testimony, Exhs. BT-3.1, BT-3.2 (July 16, 2024).

⁶³ See *In re: Joint Petition Aqua Utilities Company and TRA Staff (As A Party) to Increase Rates and Charges*, Docket No. 15-00044, Joe Shirley, Pre-Filed Direct Testimony, Exh. 7 (April 10, 2015).

⁶⁴ See *In re: Application of Shiloh Falls Utilities, Inc. for a CCN*, Docket No. 95-03948, *Initial Order*, p. 1, Sched. 1 (May 31, 1996); See also *In re: Application of Shiloh Falls Utilities, Inc. for a CCN*, Docket No. 95-03948, *Order* (June 27, 1996).

⁶⁵ See *In re: Joint Petition of Cartwright Creek, LLC and TRA Staff (As a Party) to Increase Rates and Charges*, Docket No. 16-00127, Daniel Ray, Pre-Filed Direct Testimony, Exh. 3 (November 10, 2016).

⁶⁶ William H. Novak, Pre-Filed Direct Testimony, pp. 11-12 (December 19, 2024).

receipts appropriately before any rate changes are approved.⁶⁷ Mr. Novak used the average rate in the most recent rate cases of Cartwright Creek and Aqua Utilities for Forfeited Discounts and applied this average to the Attrition Period Service Revenues. The Consumer Advocate calculated Attrition Period Other Revenues as follows:

Attrition Period Other Revenues ⁶⁸	
Forfeited Discounts	\$ 62,753
Non-Sufficient Fund Fees	65
Inspection Fees	11,550
Tap Fees	481,575
Total	\$555,943

Limestone rebutted that the Company considered Tap Fees and Inspection Fees as CIAC because they were non-refundable money or physical property received from third parties.⁶⁹ Mr. Thies asserted that the recommendation of the Consumer Advocate to consider Tap Fees and Inspection Fees as revenue would increase revenues, thereby reducing the calculated revenue deficiency and decrease rate base resulting in an increase in the revenue deficiency. Mr. Thies argued that the two impacts were not equal in magnitude, which resulted in an overall reduction to the revenue deficiency.⁷⁰

Mr. Thies further asserted that in Commission Docket No. 19-00034, a 2019 docket concerning Cartwright Creek Tap Fees (“2019 Tap Fee Docket”), the Commission found that it was proper to classify Tap Fees and Inspection Fees as CIAC in accordance with the Uniform System of Accounts (“USOA”) rather than operating revenue.⁷¹ He further referenced the testimony of the Consumer Advocate cited in the *2019 Tap Fee Order* asserting future tap fees should be recorded as a regulatory liability. For these reasons, Mr. Thies recommended that the Commission allow the

⁶⁷ *Id.* at 12, 18.

⁶⁸ *Id.* at 18.

⁶⁹ Brent Thies, Pre-Filed Rebuttal Testimony, p. 15 (January 13, 2025).

⁷⁰ *Id.* at 15-16.

⁷¹ *Id.* at 16-17. *See also In re: Petition of Cartwright Creek, LLC to Increase Tap Fees to Address Environmental Issues Raised by the Tennessee Department of Environment and Conservation*, Docket No. 19-00034, *Order Approving Increase of Tap Fee*, p. 9 (August 19, 2019) (the “2019 Tap Fee Order”).

Company to book all tap fees as CIAC and based on the USOA, rejected the Consumer Advocate's recommendation.⁷²

The panel accepted and adopted the period ending April 30, 2024 as presented by the Company as the Attrition Year in this case, including the Company's Test Year amounts for Late Fees of \$466, and Miscellaneous Revenue of \$16,708.⁷³ The panel also agreed with the Consumer Advocate that Forfeited Discounts should be included in Other Revenues for the Attrition Period, but did not agree with the Consumer Advocate's separate inclusion and calculation of forfeited discounts. The panel found that the Company's current tariff had a lower forfeited discount rate than the Consumer Advocate used in its calculation. In addition, the panel found that it was inappropriate to apply the forfeited discount percentage to 100% of the revenue as the Consumer Advocate did in its calculations because not every customer incurred a forfeited discount charge. The panel concluded that the Miscellaneous Revenue presented by the Company included Non-Sufficient Funds, Inspection Fees, and Forfeited Discounts. For these reasons, the panel voted unanimously to adopt Other Revenues of \$17,174, which included \$466 for Late Fees and \$16,708 for Miscellaneous Revenue.

The Company recorded tap fees and inspection fees as CIAC rather than revenue insisting these revenues were the recovery of cost to the Company of constructing an asset.⁷⁴ In rebuttal testimony and during the hearing, Mr. Theis argued that this is consistent with a previous order of the Commission in the 2019 Tap Fee Docket, where the Commission considered it appropriate in that case to approve the increase and use the funds to offset rate base.⁷⁵ The Consumer Advocate pointed out via the testimony of Mr. Novak during the hearing that the Commission chose to have tap fees

⁷² *Id.* at 15-17.

⁷³ Brent Thies, Pre-Filed Direct Testimony, Exhs. BT-3.1, BT-3.2 (July 16, 2024).

⁷⁴ Hearing Transcript Vol. II, p. 162 (February 19, 2025).

⁷⁵ *Id.* at 161.

and inspection fees recorded as revenue in the last rate cases for “Cartwright Creek, Aqua Utilities and the CCN application for Shiloh Falls...”⁷⁶

While Limestone pointed to the 2019 Tap Fee Docket as an instance in which the Commission approved assignment of these fees, the panel found that the 2019 Tap Fee Docket was established for the specific purpose of considering a proposed increase in the tap fees to provide funds necessary to reduce groundwater and rainwater infiltration in the Grasslands collection system, addressing a significant contributing factor of environmental violations cited by TDEC.⁷⁷ However, the present case is distinguishable from the 2019 Tap Fee Docket because in the present case, Limestone is requesting a substantial rate increase to the detriment of ratepayers with no specific identifiable planned capital projects. Additionally, as the Consumer Advocate pointed out, the Commission has also required tap fees and inspection fees to be recorded as revenues in other dockets.

The Parties correctly pointed out, by referring to the Commission’s prior decisions, where revenues generated from tap fees and inspection fees may be recorded is within the discretion of the Commission. The panel determined that the substantial rate increase requested by the Company and its effect on Limestone’s customers is a factor that deserved considerable weight. Considering the revenue deficiency and the rates necessary in order for Limestone to recover its operational costs, the panel found that it is in the best interest of ratepayers to record tap fees and inspection fees as revenue. Therefore, the panel included \$214,425 as revenue for tap fees and inspection fees in the Attrition Year.

Based upon its findings on Miscellaneous Revenues of \$17,174 and Tap Fees of \$214,425, the panel voted unanimously to adopt total Other Revenues of \$231,599 for the Attrition Period ending April 30, 2024.

⁷⁶ *Id.* at 389. See also *Consumer Advocate Division’s Post-Hearing Brief*, p. 33 (March 12, 2025).

⁷⁷ *2019 Tap Fee Order*, pp. 3, 8 (August 19, 2019).

A(3). TOTAL REVENUES

Thereafter, the panel voted unanimously to adopt total revenues of \$1,691,227 for the Attrition Period. The panel arrived at the sum of wastewater revenues of \$1,470,533 and water revenues of \$221,694.

B. WATER EXPENSES

Limestone's expenses to provide utility services within the state are separated between water utility expenses and wastewater utility expenses. Water utility expenses are those costs necessary for the operation of the utility to provide safe and reliable drinking water to its Tennessee customers. The Company forecasted \$621,844 for its proposed operating water expenses for the 12 months ending April 30, 2024.⁷⁸ The Consumer Advocate forecasted \$492,057.⁷⁹ The resulting difference is \$129,788 in total water operating expenses. Water expenses are broken into the following five categories: Total General & Administrative ("G&A"), Total Operations & Maintenance ("O&M"), Depreciation, CIAC Amortization, and Amortization of Regulatory Assets & Expenses. While the Consumer Advocate accepted all of the Company's known and measurable adjustments, significant differences resulted from the Consumer Advocate's recommended removal of allocated charges from the Services Company that were not associated with the provision of utility services, the reduction of water production costs to account for the Commission's prior water loss policies, and the exclusion of amortized regulatory assets and expenses. The chart below demonstrates the Operating Expenses by category, as forecasted by Limestone and the Consumer Advocate.

⁷⁸ Brent Thies, Pre-Filed Direct Testimony, Exh. BT-2.2 (July 16, 2024). *See also* Pursuant to the Commission Request at the February 2025 Commission Hearing, Limestone Water Utility Operating Company, LLC Updated Response to the January 31, 2025 Data Request No. 6 in Excel Format (February 25, 2025) ("Post-Hearing Updated Response to Data Request").

⁷⁹ David N. Dittmore, Pre-Filed Direct Testimony, Water Exh. Sched. 5 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, Water Exh. Sched. 5 (December 19, 2024). *See also* Letter to Chairman David F. Jones from Karen H. Stachowski, Consumer Advocate Re: Supplemental Testimony and Workpapers Filed With the Direct Testimony of David N. Dittmore Adopting the Direct Testimony of Alex Bradley With Corrections, Water Exh. Corrected Sched. 5 (February 20, 2025) ("Dittmore Correction Supplement").

Operating Expenses	Company⁸⁰	Consumer Advocate⁸¹
Total General & Administrative	145,937	142,251
Total Operations & Maintenance	318,040	312,035
Depreciation	52,666	52,666
CIAC Amortization	(7,441)	(14,896)
Amortization of Regulatory Assets & Expenses	112,643	0
Total Operating Expenses	\$621,844	\$492,057

B(1). GENERAL & ADMINISTRATIVE

The Company proposed its G&A expense as \$145,937, which was \$7,694 lower than incurred during the Test Year ended April 30, 2024.⁸² The reduction was driven by the Company's known and measurable correction for a 40% contract reduction for its billing services.⁸³ To forecast G&A expense, the Company began with the G&A Test Year expense and then made one-time known and measurable adjustments related to customer billing, legal, audit and accounting services, property insurance, and gain on utility property retirement.⁸⁴

The Consumer Advocate proposed G&A expense as \$142,251, approximately \$8,191 less than proposed by Limestone. The Consumer Advocate did not oppose the Company's known and measurable adjustments to G&A expense.⁸⁵ However, the Consumer Advocate forecasted less transferred administrative expenses. The Consumer Advocate asserted that certain costs transferred from the service company were related to investment income, depreciation, sponsorships, association

⁸⁰ Brent Thies, Pre-Filed Direct Testimony, Exh. BT-2.2 (July 16, 2024). *See also* Post-Hearing Updated Response to Data Request (February 25, 2025).

⁸¹ David N. Dittmore, Pre-Filed Direct Testimony, Water Exh. Sched. 5 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, Water Exh. Sched. 5 (December 19, 2024). *See also* Dittmore Correction Supplement, Water Exh. Corrected Sched. 5 (February 20, 2025).

⁸² Brent Thies, Pre-Filed Direct Testimony, Exh. BT-2.2 (July 16, 2024).

⁸³ Clare Donovan, Pre-Filed Direct Testimony, p. 10, Exh. CD-1.2 (July 16, 2024).

⁸⁴ *Id.*

⁸⁵ David N. Dittmore, Pre-Filed Direct Testimony, p. 2 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, pp. 2-3 (December 19, 2024).

memberships, and dues within its allocations to subsidiaries, which had not been demonstrated to be related to the provision of utility services.⁸⁶

Company Witness, Clare Donovan, argued in her rebuttal testimony that the Consumer Advocate's removal of allocated charges from the Service Company to Limestone Water in transferred administrative expense is problematic.⁸⁷ Ms. Donovan stated that a portion of these charges were associated with depreciation expenses for office furniture, computers, and other office items at the parent company level. Further, the Consumer Advocate did not dispute the value offered from these items to allow employees to perform work-related activities. Ms. Donovan testified that these items have a limited life and must be depreciated and as a result, Limestone allocated a proportional share according to Limestone's Cost Allocation Manual. Based upon this explanation, Ms. Donovan urged that these costs were related to the provision of utility services and should be included in the revenue requirement for both water and wastewater operations.⁸⁸

The panel accepted Limestone's known and measurable adjustments to G&A expenses. In addition, the panel accepted the application of a 1% uncollectible ratio to service revenues on which the Parties agreed. Upon further review to determine the relationship between transferred administrative expenses and the provision of utility services, the panel determined that an adjustment was necessary to remove certain costs transferred from the Service Company related to investment income, sponsorships, association memberships, subscriptions, and duplicative depreciation that were not demonstrated to be necessary for the provision of water services. The panel calculated the Company's G&A expense as \$142,757, an amount \$3,180 less than Limestone's proposal and \$506 more than the Consumer Advocate's proposal.

⁸⁶ David N. Dittmore, Pre-Filed Direct Testimony, p. 2 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, p. 8 (December 19, 2024).

⁸⁷ Clare Donovan, Pre-Filed Rebuttal Testimony, pp. 4-5 (January 13, 2025).

⁸⁸ *Id.*

B(2). OPERATIONS & MAINTENANCE

Limestone proposed its O&M expense as \$318,040.⁸⁹ This amount was \$8,233 more than was incurred during the Test Year ended April 30, 2024.⁹⁰ This increase was primarily driven by the changes in contracts for the Company's contract operations with its Candlewood Lakes and Aqua Utilities water systems. To forecast O&M expense, the Company began with the level of O&M expense for the Test Year and removed known and measurable one-time expenses related to source of supply and meter maintenance. The Company then adjusted for its water systems' known and measurable contract rate changes.⁹¹ Purchased water expense was included within Limestone's O&M expenses. As part of its Rate Design, discussed in a subsequent section of this Order, the Company proposed a pass-through charge for its Aqua service area, which purchases wholesale water for distribution to individual connections.⁹²

The Consumer Advocate proposed O&M expense as \$312,035.⁹³ The Consumer Advocate accepted the Company's known and measurable adjustments, only proposing adjustments for water production costs.⁹⁴ The Consumer Advocate identified that the Company is currently experiencing a water loss percentage of 18.45%, greater than the 15% baseline amount utilized by the Commission in prior decisions. As a result, the Consumer Advocate reduced the recoverability of water costs to 96.55%, yielding a \$6,004 reduction in O&M water expenses.⁹⁵

⁸⁹ Brent Thies, Pre-Filed Direct Testimony, Exh. BT-2.2 (July 16, 2024).

⁹⁰ Clare Donovan, Pre-Filed Direct Testimony, Exh. CD-1.2 (July 16, 2024).

⁹¹ *Id.* at 10-11.

⁹² Aaron Silas, Pre-Filed Direct Testimony, p. 18 (July 16, 2024).

⁹³ David N. Dittmore, Pre-Filed Direct Testimony, Water Exh. Sched. 5 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, Water Exh. Sched. 5 (December 19, 2024). *See also* Dittmore Correction Supplement, Water Exh. Corrected Sched. 5 (February 20, 2025).

⁹⁴ David N. Dittmore, Pre-Filed Direct Testimony, p. 2 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, p. 7 (December 19, 2024).

⁹⁵ David N. Dittmore, Pre-Filed Direct Testimony, p. 2 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, p. 7 (December 19, 2024).

Aaron Silas rebutted on behalf of Limestone that setting a lost water component below that proposed by the Company would prevent the Company from billing customers for 3.45% of the invoiced amount from Savannah Utility Department (“Savannah”), incurring a loss on each Savannah invoice.⁹⁶ Mr. Silas stated that Limestone has reduced the lost and unaccounted for water in the Aqua system, from 49.94%, as reported by Aqua Utilities in Docket No. 06-00187, to 18.45% in actual lost and unaccounted for water. Mr. Silas argued that it is inequitable for the Company to invest in distressed water systems and provide demonstrated improvement and be asked to suffer the shortfalls from the previous ownership.⁹⁷ In addition, Mr. Silas stated he is unaware of a general standard for unaccounted for and water loss established by the Commission that is applicable to every regulated water utility in Tennessee. According to Mr. Silas, a water loss adjustment of 18.45% ensures that the Company can recover the necessary costs to reinvest in its systems while simultaneously acknowledging the progress made to improve and the realistic capabilities of the system.⁹⁸

The panel calculated O&M expense for Limestone’s water operation of \$312,035, adopting the position of the Consumer Advocate.⁹⁹ The panel adjusted expenses to implement the Commission’s unaccounted-for-water (“UFW”) limitation factor of 15%. The Commission’s long-standing UFW cap of 15% has generally been applied to well-managed systems.¹⁰⁰ The Company has acquired water systems in Tennessee, representing that one of its advantages is that Limestone possesses the financial, managerial, and technical capabilities to run the acquired systems professionally. Accordingly, the panel found that applying the 15% UFW standard is reasonable in this case. The panel computed expense for water operations by applying the Company’s proposed

⁹⁶ Aaron Silas, Pre-Filed Rebuttal Testimony, p. 10 (January 13, 2025).

⁹⁷ *Id.* at 11.

⁹⁸ *Id.* at 12.

⁹⁹ See Atch. 2, Commission Water Exhibit – Sched. 5.

¹⁰⁰ *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, pp. 15, 17 (Jan. 13, 2009); See also *Tennessee-American Water Co. v. Tenn. Reg. Auth.* 2011 WL 334678, 28 (Tenn. Ct. App. 2011) (affirming unaccounted-for-water limitation percentage).

known and measurable adjustments of \$8,233 to the Test Period balance and then adjusting water production costs of -\$6,004. The adjusting reduction of \$6,004 was comprised of reductions of \$5,688 for purchased water, \$184 for purchased power, \$68 for chemicals, and \$64 for materials and supplies.¹⁰¹ Further, the panel found that because it was necessary to study additional information regarding water purchases and usage, it was appropriate for the Company to continue recovering all purchased water expenses through base rates, rather than through a pass-through charge at this time.

B(3). DEPRECIATION

Limestone proposed a depreciation expense increase of \$5,912 from the Test Year, resulting in a proposed depreciation expense of \$52,666.¹⁰² This increase was solely driven by the known and measurable change in the Company's proposed depreciation rates. The Company requested use of a single set of depreciation rates for all of its water and wastewater assets, which Limestone asserted would simplify its books and records and the ratemaking process going forward.¹⁰³ To forecast depreciation expense, the Company began with the Test Year general ledger asset balance at April 30, 2024, applied the Company's newly proposed depreciation rates, and then adjusted for the known overall asset balance difference.¹⁰⁴

The Consumer Advocate did not oppose the Company's proposal regarding its depreciation expense.¹⁰⁵ However, Consumer Advocate witness, Clark Kaml, testified that Limestone used an average service life of 10 years for both Supply Mains (account 309.001) and Hydrants (account 335.00), while these assets were long-lived item with traditional life expectancies of closer to 50 years or more.¹⁰⁶

¹⁰¹ See Atch. 2, Commission Water Exhibit – Sched. 5.

¹⁰² Brent Thies, Pre-Filed Direct Testimony, Exhs. BT-3.2, BT-6.2 (July 16, 2024).

¹⁰³ *Id.* at 27.

¹⁰⁴ *Id.*

¹⁰⁵ David N. Dittmore, Pre-Filed Direct Testimony, Water Exh. Sched. 5 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, Water Exh. Sched. 5 (December 19, 2024). *See also* Dittmore Correction Supplement, Water Exh. Corrected Sched. 5 (February 20, 2025).

¹⁰⁶ Clark Kaml, Pre-Filed Direct Testimony, pp. 31-32 (December 19, 2024).

The panel calculated a depreciation expense of \$46,753. The panel found that Limestone did not provide sufficient support for its proposed consolidated depreciation rates. The panel reasoned that certain proposed depreciation rates did not appear reasonable, considering the depreciation rates approved by the Commission for comparable plant. For example, the use of an average 10-year service life for Supply Mains and Hydrants, which have traditionally much longer life expectancies, and the application of 10% depreciation rates for Supply Mains and Hydrants, which was considerably higher than a comparable water company's recently approved depreciation rates,¹⁰⁷ are examples of factors that weighed against Limestone's proposed consolidated depreciation rates. Further, the Company did not provide a depreciation study or other detailed analysis supporting its proposed changes to depreciation rates. Therefore, the panel voted unanimously that the Company shall continue to use currently approved depreciation rates and that any future proposed changes to depreciation rates should be supported by a depreciation study or other detailed analysis.

B(4). CIAC AMORTIZATION

The Company proposed its CIAC amortization as a credit expense of \$7,441. This amount represented an increase of \$356 over the CIAC incurred during the Test Year ended April 30, 2024.¹⁰⁸ To forecast CIAC amortization expense, the Company annualized the monthly CIAC amortization amount of approximately \$664 for its water system and adjusted for the known and measurable \$356 difference between the annualized amount of \$7,972 and the general ledger balance of \$7,617 on April 30, 2024.¹⁰⁹

¹⁰⁷ Tennessee-American Water Company utilizes a depreciation rate of 2.61% for Supply Mains and 2.28% for Hydrants. *See In re: Petition of Tennessee-American Water Company to Modify Tariff, Change and Increase Charges, Fees, and Rates, and for Approval of a General Rate Increase*, Docket No. 24-00032, Larry E. Kennedy, Pre-Filed Direct Testimony, Exh. LEK-2, pp. 5-2 through 5-10 (May 1, 2024).

¹⁰⁸ Brent Thies, Pre-Filed Direct Testimony, Exh. BT-3.2 (July 16, 2024).

¹⁰⁹ *Id.* at 28-29.

The Consumer Advocate recommended a CIAC amortization as a credit expense of \$14,896 for water operations.¹¹⁰ Mr. Kaml testified that this recommendation was based on the CIAC account balance for Limestone's water system at the end of the Test Year and applied an amortization rate of 5%.¹¹¹

The panel performed an independent analysis of CIAC amortization, beginning with the Company's general ledger at the end of the Test Year, April 30, 2024, and then adjusting for the difference between the panel's adopted CIAC amount. In its analysis, the panel observed that the CIAC monthly general ledger amounts for October and November 2023 were missing in Aqua's water and wastewater systems' general ledgers. However, upon analysis of the data, the panel concluded that \$633 was the correct amount for these months. After inputting \$633 for both the October 2023 and November 2023 CIAC expense, the panel yielded an overall CIAC balance at the end of the Test Year of \$7,617.¹¹²

B(5). AMORTIZATION OF REGULATORY ASSETS AND EXPENSES

B(5)a. Rate Case Expense

The Company proposed a regulatory amortization expense of \$28,800. The Company based this amount on its forecasted rate case expense of \$250,000, comprised of \$225,000 worth of legal expenses and \$25,000 worth of expenses for the Company's cost of capital study.¹¹³ Limestone requested that this \$250,000 rate case expense be amortized over a period of two years and included as a surcharge to rates once rate case expenses were approved.¹¹⁴ The Company's forecasted \$28,800 regulatory expense was computed by allocating 23% of the overall \$250,000 forecasted regulatory expense to its water operations and dividing by two.¹¹⁵

¹¹⁰ Clark Kaml, Pre-Filed Direct Testimony, pp. 23-24, Exh. CDK-11 (December 19, 2024).

¹¹¹ *Id.*

¹¹² *See* Atch. 2, Commission Water Exhibit – Sched. 5.

¹¹³ *Petition*, Coll. Exh. 1, TPUC MFG 043 (July 16, 2024).

¹¹⁴ Clare Donovan, Pre-Filed Direct Testimony, p. 17 (July 16, 2024).

¹¹⁵ *Id.* *See also* Brent Thies, Pre-Filed Direct Testimony, Exh. BT-3.2 (July 16, 2024).

The Consumer Advocate recommended excluding the Company's estimated rate case costs in their entirety from this proceeding. Mr. Dittmore expressed concerns about the excessive nature of legal costs based on a rate case of this size and the unusually short two-year amortization period that would likely result in excessive cost recovery by the Company.¹¹⁶ The Consumer Advocate recommended a separate proceeding to determine an appropriate surcharge when the actual regulatory costs associated with this proceeding were known. Mr. Dittmore asserted that the Commission could also determine an appropriate amortization period within the separate proceeding to recover those costs.¹¹⁷

Company Witness, Clare Donovan, asserted in her rebuttal testimony that the Consumer Advocate's effort to characterize rate case expense based on the number of customers a utility serves was misplaced and that many of the issues considered in a rate case and the costs associated were the same regardless of the number of customers a Company serves.¹¹⁸ The Company argued that including rate case expenses in the revenue requirement is appropriate.¹¹⁹ Ms. Donovan also asserted that, since Limestone was incurring net operating losses on the systems it acquired, it must file rate cases more frequently, making a two-year amortization period appropriate. Ms. Donovan opposed the Consumer Advocate's proposal to create another legal proceeding to recover legal fees and rate case expenses, as she believed that doing so would cause the Company to incur additional costs for such a proceeding, be administratively inefficient, and would require the Company to incur carrying costs until a subsequent proceeding was completed.¹²⁰ However, Limestone did not oppose the Consumer Advocate's proposal to collect rate case expenses through a separate surcharge. Ms. Donovan stated

¹¹⁶ David N. Dittmore, Pre-Filed Direct Testimony, p. 2 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, pp. 15-16 (December 19, 2024).

¹¹⁷ David N. Dittmore, Pre-Filed Direct Testimony, p. 2 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, p. 16-17 (December 19, 2024).

¹¹⁸ Clare Donovan, Pre-Filed Rebuttal Testimony, pp. 6-7 (January 13, 2025).

¹¹⁹ *Id.* at 7.

¹²⁰ *Id.*

that collecting rate case expense in a separate surcharge would mirror the methodology used by the Company's Texas affiliate, was not administratively inefficient, and would not likely create additional duplicative fees and costs.¹²¹

The panel determined that it is appropriate to exclude Limestone's requested rate case expenses from base rate calculations and to instead recover incurred rate case expenses through a separate surcharge to customer bills, which would terminate after authorized costs have been recovered. Thus, the panel calculated a rate case amortization expense of \$0.

The panel voted unanimously to commence the rate case surcharge after the rate case concluded, and the amount of the surcharge would be based on the Company's initial estimated rate case cost of \$250,000, amortized over three years. The panel further determined that the surcharge should only be charged to current customers within the systems included in this rate case. Further, the panel directed that the amount to be recovered by the Company through this customer surcharge should not exceed the \$250,000 requested by Limestone, and the Company must file invoices supporting the requested rate case expenses by July 1, 2025, for consideration by the Commission. Any over- or under-collection of approved rate case expenses would be reconciled at the end of the three-year amortization period. While rate case expenses may be recovered through base rates, given the significant rate increase proposed by the Company in this case, the panel found that it was more appropriate to begin recovery of these expenses at currently estimated costs through a separate surcharge to customer bills. This approach allowed for a true-up of collections and termination of the surcharge once the actual rate case expenses have been authorized and fully recovered. The panel ordered Limestone to file a tariff to include the proposed surcharge to customer bills based upon the following criteria: the estimated rate case cost of \$250,000, current customer billing determinants for the systems included in this rate case, and an amortization period of three years.

¹²¹ *Id.* at 8-9.

Further, in accordance with TPUC rule 1220-04-01-.10, the panel directed the Company to begin filing quarterly reports (TRA-3.07) with the Commission within 60 days after the end of the month covered by the report. The panel also ordered Limestone to include an additional line item within this quarterly report that details the dollar amount of rate case expense that has been recovered through the rate case expense surcharge to customer bills. By requiring Limestone to report to the Commission the amount of rate case expense it has recovered, the Commission can monitor the rate of this recovery and potentially decrease the surcharge if the Company is projecting to significantly over-collect the actual rate case expense incurred at the end of the three-year amortization period. This reporting requirement will also allow the Commission to ensure that the surcharge is terminated when the Company recovers the entirety of its actual incurred rate case expense.

B(5)b. Acquisition Premiums and Transaction Costs

On February 25, 2025, Limestone filed an updated revenue requirement schedule in response to Commission Staff's January 31st, 2025, data request.¹²² The updated schedule incorporated the Company's requested recovery of transaction and acquisition adjustment costs from ratepayers. For water operations, the Company seeks to recover \$446,137 worth of water acquisition adjustment costs over a 20-year amortization period. In addition, the Company also seeks to recover \$118,100 worth of transaction costs for water operations over a 30-year amortization period.¹²³

Clark Kaml argued on behalf of the Consumer Advocate to disallow all acquisition premiums. Therefore, the Consumer Advocate included \$0 for recovery of transaction and acquisition cost adjustments.¹²⁴

¹²² Post-Hearing Updated Response to Data Request, DR BT-1.2, Detail (February 25, 2025).

¹²³ *Id.*

¹²⁴ Clark D. Kaml, Pre-Filed Direct Testimony, pp. 11-12 (December 19, 2024). *See also* Dittmore Correction Supplement, Corrected Water Exh. Sched. 2, 3 (February 20, 2025).

Based on the panel's analysis and findings set forth in the Water Rate Base section of this Order, the panel voted unanimously to adopt annual amortization expenses of \$16,730 for recovery of authorized deferred acquisition premiums and \$8,430 for recovery of authorized deferred transaction costs.

B(6). INCOME TAX EXPENSE

Limestone is organized as a limited liability company; however, it has elected treatment as a C-Corporation for federal and state tax purposes. Thus, the entity is required to file Form 1120 annually with the Internal Revenue Service.¹²⁵ The Company's statutory income tax rates are 21% for federal income and 6.5% for Tennessee state corporate income.¹²⁶ The panel calculated federal income tax and state excise tax expenses based on the panel's adopted revenues at ordered rates, expenses including interest expense, other taxes, depreciation and amortization, and weighted cost of capital as applied to net rate base. The panel voted unanimously to adopt a State Excise Tax of -\$21,770 and a Federal Income Tax of -\$65,761 based upon this calculation.

C. WASTEWATER EXPENSES

This category represents Limestone's expenses associated with maintaining and operating the sewer utility to deliver reliable wastewater services to Tennessee customers. The Company projected \$2,405,623 in pro forma sewer operating expenses for the 12 months ending April 30, 2024.¹²⁷ The Consumer Advocate proposed adjusted operating expenses of \$1,736,467 based on the reconciled Test Year balance, resulting in a difference of \$722,726 compared to the Company's proposed pro forma year operating expenses.¹²⁸

¹²⁵ Brent Thies, Pre-Filed Direct Testimony, p. 30 (July 16, 2024).

¹²⁶ *Id.*

¹²⁷ *See* Attach. 3, Commission Wastewater Exhibit – Sched. 6.

¹²⁸ *Id.*

The panel calculated overall Operating Expense of \$2,071,800, which was \$333,823 lower than the Company's proposed amount and \$335,333 higher than the amount recommended by the Consumer Advocate. The differences were largely driven by dissimilar positions taken by each Party for G&A expenses, depreciation, CIAC amortization, and amortization of regulatory assets and expenses.

C(1). GENERAL & ADMINISTRATIVE EXPENSE

The Company proposed a pro forma G&A expense for Sewer operations of \$525,971, which was \$99,357 lower than the Test Year ending balance.¹²⁹ The reduction primarily resulted from removing a one-time loss on the disposal of utility properties and corrections to the customer billing services costs.

The G&A expense mainly consisted of jointly billed costs and overhead charges allocated to Limestone by its parent company, CSWR. Jointly billed costs were not recorded on CSWR's books; rather, they were billed to CSWR and were directly charged to its subsidiaries.¹³⁰ According to Ms. Donovan, certain expenses, such as advertising, lobbying, and charitable donations, were excluded from the overhead allocation and were not charged to Limestone.¹³¹ Overhead Charges were allocated based on CSWR's cost allocation manual ("CAM"), which used three factors: operating expense, customer count, and utility plant in service. From the second quarter of 2023 to the second quarter of 2024, Limestone's share of CSWR's total overhead ranged from 2.5% to 2.1%. In this proceeding, the total amount of overhead costs allocated to Limestone for Sewer is \$302,373.¹³² With respect to the DSH System, Ms. Donovan testified that the expenses for the DSH system were annualized using

¹²⁹ Brent Theis, Pre-Filed Direct Testimony, BT. 2.1 (July 16, 2024).

¹³⁰ Limestone Response to First Set of Discovery Requests of the Consumer Advocate, 1-29(a) (October 31, 2024).

¹³¹ Clare Donovan, Pre-Filed Direct Testimony, p. 13 (July 16, 2024).

¹³² *Id.* at 14.

three months of actual expenses incurred from February to April 2024, as the system was acquired in January 2024, with the Test Year ending in April 2024.¹³³

The Consumer Advocate, combined G&A expenses with O&M expenses and recommended reducing the Test Period total O&M expenses by \$28,597.¹³⁴ This reduction included (1) the Company's proposed known and measurable adjustment of net \$1,164, (2) a \$17,422 reduction resulting from a comparison of the per book balance provided in informal discovery to the Company's O&M pro forma expense workpaper, schedule 3.1, and (3) a \$12,339 reduction associated with Service Company allocation costs unrelated to utility service expenses.¹³⁵

Ms. Donovan accepted most of the Consumer Advocate's adjustments.¹³⁶ However, the Company rejected the removal of allocated charges from the Service Company to Limestone Water in Account 772-Admin Expense Transferred. The Consumer Advocate removed those expenses on a basis that those expenses were not related to the provision of utility services.¹³⁷ The Company asserted that the Consumer Advocate's adjustment excluded necessary depreciation expense for office furniture, computers, and other office items allocated by the parent company.¹³⁸

The panel accepted the Company's proposed known and measurable G&A expense reduction of \$99,357 from the Company's general ledger data, as this reduction primarily reflected the removal of a non-recurring loss on the disposal of utility properties, which should be normalized, and a correction to the customer billing service cost. The correction, which resulted in a 40% reduction in the billing costs, was supported by the Company's analysis. In addition, the panel reduced the Service Company allocation costs by \$10,664.91 to exclude items unrelated to utility service expenses,

¹³³ *Id.* at 9.

¹³⁴ David N. Dittmore, Pre-Filed Direct Testimony Adopting the Pre-Filed Direct Testimony of Alex Bradley with Corrections, p. 2 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, pp. 9-11 (December 19, 2024).

¹³⁵ *Id.*

¹³⁶ Clare Donovan, Pre-Filed Rebuttal Testimony, p. 4 (January 13, 2025).

¹³⁷ David N. Dittmore, Pre-Filed Direct Testimony Adopting the Pre-Filed Direct Testimony of Alex Bradley with Corrections, p. 2 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, p. 8, 11 (December 19, 2024).

¹³⁸ Clare Donovan, Pre-Filed Rebuttal Testimony, p. 5 (January 13, 2025).

stemming mainly from the Consumer Advocate's proposed adjustment related to transferred administrative expenses, while accepting the depreciation expense related to regular office furniture and equipment and reclassifying misreported other income out of expenses. A total of 77% of the expense reduction resulting from this adjustment was allocated to sewer operations, while the remaining was assigned to water operations. Using the analysis presented above, the panel calculated the Company's adjusted Test Year G&A expense at \$515,326.

C(2). OPERATIONS & MAINTENANCE

Limestone does not employ direct operation staff for water or sewer services. Daily O&M are contracted to third-party companies, and the contract management is handled by employees of its parent company, CSWR. The contracted O&M costs are directly incurred by Limestone.¹³⁹ The Company proposed a pro forma O&M expense for sewer of \$1,050,069, which was an \$82,492 increase from the test year unadjusted amount.¹⁴⁰ This increase was primarily attributed to a significant rise in service contract rates.

While no cost adjustment was proposed by the Consumer Advocate, Mr. Novak raised concerns about exclusively relying on third-party contractors, noting that the Company had not provided a quantitative cost-benefit analysis comparing third-party contractors to direct employees. Mr. Novak asserted the comparison of operations provided by the Company was insufficient to demonstrate the cost-effectiveness of its approach.¹⁴¹ Mr. Novak recommended the Company strike a balance between using third-party contractors and direct employees.

In its rebuttal testimony, the Company emphasized that previous studies conducted for other CSWR affiliates demonstrated that hiring employees for internalized operations was significantly more costly than third-party contracting. The Company asserted that transitioning to hiring employees

¹³⁹ Todd Thomas, Pre-Filed Direct Testimony, pp. 7-8 (July 16, 2024).

¹⁴⁰ Brent Theis, Pre-Filed Direct Testimony, BT. 2.1 (July 16, 2024).

¹⁴¹ William H. Novak, Pre-Filed Direct Testimony, pp. 14-16 (December 19, 2024).

for internalized operations in Tennessee was not economically feasible because the operation level does not support the costs of maintaining an internalized team.¹⁴²

The panel accepted the Company's proposed known and measurable O&M expense increase of \$82,492 above the Company's general ledger data and accepted the Company's adjusted Test Year O&M expense to be \$1,050,069.

C(3). DEPRECIATION

Limestone has proposed a pro forma depreciation expense of \$465,940, reflecting a \$22,495 increase from the Test Year-end balance.¹⁴³ This increase was entirely attributed to a change in depreciation rates. The Company's pro forma forecast was developed by multiplying proposed depreciation rates by the Test Year general ledger asset balance as of April 30, 2024, for each plant account.

Mr. Thies testified that the depreciation rates currently used by Limestone were consistent with the rates approved by the Commission in previous acquisition proceedings. The Company proposed to maintain consistency by using depreciation rates previously approved by the Commission for acquired systems while implementing a unified set of depreciation rates for both water and wastewater assets as it simplifies the ratemaking process.¹⁴⁴ The Cartwright Creek system stopped recording depreciation expenses after the acquisition as a result of Cartwright Creek's 2016 staff-assisted rate case amid party staff testimony that all the utility plant assets were fully depreciated.¹⁴⁵

The Consumer Advocate agreed with the Company's depreciation calculation was accurate. However, Mr. Kaml highlighted concerns regarding the average service life the Company used for Supply mains (Account 309.001) and Hydrants (Account 335.00), expressing that the service lives

¹⁴² Mike Duncan, Pre-Filed Rebuttal Testimony, pp. 6-9 (January 13, 2025).

¹⁴³ Brent Theis, Pre-Filed Direct Testimony, BT. 2.1 (July 16, 2024).

¹⁴⁴ Brent Thies, Pre-Filed Direct Testimony, p. 27 (July 16, 2024).

¹⁴⁵ *Id.* at 29.

are shorter than normal. The Company used 10-year service lives, while both are assets with a life expectation of 50 years or more. According to Mr. Kaml, the Company used rounded figures in its depreciation expense calculation, which led to inaccuracies in both depreciation rates and depreciation expenses.¹⁴⁶

The panel did not accept the Company's proposed level of depreciation expense. In this docket, the Company proposed implementing a unified set of depreciation rates, which produced an increase of \$22,495 in adjusted Test Year depreciation expense for wastewater. However, the Company did not provide a depreciation study or any additional supporting documentation to justify the proposed rates. Furthermore, as noted by the Consumer Advocate, the proposed service lives for some assets appeared to be shorter than industry norms. Due to the Company's lack of support for the proposed consolidated depreciation rates, the panel voted unanimously that the Company shall continue using currently approved depreciation rates and any future proposed changes to depreciation rates should be supported by a depreciation study or other detailed analysis. Based on the Company's general ledger data and currently approved rates, the panel calculated the Company's adjusted Test Year depreciation expense to be \$443,445.

C(4). CIAC AMORTIZATION

CIAC represents non-refundable funds or property contributed by third parties. Limestone has proposed amortizing CIAC-related assets over the same period that investor-owned assets are depreciated.¹⁴⁷ Additionally, the Company recommended a pro forma CIAC amortization of \$26,441, representing a \$22,495 increase from the test year ending balance. The forecasted pro forma balance was calculated by multiplying the Test Year general ledger gross CIAC balance as of April 30, 2024, by the Company's proposed depreciation rates.

¹⁴⁶ Clark D. Kaml, Pre-Filed Direct Testimony, pp.5-9 (January 13, 2025).

¹⁴⁷ Brent Thies, Pre-Filed Direct Testimony, pp. 28-29 (July 16, 2024).

Mr. Thies testified that the Cartwright Creek system stopped recording CIAC amortization because the 2016 Cartwright Creek's rate case Commission Order specified that all the utility plant was fully depreciated and prohibited the inclusion of depreciation or CIAC amortization in the cost of service. The Company acknowledged a challenge in determining the proper CIAC balance after it stopped recording the associated amortization and therefore proposed a correction to Cartwright Creek's CIAC balance by amortizing the associated CIAC assets for Cartwright Creek using an average amortization rate of 5%.¹⁴⁸

The Consumer Advocate agreed with the Company's approach to computing CIAC amortization and the proposed 5% amortization rate but proposed a different pro forma CIAC amortization of \$293,174.¹⁴⁹

The panel adopted a calculation of the Company's adjusted Test Year CIAC amortization expense of \$25,441, a calculation based on data supported by the Company's general ledger and the current CIAC amortization rates approved by the Commission for the acquired systems. Beginning with the Test Year CIAC amortization for all service areas totaling \$189,090 for wastewater, the panel excluded the Cartwright Creek service area's CIAC amortization of \$163,650. Both the Company's testimony and its supporting workpaper demonstrated that the Cartwright Creek system was fully depreciated at the time of acquisition, and no depreciation expenses were reported for this system during the Test Year period. CIAC amortization is presented as a negative amount in the revenue requirement computation model to offset the depreciation expenses; therefore, when no depreciation was incurred, the associated CIAC amortization should also be excluded.

The Company's workpaper excluded CIAC amortization for both Cartwright Creek and Shiloh Falls and applied an annualization adjustment based on April 2024 monthly CIAC

¹⁴⁸ *Id.* at 29.

¹⁴⁹ Clark D. Kaml, Pre-Filed Direct Testimony, pp. 22-23 (December 29, 2024).

amortization. A review found the Company reported the standard depreciation expenses for the Shiloh Falls system; however, the expense description did not clarify whether the depreciation was related to CIAC-funded assets. Further, the panel's ratio analysis also did not support the conclusion that CIAC-related depreciation was excluded from the Company's general ledger balance. Based on this analysis, the panel rejected the Company's exclusion of Shiloh Falls CIAC amortization.

Additionally, the panel disagreed with the annualization of CIAC amortization because the Company's general ledger shows CIAC amortization was recorded consistently throughout the Test Year. In addition, CIAC amortization corresponds directly with asset depreciation, and the Company did not annualize depreciation; hence, annualizing CIAC amortization would misalign two closely related expense accounts. The Consumer Advocate proposed calculating CIAC amortization using the April 2024 CIAC ending balance with a 5% amortization rate. This 5% amortization rate was initially proposed by the Company for the Cartwright Creek system, but no supporting documentation was provided to justify this rate. Furthermore, the CIAC ending balance used by the Consumer Advocate did not exclude fully depreciated assets from the Cartwright Creek system. Therefore, the panel rejected the Consumer Advocate's proposed methodology.

C(5). AMORTIZATION OF REGULATORY ASSETS AND EXPENSES

C(5)a. Rate Case Expense

Section B(5)(a) of this order discusses the record relating to rate case expense and the panel's ultimate decision with respect to this issue.

C(5)b. Acquisition Adjustments and Transaction Costs

As requested by Commission Staff at the rate hearing, Limestone updated its response to Commission Staff's January 31, 2025, Data Request No. 6 on February 25, 2025.¹⁵⁰ The updated filing incorporated the Company's proposed recovery of both transaction costs and acquisition

¹⁵⁰ Company Further Revised Sched. DR-6-Revenue Requirement Impact (February 27, 2025).

adjustments from ratepayers. For wastewater operations, the Company sought to amortize \$1,745,431 in acquisition adjustments over a 20-year period and to amortize \$426,354 in transaction costs over a 30-year period. These adjustments collectively increased the Amortization of Regulatory Asset Expenses for wastewater operations from \$96,200 to \$390,084. Based on the panel's decisions set forth in the Wastewater Rate Base section of this order, the panel voted unanimously to adopt annual amortization expenses of \$59,898.14 for recovery of authorized deferred acquisition adjustments and \$28,502.60 for recovery of authorized deferred transaction costs.

C(6). INCOME TAX EXPENSE

Limestone elected to be classified as a C-Corporation for federal and state tax purposes. The applicable income tax rates are 21% for federal corporate income tax and 6.5% for Tennessee state excise tax. The Company determined its gross income by applying an income conversion factor of 1.35 to net income, which includes federal and state income tax as well as a 1% allowance for bad debt.¹⁵¹ The Consumer Advocate recommended negative income tax in computing the adjusted expenses.¹⁵² The Company disagreed with the Consumer Advocate's method of computing negative federal and state income tax based on a computed net operating loss at current rates.

Mr. Thies asserted that although the Company had a loss, this did not result in a tax credit and the tax paid would simply be zero. The Company asserted that the Consumer Advocate incorrectly assumed a tax credit refund from the taxing entities.¹⁵³ Interest Expense was included as a component in the calculation of income tax. Neither Limestone nor CSWR has held any long-term or short-term

¹⁵¹ Brent Thies, Pre-Filed Direct Testimony, p. 30 (July 16, 2024).

¹⁵² David N. Dittmore, Pre-Filed Direct Testimony of David N. Dittmore Adopting the Pre-Filed Direct Testimony of Alex Bradley with Corrections, p. 2 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, pp. 10-15, AB-1.1 Sched. 8 (December 19, 2024).

¹⁵³ Brent Thies, Pre-Filed Rebuttal Testimony, pp. 21-22 (January 13, 2025).

debt over the past two years.¹⁵⁴ The Consumer Advocate, however, adjusted interest expense by using long-term debt costs and the original cost rate base.¹⁵⁵

The panel calculated the Company's adjusted Test Year Interest Expense by applying the panel's weighted cost of debt to the panel's net rate base determination. Interest Expense was used as a deduction to arrive at taxable income. For the federal income tax and state excise tax expense calculations, the panel applied the same methodology used in prior rate cases and used by the Consumer Advocate and based the panel's income and excise tax expenses, revenues at proposed rates, expenses including interest expense, other taxes, depreciation and amortization, and weighted cost of capital as applied to net rate base. The panel calculated federal income taxes of -\$135,996 and excise taxes of -\$45,020 for ratemaking purposes.

D. WATER RATE BASE

Rate Base is the total of the investor-funded or supplied plant, facilities, and other investments used by the utility in providing service to its customers. It is the investment base to which a fair rate of return is applied to arrive at the net operating income requirement. Since Limestone operates water and wastewater utilities, the Parties each presented distinct water and wastewater rate base proposals, which were considered separately by the Commission.

The Company proposed a water-related rate base of nearly \$1.5 million, which is its balance as of April 30, 2024, including its proposed deferred acquisition adjustments and transaction costs.¹⁵⁶ The Consumer Advocate recommended approving \$754,949 as the Company's rate base, with the difference attributed to the Consumer Advocate's recommended disallowance of acquisition

¹⁵⁴ *Petition*, Coll. Exh. 1, TPUC MFG 066 (July 16, 2024).

¹⁵⁵ David N. Dittemore, Pre-Filed Direct Testimony of David N. Dittemore Adopting the Pre-Filed Direct Testimony of Alex Bradley with Corrections, p. 2 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, Consumer Advocate Exhibit AB-1.1, Limestone Wastewater Consumer Advocate Revenue Requirement, Sched. 10 (December 19, 2024) (confidential).

¹⁵⁶ Limestone Water Utility Operating Company, LLC's Updated Response to Staff's January 13, 2025 Data Request No. 6 (February 25, 2025).

adjustments and deferred transaction costs for recovery, and proposed a \$133,458 reduction in the Company's land and land rights value.¹⁵⁷ The panel adopted a net rate base amount of \$1,255,786.¹⁵⁸ The discussion below includes the Parties' proposals in each category that comprises water rate base and the amounts adopted by the panel.

D(1). UTILITY PLANT IN SERVICE ("UPIS")

Like its sewer operations, Limestone uses historical accounting data as of April 30, 2024, to value its water-related rate base in this proceeding. The Company's \$1,688,819 gross valuation of UPIS includes the original cost of each acquired water system and post-acquisition improvements that it describes as necessary for providing safe and reliable water services.¹⁵⁹ The UPIS includes the acquisition asset values and construction costs associated with improvements completed through the end of the test year. Furthermore, UPIS for the historic test period reflects all systems acquired as of April 30, 2024. The Company has also provided a breakdown of this amount into plant classifications based on system territory.¹⁶⁰ Finally, the Company presented monthly trial balance data to support its summarized accounting valuations.¹⁶¹

Most of the Company's UPIS has been acquired through asset sales agreements authorized by the Commission in previous dockets. Limestone relied on the prior records and documentation of its acquired assets' original costs. For some UPIS assets, the Company utilized a process of determining test period values that included examining the respective historical net book values of acquired assets from the records provided by previous owners and annual reports filed with the Commission by

¹⁵⁷ David N. Dittmore, Pre-Filed Direct Testimony of David N. Dittmore Adopting the Direct Testimony of Alex Bradley with Corrections, Consumer Advocate Water Exh. Sched. 5 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, Consumer Advocate Exhibit AB-1.2, Water Exh. Sched. 5 (December 19, 2024). *See also* Letter to Supplement the Dittmore Testimony and Workpapers filed February 6, 2025, Corrected 1.2 Limestone Water Exh., Corrected Sched. 5 (February 20, 2025).

¹⁵⁸ *See* Atch. 2, Commission Water Exhibit – Sched. 5.

¹⁵⁹ Brent Thies, Pre-Filed Direct Testimony, p.10 (July 16, 2024).

¹⁶⁰ Response of Limestone to Informal Discovery from the Consumer Advocate. Exh. BT-10.2 (August 27, 2024).

¹⁶¹ Limestone Responses to Consumer Advocate's Informal Data Requests, Updated TPUC MFG 010 (August 27, 2024).

regulated potable water companies to derive initial plant values.¹⁶² Limestone then adjusted annual report balances for any known and measurable changes after the report and used the adjusted values to create acquisition date accounting entries on its books.¹⁶³ For its acquisition of the previously unregulated Candlewood Lakes water system, Limestone relied on financial and asset documentation from the owners' association, which was the system's previous owner and operator.¹⁶⁴

The Consumer Advocate disagreed with the Company's valuation of the water-related portion of UPIS that specifically pertained to land and land rights. Mr. Kaml asserted that Limestone's proposed values in this account are higher than those reported in other sources and cited two reasons for disallowing the values that Limestone used.¹⁶⁵ First, he stated that a fundamental premise of the rate base rate of return methodology is the use of original (historical) cost, limiting rate base to the cost of acquiring assets less depreciation, rather than current market value or replacement cost. Mr. Kaml emphasized that this method is straightforward and transparent, ensuring that customers pay for costs incurred by a service provider only once and in the amount of the actual costs.¹⁶⁶

Second, Mr. Kaml stated that the Company did not provide any information suggesting alternative uses for its land other than operating the utility and argued that, in the absence of an alternative use, there is no basis for increasing its land values above their acquired book values.¹⁶⁷ Mr. Kaml states that the Company's entries to increase its land values represent "a writeup without any actual capital investment, in which case there should not be an increase in value."¹⁶⁸ Consequently, Mr. Kaml recommended lowering the Company's water-related land and land rights account valuation, resulting in a recommended \$1,555,361 adjusted gross UPIS.¹⁶⁹

¹⁶² Brent Thies, Pre-Filed Direct Testimony, p.11 (July 16, 2024).

¹⁶³ *Id.*

¹⁶⁴ *Id.* at 12-13.

¹⁶⁵ Clark D. Kaml, Direct Testimony, pp. 11-12 (December 19, 2024).

¹⁶⁶ *Id.* at 13.

¹⁶⁷ *Id.* at 14.

¹⁶⁸ *Id.*

¹⁶⁹ *Id.* at 15, 48, Confidential Workpaper 3.05 (December 19, 2024).

In his rebuttal testimony, Mr. Thies stated that the increases Limestone made to land and land rights represent costs for surveys, easements, and other land rights. Mr. Thies noted that the valuation of the Company's land and land rights account does not remain static, and that the USOA specifically allows recording of various costs to land accounts, such as those associated with surveys, titles, easements, and other land rights, to USOA water account 303, Land and Land Rights. Mr. Thies explained that the Company has recorded legitimate transactions expressly provided for by USOA instructions and concluded by attesting that any resulting increases are not inappropriate, as suggested by the Consumer Advocate.¹⁷⁰

The panel reviewed the Company's gross water-related UPIS balance, which was presented in the Company's original filing information. In its review, the panel noted that charges to the Company's land accounts increased these accounts above the net book values of the two water systems included in this rate case. The Company provided details about the charges added to its land accounts, breaking down the expenses for closing costs, engineering survey costs, and real estate legal costs. The panel carefully examined these costs and found that they include expenses for closing, titling, property appraisals, engineering surveys, mapping/drafting reports, and easements.

While the panel acknowledged that the USOA generally allows these types of charges to be made to a water utility's land accounts, based upon review of the Company's documentation supporting these additions to land and land rights account, the panel concluded that these expenditures are transaction costs that should be governed by the Commission Utility Acquisitions Rule on Regulatory, Transaction and Closing Costs.¹⁷¹ Transaction costs include both due diligence costs, which are incurred to evaluate the viability of an acquisition, and closing costs, which are incurred to facilitate an acquisition transaction once the decision is made to pursue it. The panel found that the

¹⁷⁰ Brent Thies, Pre-Filed Rebuttal Testimony, pp. 2-4 (January 13, 2025).

¹⁷¹ Tenn. Comp. R. & Regs. 1220-04-14-.06.

Company's engineering survey costs, mapping/drafting costs, and easement-related costs qualify as due diligence and acquisition-related costs. The Company's actual closing-related fees, title-related costs, and property appraisal costs represent facilitative costs, often described as closing costs. The panel determined that the specific requirements of its Utility Acquisition Rule should be applied rather than the more general principles of the USOA for these costs. Under TPUC Rule 1220-04-14-.06, the panel concluded that these expenses should be classified as proposed transaction costs instead of additions to the land and land rights accounts. As a result, the panel removed the \$133,458 in land-related charges from Limestone's UPIS and added that amount to the Company's proposed transaction costs for evaluation under the Utility Acquisitions Rule discussed later herein. Based upon this adjustment, the panel approved a gross water-related UPIS amount at April 30, 2024, to be \$1,555,361.

D(2). TRANSACTION COSTS

The Company requested that the Commission consider and approve \$118,100 in water-related transaction costs for deferral to rate base and future recovery from its customers. This total includes \$103,690 in transaction costs associated with the Candlewood Lakes water system and \$14,410 related to the Aqua water system.¹⁷² Mr. Thies testified that transaction costs are important and necessary components of the costs needed to acquire a utility system and prepare it for safe and reliable operations.¹⁷³ Mr. Thies compared Limestone's transaction costs to its acquisition adjustments and proposed that these costs should be depreciated over the same depreciable life as the underlying assets.¹⁷⁴ The Company estimated that the monthly impact on an average water customer would be \$2.55 if these costs are approved with a 30-year amortization period.¹⁷⁵

¹⁷² *Id.*; Limestone Water Utility Operating Company, LLC's Response to First Set of Discovery Requests of the Consumer Advocate, p. 53 (November 1, 2024).

¹⁷³ *Id.* at 22-23.

¹⁷⁴ *Id.* at 21, n. 12.

¹⁷⁵ Limestone Water Utility Operating Company, LLC's Replacement Attachment to Response No. 6 to Commission's January 31, 2025 Data Request, p. 6 (February 27, 2025) ("Limestone February 2025 Replacement Attachment").

The Consumer Advocate acknowledged that transaction costs are usually incurred in acquisitions, but noted that the *Petition* did not include any deferred transaction costs in its proposed revenue requirement.¹⁷⁶ According to Mr. Kaml, the transaction costs that Limestone seeks to recover are unclear because the Company has combined some legal costs with systems mapping and engineering assessment costs.¹⁷⁷ Mr. Kaml cited a North Carolina docket in which a Limestone affiliate was authorized to recover only \$10,000 from over \$300,000 in requested transaction costs. Mr. Kaml concluded that the Company's transaction costs provide no direct benefit to its customers that would justify inclusion in rates. Consequently, the Consumer Advocate recommended that these transaction costs not be included in the Company's filing for deferral with subsequent recovery from its customers.¹⁷⁸

In his rebuttal testimony, Mr. Thies claimed that the Company's transaction costs, including engineering analysis costs, costs related to clearing real property title defects, and legal costs incurred for compliance with Tennessee-specific statutes, were reasonable and prudent. Further, he stated that these costs were necessary to execute the system acquisitions.¹⁷⁹ Limestone contended that its customers have benefited from the costs associated with the acquisition transactions because, as customers of distressed systems, the ratepayers have benefited from professional O&M services and prompt investments in better pumps, blowers, and other operating equipment.¹⁸⁰ In contrast, Mr. Thies asserted that the Company's shareholders have not received any noticeable benefits because most existing rates are overdue for adjustment, and post-acquisition service costs have increased due to the O&M and investments mentioned earlier.¹⁸¹ Following the Commission hearing, the Company

¹⁷⁶ Clark D. Kaml, Pre-Filed Direct Testimony, pp. 15, 21 (December 19, 2024).

¹⁷⁷ *Id.* at 18.

¹⁷⁸ *Id.* at 21.

¹⁷⁹ Brent Thies, Pre-Filed Rebuttal Testimony, pp. 4-5 (January 13, 2025).

¹⁸⁰ *Id.* at 6-8.

¹⁸¹ *Id.* at 8-9.

amended its original filing to include its requested deferred transaction costs of \$118,100 to its water-related rate base.¹⁸²

As discussed earlier in the UPIS section above, and because Commission Rule 1220-04-14-.06 provides the Commission with specific direction in its evaluation of transaction, closing, and regulatory costs, the panel combined Limestone's requested \$118,100 in water-related transaction costs with the Company's \$133,458 of water-related, post-acquisition land and land rights increases evaluation. After reviewing the underlying accounting and invoice documentation for these costs, the panel found that post-acquisition land expenditures were materially the same as the Company's proposed transaction costs. The panel further concluded that its review provided assurance that these transaction cost amounts are consistent with the source documentation in the record. The panel classified these transaction costs into three categories.

The first category includes costs incurred well after an acquisition's closing date that more closely represent operating and/or maintenance expenditures for acquired systems. The panel identified \$24,209 in water-related costs that represent day-to-day O&M expenses, which would duplicate the expenses allowed in the Company's cost of service allowance if incurred during the test period. The panel concluded that these are not related to an acquisition transaction or its closing and should not be included in the Company's rate base for subsequent recovery from customers. It is customary that such out-of-period expenditures are generally disallowed for ratemaking purposes without Commission authorization for deferral and subsequent recovery of the costs. Since no order authorized deferral and recovery for these expenses, the panel found that none of the costs in this category should be allowed for recovery from ratepayers.

The second category includes costs incurred for due diligence in the Company's evaluation and assessment of a particular acquisition's viability, generally occurring before the Company applies

¹⁸² Limestone February 2025 Replacement Attachment, p. 6 (February 27, 2025).

for acquisition approval. These costs traditionally have no direct relationship to providing utility service to customers and would occur whether or not an acquisition transaction was ultimately consummated. Commission Rule 1220-04-14-.06(5) states that regulatory, transaction, and closing costs are not recoverable where an acquisition application is withdrawn or denied, safeguarding customers from bearing the costs of the Company's exploration and research of potential investment opportunities.¹⁸³ In general, it is understood that a utility purchases a system when it identifies a benefit for its shareholders. Finally, the panel noted that although ratemaking decisions are not always treated per generally accepted accounting guidelines, due diligence costs are typically expensed as incurred rather than capitalized as an investment that provides future benefits. Upon review, the panel identified \$3,837 in water-related due diligence costs. The panel found that the Company's shareholders should bear the substantial burden of associated costs since they predominantly benefit from the due diligence activities.

The third category includes costs related to finalizing an acquisition, such as closing costs, title-related costs, land surveys, appraisals, and associated legal costs. The panel identified \$223,512 in water-related costs, most of the evaluated costs in this category. These costs represent expenses required for the Company to finalize its acquisitions. The panel found that these costs were necessary, reasonable, and prudent, finding no evidence to the contrary. Further, the Commission found the acquisitions to be in the public interest, and that the acquired customers will benefit from the tangible improvements to systems and services the Company demonstrated it has made or testified that it will make. While shareholders will receive benefits from completing the acquisitions, as evidenced by the actual acquisitions, the panel found that customers have and will gain substantial benefits from Limestone's acquisitions of these systems, as evidenced in the record more fully discussed in the

¹⁸³ Tenn. Comp. R. & Regs. 1220-04-14-.06(5).

Acquisition Adjustments section subsequently herein. Accordingly, the panel concluded that customers should bear a substantial portion of these costs.

Commission Rule 1220-04-14-06 provides that: (1) all such costs recovered from ratepayers shall be reasonable and prudent; (2) the Commission may allocate such costs between shareholders and customers based on its discretionary review of the relative benefits of the acquisition to each party; (3) the Commission may consider the affordability of post-acquisition rates in determining recoverable costs; and (4) the Commission may allow recoverable costs to be included in a regulatory asset and ratably charged to ratepayers over a reasonable period of time not to exceed 20 years.¹⁸⁴

In summary, the panel's review and analysis of supporting water-related documentation concluded that the evaluated costs of \$251,558 should be reasonably assigned to one of three categories of costs: (1) \$24,209 of the costs represents out-of-period O&M and reclassification costs that should be disallowed for ratemaking purposes and, therefore, not recovered from ratepayers; (2) \$3,837 of the costs represents reasonable and prudent due diligence costs related to acquisitions that predominately benefit shareholders; and (3) \$223,512 of the costs represent reasonable and prudent closing transaction costs for water acquisitions that resulted or will result in substantial benefits to customers.

In considering the appropriate amount of proposed, adjusted transaction costs that should be recovered from ratepayers, the panel considered the amount of the rate increase requested and the affordability of post-acquisition rates under Commission Rule 1220-04-14-.06(2). The panel concluded that the magnitude of the requested increase and the effect on the affordability of post-acquisition rates militate against allowing full deferral to the rate base and subsequent recovery of the Company's requested transaction cost.

¹⁸⁴ Tenn. Comp. R. & Regs. 1220-04-14-.06.

The panel next considered the transaction costs' benefits for acquiring small and troubled water systems. Undoubtedly, shareholders benefit from such acquisitions as the entry to or growing investment in state-regulated monopolies serving captive ratepayers. In this manner, shareholders shed much of the uncertainty inherent in the market while participating in a regulatory process that provides recoveries of reasonable costs and the opportunity to earn fair returns. However, customers have gained and will gain substantial benefits from Limestone's acquisitions of these systems, as reflected in the record of this docket and discussed more fully in the panel's decision concerning acquisition adjustments.

Recognizing that both shareholders and customers benefit from the acquisitions, the panel next considered how to reasonably share the burden of the transaction costs among shareholders and customers. To assess reasonable sharing ratios between customers and shareholders for due diligence costs and closing transaction costs, the panel looked to other sharing programs approved by the Commission. Atmos Energy Corporation ("Atmos"), Chattanooga Gas Company ("CGC"), and Piedmont Natural Gas Company ("Piedmont") have incentive programs that share income derived from marketing fallow assets or reducing gas supply costs. These programs apply ratios ranging from a 75/25 to 90/10 split among customers and shareholders.¹⁸⁵ An independent third party auditing the incentive programs has found such sharing ratios reasonable.¹⁸⁶ While the details and workings of the incentive programs for the large gas utilities share little in common with Limestone, the panel concluded that a similar apportionment reasonably reflects and accounts for the split in benefits accorded to the utility and the customers.

¹⁸⁵ See *In re: Docket to Evaluate Chattanooga Gas Company's Gas Purchases and Regulated Sharing Incentive*, Docket No. 20-00139, *Order Requiring Revised Interruptible Margin credit Rider Tariff*, p. 4 (July 25, 2022); Atmos Tariff T.P.U.C. No. 1, 6th Revised Sheet No. 45.1 (Effective March 1, 2024) and 4th Revised Sheet No. 45.2 (Effective April 1, 2016); CGC Gas Tariff TPUC No. 1, Thirteenth Revised Sheet 48 (Effective June 1, 2022); Piedmont Tariff Service Sched. 316, Fifth Revised pp. 1, 4 (Effective March 1, 2021).

¹⁸⁶ *Id.*

Adopting a 75%-25% sharing mechanism to apportion relative benefits and associated costs arising from the acquisitions in this case is reasonable and consistent with prior Commission decisions to adopt similar sharing mechanisms in other regulatory and rate-setting proceedings. Applying this mechanism to the panel's transaction costs calculations, the panel concluded that costs associated with due diligence activities, which predominantly benefit shareholders, should be shared 75% to shareholders and 25% to customers. Conversely, expenses related to finalizing and closing the acquisition transaction, which bring substantial benefits to customers, should be shared 75% to customers and 25% to shareholders.

Applying these sharing mechanisms results in a recovery of \$959 of water-related due diligence costs from ratepayers, 25% of the total \$3,837 of water-related due diligence costs. For water-related closing transaction costs, the panel found that a recovery of \$167,634, 75% of the total 223,512 water-related closing transaction costs, is reasonable and appropriate. As previously discussed, there is no recovery for the \$24,209 out-of-period O&M reclassification costs. These sharing mechanisms recover \$168,593 of water-related transaction costs, representing 67.02% of the total evaluated costs of \$251,558.

The panel unanimously voted to authorize a regulatory asset of \$168,593 to be recovered from ratepayers through straight-line amortization over 20 years. This authorization results in annual amortization expense of \$8,430, with the remaining unamortized balance of \$160,164 included as a water rate base addition in this proceeding.

D(3). ACQUISITION ADJUSTMENTS

An acquisition adjustment represents the difference between a final acquisition value and the total net book value of the underlying assets acquired. Commission Rule 1220-04-14-.01(4) defines

an acquisition adjustment as “the amount, whether positive or negative, the Commission determines should be incorporated into the acquired rate base under 1220-04-14-.04.”¹⁸⁷

Limestone requested acquisition adjustments related to five of the utility systems acquired, two of which are potable water systems.¹⁸⁸ Of the total \$2.2 million in acquisition adjustments for which the Company requested recovery from its customers, \$446,137 relates to the acquisitions of the Aqua and Candlewood Lakes potable water systems. However, acquisition adjustments were not included in rate base in the *Petition* filing.¹⁸⁹ Mr. Thies cited Commission Rule 1220-04-14-.04’s requirement that an acquisition adjustment considered for recovery from customers cannot create unjust or unreasonable rates for the acquiring utility or its customers, and the factors established by the Rule for considering an acquisition adjustment.¹⁹⁰ Mr. Thies summarized the portions of the testimonies of Company Witnesses Mike Duncan, Jake Freeman, Aaron Silas, and Todd Thomas that support recovery of the acquisition adjustment, and stated reasons for his belief that the acquisition adjustment should be granted.¹⁹¹ Mr. Thies specifically cited the financial distress of two of the acquired wastewater systems as examples of the Commission Rule factor concerning incentive for acquiring financially or operationally troubled systems.¹⁹²

Mr. Thies proposed a 20-year amortization period for these acquisition adjustments, stating that current and future customers not served by these particular systems may be impacted by the amortization of these adjustments under the Company’s consolidated rate proposal. He argued that negative acquisition adjustments should not offset positive acquisition premiums.¹⁹³ Mr. Thies estimated the impact of these amortization adjustments on its customers to be \$10.70 per month for

¹⁸⁷ Tenn. Comp. R. & Regs. 1220-04-14-.01(4).

¹⁸⁸ Brent Thies, Pre-Filed Direct Testimony, p. 13 (July 16, 2024).

¹⁸⁹ *Id.* at 13-14.

¹⁹⁰ *Id.* at 14-15.

¹⁹¹ *Id.* at 16-18.

¹⁹² *Id.*

¹⁹³ *Id.* at 18-20.

water customers. These estimated monthly increases include the impacts of annual amortization plus the allowed return associated with the unamortized adjustments balance in rate base.¹⁹⁴ As previously stated, the Company's original *Petition* calculations of revenue requirement did not include the proposed acquisition adjustment. However, the Company amended its schedules post-hearing to include these requested costs.¹⁹⁵

In support of the acquisition adjustment, Mike Duncan testified that his Compliance team has provided operational improvements to the acquired systems and brought "a level of professional management to its water and wastewater systems that is typically not available to water and wastewater systems."¹⁹⁶ Aaron Silas stated that Limestone has improved public utilities services of the acquired systems through a customer call center with 24 hour/7 day availability. Mr. Silas asserted that the customers have benefited from the acquisitions through the increased level of company communications that result from integration into Limestone's parent company's nationwide customer base.¹⁹⁷ Todd Thomas testified that improvements to the acquired systems result in reduced power, labor, and chemical costs, and lower costs, in general, from running these systems at more optimal levels.¹⁹⁸ Mr. Thomas described improvements to the Aqua water system, including water lines repairs, hydrant repair and replacement, and isolation valve repairs and replacements.¹⁹⁹ He also described repairs at the Candlewood Lakes water system that included well housing improvements, cleaning of the interior of the storage tank, system flushing, and several repairs to disinfection pumps, feed line, port, and the chlorine residual monitor.²⁰⁰ Mr. Thomas testified that these improvements in public utilities services qualify for consideration favoring recovery of the acquisition adjustment.²⁰¹

¹⁹⁴ *Id.* at 19.

¹⁹⁵ Limestone February 2025 Replacement Attachment, p. 6 (February 27, 2025).

¹⁹⁶ Mike Duncan, Pre-Filed Direct Testimony, p. 38 (July 16, 2024).

¹⁹⁷ Aaron Silas, Pre-Filed Direct Testimony, pp. 15-16 (July 16, 2024).

¹⁹⁸ Todd Thomas, Pre-Filed Direct Testimony, pp. 143-153 (July 16, 2024).

¹⁹⁹ *Id.* at 147-148.

²⁰⁰ *Id.* at 150-151.

²⁰¹ *Id.* at 146.

The Consumer Advocate argued that the Company's proposed acquisition adjustment should be excluded from rate base in toto, or if allowed, the gain on the sale should also be allocated to ratepayers.²⁰² In addition to listing the requirements and the consideration factors for evaluation of an acquisition adjustment, Mr. Kaml provided four factors that should be considered when determining the portions of gains from sold assets that should be assigned to customers for their benefit.²⁰³ In support of the disallowance of the acquisition adjustment, Mr. Kaml cited the traditional regulatory practice of using assets' original costs in rate-setting methodology. He argued that because captive utility customers provide financial security for the utility owners, ratepayers should benefit from any gain on sale that results from the sale of a rate-regulated monopoly.²⁰⁴ Based on this argument, Mr. Kaml asserted that if the Commission approves acquisition adjustments for recovery, the Commission should allocate the previous sellers' associated gains on Limestone's purchased assets to its customers' benefit as an offset.²⁰⁵

Mr. Duncan's responded to the Consumer Advocate's position, reiterating the Company's argument that its included acquisitions satisfy the six criteria associated with Commission Rule 1220-04-14-.04. Mr. Duncan asserted that the filed testimonies of Messrs. Thies, Freeman, Silas, Thomas, and himself provide sound support for satisfying the evaluation criteria for determining whether acquisition adjustments should be allowed for recovery.²⁰⁶ Further, Mr. Duncan cited decisions made in Arizona, Florida, and Texas that allowed recovery of acquisition adjustments, reports from the National Regulatory Research Institute ("NRRI"), and a treatise on public utilities accounting that support the recovery of acquisition adjustments.²⁰⁷ The NRRI report states that an acquisition

²⁰² Clark D. Kaml, Pre-Filed Direct Testimony, p. 11, (December 19, 2024).

²⁰³ *Id.* at 8-9.

²⁰⁴ *Id.* at 11-12.

²⁰⁵ *Id.*

²⁰⁶ Mike Duncan, Pre-Filed Rebuttal Testimony, pp. 9-10 (January 13, 2025).

²⁰⁷ *Id.* at 10-11, 17.

adjustment should be permitted in the special case of a small, troubled system acquisition.²⁰⁸ Mr. Duncan also recommended that the Commission reject the Consumer Advocate's suggestion of apportioning a past seller's gain on its system to the Company's customers. This action would undermine and nullify the Commission's rule.²⁰⁹ Mr. Duncan argued that if the Consumer Advocate's recommendation on the disallowance of acquisition adjustments is adopted, the result would be that investment capital would naturally flow to acquire troubled systems in states that have allowed for recovery of acquisition adjustments, away from Tennessee.²¹⁰

The panel first considered the appropriate amount of the acquisition adjustments that would be eligible for deferral and subsequent recovery. Since there are no issues concerning negative acquisition adjustments related to the water systems, the panel concluded that the net amount of all acquisition adjustments associated with the water systems included in this rate case, \$446,137, is eligible for consideration of deferral treatment.

The portion of the eligible amount that should be allowed for deferral and subsequent recovery from customers is determined by application of Commission Rule 1220-04-14-.04. The rule authorizes the Commission to incorporate an acquisition adjustment into the acquired rate base, "if the Commission determines such adjustment is warranted under the circumstances and will not result in unjust or unreasonable rates and charges for the acquiring utility or customers." The rule then lists six factors in considering whether to include an acquisition adjustment and, if warranted, what amount should be allowed for deferral and recovery. The six consideration factors listed in Commission Rule 122-04-14-.04(2) are:

- (a) Cost savings or increases resulting from consolidation of the selling utility's system into the acquiring utility's operations;
- (b) Improvements in the public utilities services resulting from the acquisition;

²⁰⁸ *Id.* at 16-17.

²⁰⁹ *Id.* at 13,18.

²¹⁰ *Id.* at 11.

- (c) Remediation of public health, safety and welfare concerns of the selling utility's system resulting from the acquisition;
- (d) Incentives for acquisition of a financially or operationally troubled system, which may be demonstrated by bankruptcy, financial distress, notice of violation, order of abatements, or inability to continue as a going concern of the selling utility;
- (e) Amount of any assets contributed or donated to the selling utility included in the proposed acquisition transaction; and
- (f) Any other measurable benefits, costs, or service changes affecting acquired and/or existing customers resulting from the acquisition.²¹¹

Factor (f) is a general consideration that provides for the evaluation of other circumstances not specifically mentioned in the rule. The parties presented evidence and arguments that focused on the specific factors but did not present evidence for evaluation under factor (f). As such, the panel did not find in the administrative record general considerations that should be evaluated under factor (f).

In addition, the panel found that factor (e) relative to the amount of assets contributed to the selling utility was inapplicable. Specifically, while the value of some contributed plant acquired by Limestone was included in rate base, CIAC accounting was used to make appropriate rate base deductions and offsets to depreciation expense for the contributed plant acquired by Limestone. Therefore, the panel found that because the contributed plant was appropriately treated according to sound ratemaking principles, the contributed assets factor provides no support either for or against recovery of an acquisition adjustment. Accordingly, the panel analyzed the recoverability of acquisition adjustments by considering the remaining four criteria established in paragraphs (a) through (d) of Commission Rule 1220-04-14-.04(2). A table summarizing the analysis of each factor relative to each of the acquired systems is Schedule 13 of Attachment 2, Commission Water Exhibit.

D(3)a. Cost Savings or Increases

Upon considering the cost savings or increases factor, the panel found no cost savings due to the consolidation into Limestone's operations that would support deferral and recovery of an

²¹¹ Tenn. Comp. R. & Regs. 1220-04-14-.04(2).

acquisition adjustment for Limestone's water systems. The Company testified that the professional operation of an acquired system has increased costs over a system that is failing and/or non-compliant because the parts of a failing system may not be using resources consumed in the normal operation of the system.²¹² Mr. Thomas further asserted that Limestone has been able to limit cost increases through access to better rates for third-party professional operators than small, independent systems can provide and by utilizing lower-cost remote monitoring of its systems instead of labor.²¹³ Mr. Thomas also stated, "[a]ny expectations of a 'cost savings' in this scenario is not realistic."²¹⁴ The Consumer Advocate argued that "Limestone has not provided any quantifiable evidence of cost savings in public utilities services for its systems."²¹⁵

The panel found no evidence in the record demonstrating cost savings for any of the acquired systems' customers. Indeed, in the last Annual Report filed by Aqua Utilities before Limestone's acquisition, the utility's water operations show a positive net operating income, demonstrating that rates were sufficient to cover its water operating expenses. Further, the Annual Report for the combined water and sewer operations of Aqua Utilities reported a modest net operating loss equivalent to 8.5% of revenues, suggesting that a substantial rate increase like the one proposed by Limestone in this case would not be warranted at that time.²¹⁶ Given the significant service rate increase proposed by the Company in this case and its acknowledgement that costs are expected to increase, the panel found that Limestone's customers have received no measurable cost-related benefits due to Limestone's acquisition of the water utility systems. Therefore, the Company should not be allowed to defer and recover any portion of its water-related acquisition costs associated with the cost savings criterion of the acquisition rule.

²¹² Todd Thomas, Pre-Filed Direct Testimony, pp. 144-145 (July 16, 2024).

²¹³ *Id.* at 10-11, 145.

²¹⁴ *Id.* at 145.

²¹⁵ *Consumer Advocate Division's Post-Hearing Brief*, pp. 37-38 (March 12, 2025).

²¹⁶ *See* Aqua Utilities 2020 Annual Report, Sched. F-3, Income Statement, on file with the Commission.

D(3)b. Improved Services

The second factor requires the Commission to evaluate any service improvements that have accrued or may accrue to customers from the acquisition. For its water system acquisitions, the Company cites the work it has already done to improve the water service for the Aqua and Candlewood Lakes systems. Limestone asserts improvements made to the Aqua Utilities water system, including repair and/or replacement of water lines, hydrants, and isolation valves, have reduced service interruptions, minimized system contamination, and reduced the time required to recover from service interruptions.²¹⁷ Similarly, the Candlewood Lakes system saw repairs to the well housing, disinfection system, storage tank, related overfill drain line and level sensors, and distribution system, which should minimize the impact of service disruptions and improve the ability to flush the system of sediment and other contaminants.²¹⁸

Limestone also asserted system improvements in the customer service aspect of the acquired systems. Mr. Silas testified that Limestone provides a 24-hour live-answering service for emergency customer calls to the acquired systems through a third-party service provider. This provider also has staff available and trained to answer service and billing questions from 7:00 a.m. to 7:00 p.m. daily.²¹⁹

The Consumer Advocate disagreed with Limestone's assertion that its acquired customers have experienced improved service from its efforts. The Consumer Advocate argued that the "numerous live customer comments and hundreds of additional written comments filed in this Docket suggest that Limestone's customers have neither seen nor felt the impacts of the improvements by Limestone since Limestone took over the systems from their original owners."²²⁰

²¹⁷ Todd Thomas, Pre-Filed Direct Testimony, pp. 147-148 (July 16, 2024).

²¹⁸ *Id.* at 150-151.

²¹⁹ Aaron Silas, Pre-Filed Direct Testimony, p. 11 (July 16, 2024).

²²⁰ *Consumer Advocate Division's Post-Hearing Brief*, p. 37 (March 12, 2025).

The panel acknowledged that the Company has made improvements in its acquired systems since taking ownership of them. The panel concluded that the Company's efforts to operationally improve and better manage these systems translate into better customer service in both the short and long terms. In addition, offering its customers a 24-hour live emergency answering service and 12-hour customer service availability each day is a significant benefit for its customers. For these reasons, the panel found that Limestone's customers have benefited and should benefit from more reliable service as a byproduct of the Company's efforts. Therefore, the panel found that the second factor favors the Company's deferral and subsequent recovery of certain related acquisition adjustment amounts.

D(3)c. Remediation of Public Health, Safety, or Welfare Concerns

For the acquisition rule's third factor, the Commission evaluated the potential remediations of public health, safety, or welfare concerns related to customers. Mr. Duncan testified that Limestone's parent company, CSWR, employs its Environmental, Health and Safety ("EHS") team to work "with the state manager, O&M contractor and CSWR engineers to maintain compliance with the Clean Water Act, Safe Drinking Water Act, and Occupational Safety and Health Administration regulatory requirements."²²¹ Among other functions, Mr. Duncan noted that its EHS team monitors and completes system compliance tasks for each Limestone system; responds to any environmental agency correspondence related to inspections, complaints, or violations; and conducts inspections both before closing on an acquisition and thereafter at least once per year to ensure compliance with governing regulations.²²² Further, Mr. Duncan pointed out that the Company has taken steps to remediate TDEC violation notices issued to the Candlewood Lakes water system for failing to provide

²²¹ Mike Duncan, Pre-Filed Direct Testimony, p. 19 (July 16, 2024).

²²² *Id.* at 19-20.

a secondary water source.²²³ Mr. Freeman testified that Limestone is designing, permitting, and drilling a secondary well to resolve the violation.²²⁴

In its post-hearing brief, the Consumer Advocate questioned the efficacy of the Company's EHS team and the team's claimed immediate benefits, noting that the Company has been issued two notices of violation from TDEC since taking ownership of Cartwright Creek's Grassland and Hideaway systems, both wastewater systems.²²⁵ Further, the Consumer Advocate cited TDEC Sanitary Survey scores both pre- and post-acquisition for the Candlewood Lakes and Aqua water systems that show no material change in sanitary scores.²²⁶ The Consumer Advocate argued that, "there has been minimal remediation of public health, safety, and welfare concerns of the selling utility's system resulting from the acquisition."²²⁷ Therefore, the Consumer Advocate urged that the Company has not met its burden of proof for recovering any acquisition adjustment related to remediating public health, safety, or welfare concerns.²²⁸

The panel recognized the Company's efforts to improve its systems' compliance with environmental regulations and protect customer health and welfare. The panel noted that the Company's EHS team has the potential to improve Limestone's water and wastewater systems, given its professionally trained staff. Conversely, the panel also acknowledged the TDEC notices of violation issued to its Grassland and Hideaway wastewater systems. Concerning its acquired water systems, the record includes evidence supporting Limestone's efforts to remediate the environmental violation at Candlewood Lakes by initiating the process of drilling the secondary well. Similarly, the panel noted the Company's efforts to remediate violations at the Aqua system. The panel found that the Company has sufficiently addressed, both through actions and planned actions, the compliance of

²²³ Todd Thomas, Pre-Filed Direct Testimony, p. 134 (July 16, 2024).

²²⁴ Jacob Freeman, Pre-Filed Direct Testimony, pp. 41-42 (July 16, 2024).

²²⁵ *Consumer Advocate Division's Post-Hearing Brief*, pp. 16-17 (March 12, 2025).

²²⁶ *Id.* at 18.

²²⁷ *Id.* at 38.

²²⁸ *Id.* at 16-19, 38-39.

its water systems with state environmental, health, and safety regulations. Therefore, the panel found that recovery of an acquisition premium is warranted under this rule criterion.

D(3)d. Incentive for Purchasing Operationally or Financially Troubled Systems

The fourth acquisition adjustment criterion for the Commission’s consideration concerns whether the acquisition adjustment costs should be allowed to be recovered from customers as an incentive for acquiring a financially or operationally troubled system. The rule states that a troubled system is evidenced by “bankruptcy, receivership, financial distress, notice of violation, order of abatement, or inability to continue as a going concern of the selling utility.”²²⁹

Mr. Duncan testified that concerning the utility systems included in this rate case, “the systems it acquired were all troubled systems.”²³⁰ Limestone also noted Candlewood Lakes’ lack of financial resources to comply with state regulations and Aqua’s extensive water loss problems.²³¹ As a result, the Company asserted that there is sufficient evidence that the acquired water systems were troubled systems and that an acquisition adjustment recovery incentive is appropriate.²³²

The Consumer Advocate disagreed with the Company and argued that determining whether a given system is technically or managerially troubled can be subjective.²³³ The Consumer Advocate asserted that the presence of a customer escrow charge, such as the escrow surcharges collected by Cartwright Creek and DSH, does not equate to a system’s financial trouble. Similarly, the performance of maintenance or repairs on a system does not automatically indicate that a system is troubled.²³⁴ Identifying “objective professional opinions of a system” to determine whether systems are troubled, the Consumer Advocate pointed out that only two of the acquired systems have previous

²²⁹ Tenn. Comp R. & Regs. 1220-04-14-.04(d).

²³⁰ Mike Duncan, Pre-Filed Rebuttal Testimony, p. 18 (January 13, 2025).

²³¹ *Limestone Water Utility Operating Company, LLC Post-Hearing Brief*, pp. 47-48 (March 12, 2025).

²³² *Id.* at 46.

²³³ *Consumer Advocate Division’s Post-Hearing Brief*, p. 15 (March 12, 2025).

²³⁴ *Id.* at 13-14.

and current formal enforcement orders, one of which is the Candlewood Lakes water system.²³⁵ However, in its post-hearing brief, the Consumer Advocate admitted that, “[g]iven the customer comments and TDEC feedback on improvements and remediation related concerns, it is safe to say that the only factor that supports Limestone’s requested recovery of some of the Acquisition Premiums is the policy incentive of the Commission to allow larger companies to rescue failing systems.”²³⁶

While it agreed that an existing escrow charge for a given system does not necessarily denote the system is struggling financially, the panel concluded that the Candlewood Lakes system is a good example of a small water utility lacking the financial resources to maintain compliance with TDEC regulations. In addition, the panel noted that Limestone has made, or is in the process of making, improvements to address excessive water loss in the Aqua water system, as well as addressing compliance with TDEC regulations. Therefore, the panel found that the Company has established that recovery of an acquisition premium under the incentive criterion of the Commission Rule is appropriate.

Considering the acquisition adjustments for deferral and recovery, the panel equally weighted each of the four applicable criteria in Commission Rule 1220-04-14-.04(2). Each of the four criterion was determined to have a value of 25% of the total proposed \$446,137 water-related acquisition adjustment. Having determined that the Company provided sufficient evidence for the improvements criterion, the remediation criterion, and the incentive criterion, but did not provide adequate proof for the cost savings criterion, the panel determined to allow the Company to recover \$334,604 acquisition adjustments for the Aqua Utilities and Candlewood Lakes water systems, 75% of the total requested acquisition adjustment.

²³⁵ *Id.* at 15.

²³⁶ *Id.* at 38.

Commission Rule 1220-04-14-.04 also considers whether allowing any part of the acquisition adjustments will result in “unjust or unreasonable” rates and customer charges.²³⁷ In its revised filing, the Company requested a \$575,061 increase in its current water-related revenues, an increase of 289%. The panel determined that this amount is a significant increase that customers will have to bear. Based on the Company’s operating costs and investments, the panel also concluded that the recommended water rate increase is large enough to warrant a significant phase-in period to alleviate customer rate shock concerns. Therefore, the panel found that a 20-year amortization is a reasonable recovery period for the acquisition adjustment.

Based upon these findings, the panel included the first year’s amortization in the cost of service of \$16,730. As a result, the panel included \$317,873 in the Company’s rate base as a regulatory asset related to the unamortized water-related acquisition adjustment balance.

D(4). CASH WORKING CAPITAL (“CWC”)

CWC refers to cash needed on hand to fund the Company’s daily operating needs for the time between payment of operational expenses and receipt of customer payments for services rendered. Limestone proposed a CWC of \$39,210 for its water operations.²³⁸ This number is derived from the Company’s proposed water-related operations and maintenance expenses of \$318,040. The Company computed its average daily expenses by dividing \$318,040 by 365 days, then multiplying the daily amount by 45 lag days to arrive at its CWC proposal.²³⁹ The Consumer Advocate did not present any proposed adjustments to the Company’s recommended CWC balance for its water operations.²⁴⁰ Consequently, CWC is not a disputed issue.

²³⁷ Tenn. Comp. R. & Regs. 1220-04-14-.04(1).

²³⁸ Brent Thies, Pre-Filed Direct Testimony, pp. 23-34, Exh. BT-13.2 (July 16, 2024).

²³⁹ *Id.*

²⁴⁰ Clark D. Kaml, Pre-Filed Direct Testimony, p. 32 (December 19, 2024).

The panel accepted the Company's proposed methodology for calculating CWC, including excluding operating expenses labeled as G&A, depreciation, and taxes, and using the 45-day convention, which is widely used in rate making for estimating CWC without a costly lead/lag study. The panel found the methodology and the resulting calculation of the proposed CWC to be reasonable. Therefore, the panel voted to approve \$39,210 of water-related cash working capital.

D(5). PREPAID EXPENSES

Prepaid expenses refer to cash paid in advance for expenses before receiving any associated benefits. Examples of such expenses include subscription services, insurance, and certain regulatory fees.²⁴¹ Because the Company pays these expenses from investor-supplied capital, it proposed including them in its rate base to compensate its investors fairly. In its filing, the Company proposes \$902 for prepaid water-related expenses.²⁴² The Consumer Advocate did not dispute the Company's prepaid expenses.²⁴³

Typically, a company's prepaid expenses are included in CWC. However, in this case, Limestone used an estimated CWC based upon a subset of its overall operating expenses, excluding its adjusted G&A expenses. The panel found that the Parties' agreed approach on prepaid expenses and the amount proposed were reasonable. Therefore, the panel unanimously approved the Company's proposed \$902 in prepayments for its water-related rate base.

D(6). ACCUMULATED DEPRECIATION

Accumulated depreciation is an offset to rate base resulting from the cumulative reduction of the value of an asset that the utility has already recovered from ratepayers. The Company attested that its \$673,587 proposed water-related accumulated depreciation valuation consists of historical

²⁴¹ Brent Thies, Pre-Filed Direct Testimony, p. 24 (July 16, 2024).

²⁴² *Id.*

²⁴³ Clark D. Kaml, Pre-Filed Direct Testimony, p. 32 (December 19, 2024).

depreciation taken as of April 30, 2024.²⁴⁴ Mr. Thies explained that, when available, the Company carried forward into Limestone's books the original balances of accumulated depreciation associated with assets acquired from prior owners. Further, Mr. Thies testified that acquired assets and any post-acquisition improvements have been depreciated according to rates presented in the acquisition application and, in the case of regulated systems, the rates established previously by the Commission.²⁴⁵ In support of its proposed accumulated depreciation, Limestone provided a breakdown of its proposed amount of accumulated depreciation, disaggregated into sub-accounts,²⁴⁶ and monthly trial balance data to support its summarized accounting valuations.²⁴⁷

The Consumer Advocate did not propose any adjustments to Limestone's \$673,587 valuation of water-related accumulated depreciation.²⁴⁸ While the Consumer Advocate expressed concerns about the life expectancies of certain assets on the depreciation schedule and the Company's rounding of depreciation rates, neither resulted in a recommended adjustment to Limestone's accumulated depreciation.²⁴⁹

The panel found that the amount of accumulated depreciation is undisputed. The panel verified the Company's water-related accumulated depreciation by using information provided in the Company's schedule, which provided a breakout by system and subaccount for its proposed water-related accumulated UPIS depreciation and the Company's trial balance information. For these reasons, the panel unanimously approved the Parties' agreed-upon \$673,587 for the Company's April 30, 2024, water-related accumulated UPIS depreciation balance.

²⁴⁴ Brent Thies, Pre-Filed Direct Testimony, p. 25, Exh. BT-11.2 (July 16, 2024).

²⁴⁵ *Id.* at 25.

²⁴⁶ *Id.* at Exh. BT-11.2.

²⁴⁷ Limestone Responses to Consumer Advocate's Informal Data Requests, Updated TPUC MFG 010 (August 27, 2024).

²⁴⁸ Clark D. Kaml, Pre-Filed Direct Testimony, pp. 31-32 (December 19, 2024).

²⁴⁹ *Id.*

D(7). CONTRIBUTIONS IN AID OF CONSTRUCTION

CIAC represents non-refundable assets received by the utility from a third party. Since CIAC does not represent investor-funded capital investment, its net value is deducted from the overall used-and-useful Company asset values in the calculation of the Company's rate base. The Company proposed a water-related CIAC balance of \$166,937. Mr. Thies testified that the CIAC balance represents the net balance, the CIAC amount less the amount the contributed assets have been depreciated, calculated at the end of the test period.²⁵⁰

The Consumer Advocate asserted one adjustment regarding the Company's water-related CIAC. As discussed in Section A(2) herein, Mr. Novak recommended that the Company reclassify its recording of customer tap fees and inspection fees from its CIAC to its other operating revenues. Accordingly, Mr. Novak estimated a total adjustment of \$493,125, with his exhibits suggesting a \$19,950 adjustment related to the Company's water-related tap fees.²⁵¹ Despite proposing an increase to the Company's other revenues, Mr. Dittemore did not include a proposed increase to the Company's rate base in its Water Exhibit Schedule 3.²⁵²

Mr. Thies contended that the *2019 Tap Fee Order* requires Cartwright Creek to book tap and inspection fees as CIAC. Further, Mr. Thies stated that the Company's practice of recording these fees as CIAC is consistent with guidance provided by the USOA.²⁵³

Despite the difference in the proposed treatment of tap fees concerning CIAC, the Parties agreed on the water-related CIAC balance of \$166,937 at the conclusion of the test period. The panel verified the Company's April 30, 2024, CIAC value to its trial balance and found no evidence that the Company maintained its CIAC balances in contravention of prior Commission Orders. Therefore,

²⁵⁰ Brent Thies, Pre-Filed Direct Testimony, p. 26, Exh. BT-12.2 (July 16, 2024).

²⁵¹ William H. Novak, Pre-Filed Direct Testimony, pp. 11-13, Exh. WHN Revenue Analysis 3 (December 19, 2024).

²⁵² David N. Dittemore, Pre-Filed Direct Testimony of David Dittemore Adopting the Direct Testimony of Alex Bradley with Corrections, Water Exh. Sched. 3 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, Water Exh. Sched. 3 (December 19, 2024). *See also* Dittemore Correction Supplement, Water Exh. Corrected Sched. 3 (February 20, 2025).

²⁵³ Brent Thies, Pre-Filed Rebuttal Testimony, pp.15-17 (January 13, 2025).

the panel calculated the water-related CIAC balance beginning with the amount the Parties agreed was the CIAC balance at April 30, 2024. However, the panel deducted \$22,800 from this amount due to reclassifying tap fees as other revenue, as discussed in Section A(2) herein. As a result of this calculation, the panel approved the Company's April 30, 2024, water-related CIAC balance of \$144,137, which includes its adjusted \$166,937 CIAC balance at April 30, 2024, less the above \$22,800 revenue reclassification adjustment.

E. WASTEWATER RATE BASE

The Company proposed a sewer-related rate base of nearly \$4.6 million, representing its April 30, 2024, balance. This balance is reduced by a \$389,000 adjustment for knowns and measurables related to its CIAC and includes its proposed deferred acquisition adjustments and transaction costs.²⁵⁴

The Consumer Advocate recommended nearly \$1.2 million for the Company's rate base. The reduction is due to the Consumer Advocate's recommended disallowance of acquisition adjustments and deferred transaction costs for recovery, a \$543,900 decrease in the Company's land and land rights value, and its proposed \$653,857 increase in the Company's CIAC for retained customer escrow funds.²⁵⁵ The panel adopted a net wastewater rate base of \$3,057,402.

E(1). UTILITY PLANT IN SERVICE ("UPIS")

The Company utilized historical accounting data as of April 30, 2024, to value its rate base in this proceeding. The Company's \$10,961,828 gross valuation of UPIS includes the original cost of each acquired wastewater system and post-acquisition improvements that the Company describes as necessary for providing safe and reliable sewer services.²⁵⁶ The Company divided this total amount

²⁵⁴ See Atch. 3, Commission Wastewater Exhibit Sched. 1.

²⁵⁵ Clark D. Kaml, Pre-Filed Direct Testimony, p.13 (December 19, 2024); David N. Dittmore, Pre-Filed Direct Testimony of David N. Dittmore Adopting Direct Testimony of Alex Bradley with Corrections, Consumer Advocate Wastewater Exhibit- Sched. 3 (February 6, 2025).

²⁵⁶ Brent Thies, Pre-Filed Direct Testimony, p.10 (July 16, 2024).

into its respective plant classifications according to system territory.²⁵⁷ Lastly, the Company has presented monthly trial balance data to support its summarized accounting valuations.²⁵⁸

Limestone's position is unique in that most of its UPIS has been acquired through asset sales agreements authorized previously by the Commission. The Company has relied on prior records and documentation of the original asset costs for its systems' book values. For some UPIS assets, the Company determined test period values by examining the respective historical net book values of acquired assets using the records provided by prior owners. In some instances, the Company utilized the annual reports filed by regulated wastewater companies to derive initial plant values.²⁵⁹ The Company adjusted annual report balances for any known and measurable changes occurring after the report and used the adjusted values to create acquisition date accounting entries on its books.²⁶⁰

The Consumer Advocate disagreed with the Company's valuation of its sewer-related land and land rights and asserted that the Company has increased several values proposed by Limestone since the initial acquisition.²⁶¹ The Consumer Advocate took issue with these increased land valuation for two reasons. First, Mr. Kaml argued that a fundamental premise of the rate base rate of return methodology is the use of original or historical cost. Use of historical cost valuation limits rate base to the cost of acquiring assets less depreciation, rather than the current market value or replacement cost. Mr. Kaml argued that this method is straightforward and transparent, ensuring customers pay for costs incurred by a service provider only once and in the amount of the actual costs.²⁶²

Second, Mr. Kaml testified that the Company has not provided any information to suggest alternative uses for its land other than utility operation and that, in the absence of an alternative use,

²⁵⁷ *Id.* at Exhibit BT-10.1, (July 16, 2024); Response of Limestone to Informal Discovery from the Consumer Advocate (August 27, 2024).

²⁵⁸ Response of Limestone to Consumer Advocate's Informal Data Requests, Updated Limestone MFG 010 - Limestone Trial Balance (August 27, 2024).

²⁵⁹ Brent Thies, Pre-Filed Direct Testimony, p. 11 (July 16, 2024).

²⁶⁰ *Id.*

²⁶¹ Clark D. Kaml, Pre-Filed Direct Testimony, p. 13 (December 19, 2024).

²⁶² *Id.*

there is no basis for increasing its land values above their acquired book values. Mr. Kaml testified that the Company's entries to increase its land values represent a write-up without any actual capital investment, in which case, there should not be an increase in value.²⁶³ For these reasons, the Consumer Advocate proposed a \$543,901 reduction in the Company's proposed sewer-related land and land rights account.²⁶⁴

In rebuttal testimony, Mr. Thies testified that increased land and land rights represented costs for surveys, easements, and other land rights. According to Mr. Thies, the Company's land and land rights account valuation is not always static. The Company asserted that the Uniform System of Accounts ("USOA") specifically provides for the continued recording of various costs to land accounts, such as those associated with surveys, titles, easements, and other land rights, to USOA sewer account 353, Land and Land Rights. Mr. Thies testified that the Company has recorded legitimate transactions as provided for by USOA instructions and attests that any resulting increases are not inappropriate markups or premiums.²⁶⁵

The details provided by the Company included a general categorization of these expenditures, which included closing costs, engineering survey costs, and real estate legal costs.²⁶⁶ The panel's review of these expenditures concluded that they represent costs for closing, titling, property appraisals, engineering surveys, mapping/drafting reports, and easements. While the USOA generally allows these types of charges to be made to a wastewater utility's land accounts, these types of expenditures are essentially transaction costs as contemplated by Commission Rule 1220-04-14-.06, addressing transaction and closing costs.

²⁶³ *Id.*

²⁶⁴ *Id.*; David N. Dittmore, Pre-Filed Direct Testimony of David N. Dittmore Adopting Direct Testimony of Alex Bradley with Corrections, Consumer Advocate Wastewater Exhibit- Sched. 3 (February 6, 2025).

²⁶⁵ Brent Thies, Pre-Filed Rebuttal Testimony, pp. 2-4 (January 13, 2025).

²⁶⁶ Limestone Response to Commission Data Request of January 31, 2025, Confidential Atch. DR-5 Land & Land Rights Support (February 11, 2025).

Transaction costs include due diligence costs, which are made to evaluate the viability of an acquisition, and closing costs, which are incurred to facilitate an acquisition transaction once the decision is made to pursue a given acquisition. In this case, engineering survey, mapping/drafting, and easement-related costs are notable examples of the Company's due diligence costs. Further, actual closing-related fees, title-related costs, and property appraisal costs represent facilitative costs, often generally described as closing costs. Commission Rule 1220-04-14-.06 specifically governs the recoverability of these costs, as opposed to the general application of the USOA. In particular, the rule provides direction for the Commission in evaluating these types of costs in assessing their relative benefits to customers and shareholders and potential deferral and subsequent recovery of some of these costs from its customers. For this reason, the panel voted to remove the \$543,900 of additional land-related charges from UPIS and added them to the Company's proposed transaction costs to evaluate potential recovery from its customers under the Commission's acquisition rules; this discussion is included below. As a result, the panel calculated the Company's gross sewer-related UPIS at April 30, 2024, to result in \$10,417,927.

E(2). TRANSACTION COSTS

The Company requested that the Commission consider and approve \$544,454 of transaction costs for deferral to rate base and subsequent recovery from its customers.²⁶⁷ The Company bifurcated this total into \$426,354 sewer-related and \$118,100 water-related transaction costs.²⁶⁸

According to Mr. Thies, transaction costs are important and necessary components of the costs required to acquire a utility system and prepare it for safe and reliable operations. Finally, Mr. Thies compared Limestone's transaction costs to its acquisition adjustments and concluded they, too, should be deferred and recovered from the Company's customers.²⁶⁹ The Company estimated the monthly

²⁶⁷ Bent Thies, Pre-Filed Direct Testimony, p. 21 (July 16, 2024).

²⁶⁸ *Id.*

²⁶⁹ *Id.* at 21-23.

impact on an average sewer customer to be \$2.38 if these costs were approved with a 30-year amortization period. The Company supported a 30-year amortization period for its transaction costs.²⁷⁰

The Consumer Advocate noted that the *Petition* did not include deferred transaction costs in its proposed revenue requirement.²⁷¹ According to Mr. Kaml, the actual transaction costs that Limestone seeks to recover are unclear since the Company has grouped some legal costs with certain systems mapping and engineering assessment costs.²⁷² In a comparison, the Consumer Advocate looked to a North Carolina Utilities Commission docket in which a Limestone affiliate was authorized to recover only \$10,000 out of over \$300,000 in requested transaction costs.²⁷³ Mr. Kaml testified that the Consumer Advocate is not convinced the Company's transaction costs bear any direct benefits to its customers and that the expenses have not been identified.²⁷⁴ Consequently, the Consumer Advocate recommended that these transaction costs not be added to the Company's filing for deferral with subsequent recovery from Limestone's customers.

In his rebuttal testimony, Mr. Thies argued that the Company's transaction costs, including its engineering analysis costs, costs relating to clearing real property title defects, and legal costs incurred for compliance with Tennessee-specific statutes, were necessary to execute its system acquisitions.²⁷⁵ It was the Company's position that as it has taken possession of distressed systems, its customers have benefited from professional O&M services and prompt investments in better pumps, blowers, and other operating equipment.²⁷⁶ In contrast, Mr. Thies asserted that the Company's shareholders have not received any noticeable benefits because most existing rates are overdue for revision, and

²⁷⁰ Limestone Replacement Response to Staff Data Request (February 27, 2025).

²⁷¹ Clark D. Kaml, Pre-Filed Direct Testimony, p. 21 (December 19, 2024).

²⁷² *Id.* at 18.

²⁷³ *Id.*

²⁷⁴ *Id.* at 21.

²⁷⁵ Brent Theis, Pre-Filed Rebuttal Testimony, p. 6 (January 13, 2025).

²⁷⁶ *Id.* at 6-8.

post-acquisition service costs have increased due to the O&M and investments noted earlier.²⁷⁷ After the formal hearing before the Commission, the Company amended its original filing to add its requested deferred transaction costs of \$426,354 to its sewer-related rate base.²⁷⁸

Commission Rule 1220-04-14-.06 provides the Commission specific direction in evaluating transaction, closing, and regulatory costs. Limestone's requested \$426,354 in sewer-related transaction costs were combined with the Company's \$543,901 of sewer-related, post-acquisition land and land rights increases for evaluation for a total of \$970,255. In its review of these transaction costs, the panel identified three categories of costs: 1) Costs incurred significantly after an acquisition's closing date that more closely represent operating and/or maintenance expenditures for acquired systems; 2) Costs incurred for due diligence in the Company's evaluation and assessment of a particular acquisition's viability, generally occurring before the Company's application date; and 3) Costs related to finalizing an acquisition, such as closing costs, title-related costs, land surveys, appraisals, associated legal costs, etc.

A review by the panel identified several expenses and related invoices that occurred well past the closing of its respective acquisition, some of which occurred a year or more after closing. In this category, the panel concluded that such expenses represented day-to-day O&M expenses, which would duplicate the types of expenses allowed in the Company's cost of service allowance if incurred during the test period. The panel identified \$125,192 of such costs related to sewer operations. Costs occurring well after an acquisition's closing date that essentially represent system maintenance and operations expenditures are not deemed related to an acquisition transaction and the closing thereof. Out-of-period expenses are generally disallowed for ratemaking purposes unless a utility has

²⁷⁷ *Id.* at 8-9.

²⁷⁸ Company's Revised Response to Commission Date Request 2-6 of January 31, 2025 (February 25, 2025).

requested and received a Commission accounting order allowing for deferral and subsequent recovery of the costs. No such order has been approved for Limestone.

Due diligence costs represent expenditures necessary for the Company to assess a potential acquisition target's viability and traditionally have no direct relationship to providing utility service to customers. A review by the panel identified \$127,491 in sewer-related due diligence costs. Concerning closing transaction costs, the panel identified \$717,572 of sewer-related costs in this category incurred to finalize its acquisitions. Based on the panel's review and analysis of supporting documentation, the Company's proposed post-acquisition sewer land increases of \$543,901 shall be combined with the Company's proposed sewer transaction costs of \$426,354 to establish total proposed costs of \$970,255 to be evaluated for potential recovery from ratepayers under the Commission's acquisition rules.

Commission Rule 1220-04-14-06 provides that: (1) all such costs recovered from ratepayers shall be reasonable and prudent; (2) the Commission may allocate such costs between shareholders and customers based on its discretionary review of the relative benefits of the acquisition to each party; (3) the Commission may consider the affordability of post-acquisition rates in determining recoverable costs; and (4) the Commission may allow recoverable costs to be included in a regulatory asset and ratably charged to ratepayers over a reasonable period of time not to exceed 20 years.

The panel's review and analysis of supporting sewer-related documentation concluded that the evaluated costs of \$970,255 should be reasonably assigned to one of three categories of costs: (1) \$125,192 of the costs represents out-of-period O&M and reclassification costs that should be disallowed for ratemaking purposes and, therefore, not recovered from ratepayers; (2) \$127,491 of the costs represents reasonable and prudent due diligence costs related to acquisitions that predominately benefit shareholders; and (3) \$717,572 of the costs represent reasonable and prudent

closing transaction costs for sewer acquisitions that resulted or will result in substantial benefits to customers.

The panel was profoundly concerned about the sheer size of the rate increase requested in the *Petition* and the affordability of post-acquisition rates.²⁷⁹ The panel concluded that the magnitude of the requested rate increase militates against allowing full deferral to rate base and subsequent recovery of the Company's requested transaction cost.

The panel next considered the benefits of the transaction costs for acquiring several small and troubled wastewater systems. Undoubtedly, shareholders benefit from such acquisitions as the entry to and investment in state-regulated monopolies serving captive ratepayers. In this manner, they shed much of the uncertainty inherent in competitive markets while participating in a regulatory process that provides recoveries of reasonable costs and the opportunity to earn fair returns. However, as reflected in the record of this docket and discussed more fully in the panel's decision concerning acquisition adjustments, customers have and will gain substantial benefits from Limestone's acquisitions of these systems.

Recognizing that both shareholders and customers reap benefits from the acquisitions, the panel next considered how to reasonably share the burden of the transaction costs among shareholders and customers. To assess reasonable sharing ratios between customers and shareholders for due diligence costs and closing transaction costs, the panel looked to other sharing programs approved by the Commission. Atmos, CGC, and Piedmont have incentive programs that share income from marketing fallow assets or reducing gas supply costs. These programs apply ratios ranging from a 75/25 to 90/10 split among customers and shareholders in a practice that an independent third party

²⁷⁹ Tenn. Comp. R. & Regs. 1220-04-14-.06(2)

found reasonable.²⁸⁰ While the details and workings of the incentive programs for the large gas utilities share little in common with Limestone, the panel concluded that a similar apportionment reasonably reflects and accounts for the split in benefits accorded to the utility and the customers.

Adopting a 75%-25% sharing mechanism to apportion relative benefits and associated costs arising from the acquisitions in this case is reasonable and consistent with prior Commission decisions to adopt similar sharing mechanisms in other regulatory and rate-setting proceedings. Applying this mechanism to the panel's transaction costs calculations, the panel concluded that costs associated with due diligence activities, which predominantly benefit shareholders, should be shared 75% to shareholders and 25% to customers. On the other hand, costs associated with finalizing and closing the acquisition transaction, which bring substantial benefits to customers, should be shared 75% to customers and 25% to shareholders.

Applying the sharing mechanism and methodology to the evaluated transaction costs results in a recovery of \$31,873 sewer-related due diligence costs from ratepayers, which is 25% of the total \$127,491. For sewer-related closing transaction costs, \$538,179 should be recovered from ratepayers, which is 75% of the total \$717,572. As previously discussed, there is no recovery of the \$125,192 related to out-of-period O&M and reclassification costs.

On a combined basis, the panel's decision results in recovery of \$570,052 of sewer-related transaction costs, representing 58.75% of the total evaluated costs of \$970,255. Following the acquisition rules, a regulatory asset shall be authorized for the recoverable costs of \$570,052, and that these deferred costs be recovered from ratepayers through straight-line amortization over twenty

²⁸⁰ See *In re: Docket to Evaluate Chattanooga Gas Company's Gas Purchases and Regulated Sharing Incentive*, Docket No. 20-00139, *Order Requiring Revised Interruptible Margin Credit Rider Tariff*, p. 4 (July 25, 2022); Atmos Tariff T.P.U.C. No. 1, 6th Revised Sheet No. 45.1 (Effective March 1, 2024) and 4th Revised Sheet No. 45.2 (Effective April 1, 2016); CGC Gas Tariff TPUC No. 1, Thirteenth Revised Sheet 48 (Effective June 1, 2022); Piedmont Tariff Service Sched. 316, Fifth Revised pp. 1, 4 (Effective March 1, 2021).

years, resulting in an annual amortization expense of \$28,503, with the remaining unamortized balance of \$541,549 included as a sewer rate base addition in this proceeding.

E(3). ACQUISITION ADJUSTMENTS

The Company sought Commission approval for \$2.2 million in acquisition adjustments for recovery from its customers. Of this total, \$1.7 million relates to past wastewater acquisitions.²⁸¹ Concerning Commission rule 1220-04-14-.04, Mr. Theis testified that the Company's request to recover these adjustments complies with the rule's criteria.²⁸² Other witnesses of the Company also provided testimony supporting the Company's claim that the acquisition adjustments comply with Commission rules.²⁸³ Mr. Thies proposed a 20-year amortization period for these acquisition adjustments.²⁸⁴ Concerning a negative acquisition adjustment, such as the Chapel Woods purchase price falling below the original cost, the Company asserted that such instances should not be accounted for to offset any positive acquisition premiums.²⁸⁵

Given the Company's proposals, Mr. Thies estimated the impact of these acquisition adjustments on its customers to be \$10.80/month for wastewater customers.²⁸⁶ These estimated monthly increases reflect the impacts of annual amortization plus the allowed return associated with the unamortized adjustments balance in rate base. While not included with the Company's originally proposed revenue requirement, the Company amended its schedules post-hearing to include these requested costs.²⁸⁷

²⁸¹ Brent Thies, Pre-Filed Direct Testimony, p. 13 (July 16, 2024).

²⁸² *Id.* at 14-18.

²⁸³ Mike Duncan, Pre-Filed Direct Testimony, pp. 27-39 (July 16, 2024); Jacob Freeman, Pre-Filed Direct Testimony, pp. 42-47 (July 16, 2024); Aaron Silas, Pre-Filed Direct Testimony, pp. 14-17 (July 16, 2024); Todd Thomas, Pre-Filed Direct Testimony, pp.143-153 (July 16, 2024).

²⁸⁴ Brent Thies, Pre-Filed Direct Testimony, pp.18-20 (July 16, 2024).

²⁸⁵ *Id.* at 20.

²⁸⁶ *Id.* at 19.

²⁸⁷ Limestone Post-Hearing Revised Response to Staff Data Request 2-6 (February 27, 2025).

The Consumer Advocate recommended that the Commission reject the Company's proposed acquisition adjustments. Rather than undertake an analysis under Commission Rule 1220-04-14-.04, the Commission's rule on acquisition adjustments, the Consumer Advocate turned to the traditional regulatory practice of using assets' original costs when setting rates, which has been superseded by the Acquisition Rule.²⁸⁸ Mr. Kaml argued that a utility's customers should benefit from any premium paid above book value rather than receiving higher service rates.²⁸⁹ If the Commission approved the Company's acquisition adjustments for recovery, Mr. Kaml recommended that it assign the previous sellers' associated gains on Limestones' purchased assets to the customers' credit to offset the adjustment, nullifying any resulting rate increase.²⁹⁰

The Company's rebuttal argued that Limestone has provided sound support for satisfying the Commission's acquisition rules' criteria for determining whether acquisition adjustments should be allowed for recovery.²⁹¹ The Company cited decisions made in Arizona, Florida, and Texas that allow the recovery of acquisition adjustments and other supporting material that highlight situations in which recovery is appropriate.²⁹² Mr. Duncan acknowledged that acquisition adjustments should generally only be permitted for recovery in small, distressed systems purchases.²⁹³

In conclusion, the Company opposed the Consumer Advocate's recommendation to disallow recovery of the Company's acquisition premiums, maintaining it has the effect of redirecting capital from states like Tennessee to other states, such as those noted above, that incentivize companies to purchase and rehabilitate smaller, distressed water systems via their allowance of acquisition adjustment recovery.²⁹⁴

²⁸⁸ Clark D. Kaml, Pre-Filed Direct Testimony, pp. 9-10 (December 19, 2024).

²⁸⁹ *Id.* at 11-12.

²⁹⁰ *Id.* at 10.

²⁹¹ Mike Duncan, Pre-Filed Rebuttal Testimony, pp. 10-11 (January 13, 2025).

²⁹² *Id.* at 11.

²⁹³ *Id.* at 17-18.

²⁹⁴ *Id.*

After the formal hearing before the Commission, the Company amended its original filing to add \$1,745,431 in deferred acquisition adjustments to its sewer-related rate base.²⁹⁵ The amount for which the Company seeks recovery includes only the positive acquisition adjustments associated with the systems included in this rate case. The negative acquisition adjustment related to the Chapel Woods wastewater system was omitted. The Company provided its computation of the Chapel Woods' negative acquisition adjustment in response to a Commission Staff data request.²⁹⁶

The Company asserted that this negative adjustment amount should be excluded from its total acquisition adjustment request because the due diligence work associated with the Chapel Woods system revealed significant issues with the Chapel Woods system, which allowed the Company to negotiate the acquisition purchase price below the net book value of the acquired system assets.²⁹⁷ Allowing only the amounts by which the Company's purchase prices exceed the associated assets acquired is arbitrary and favors shareholders at customers' expense. Moreover, the Company's argument that the acquisition discount should not be applied because its due diligence showed significant issues with the Chapel Woods system is not persuasive or controlling. Before applying the criteria in the Commission acquisition rules, the panel concluded that the total amount of acquisition adjustments eligible for deferral treatment in this rate case is \$1,704,141, which is the net of the Company's requested acquisition premiums, and the negative adjustment associated with the Chapel Woods acquisition.

The portion of the eligible amount that should be allowed for deferral and subsequent recovery from customers is determined by application of Commission Rule 1220-04-14-.04. The rule authorizes the Commission to incorporate an acquisition adjustment into the acquired rate base, "if the Commission determines such adjustment is warranted under the circumstances and will not result

²⁹⁵ Limestone February 2025 Replacement Attachment, p. 6 (February 27, 2025).

²⁹⁶ Limestone Response to Commission Data Request 2-4 (February 11, 2025) (confidential).

²⁹⁷ Brent Theis, Pre-Filed Direct Testimony, p. 20 (July 16, 2024).

in unjust or unreasonable rates and charges for the acquiring utility or customers.” The rule then lists six factors in considering whether to include an acquisition adjustment and, if warranted, what amount should be allowed for deferral and recovery. The six consideration factors listed in Commission Rule 122-04-14-.04(2) are:

- (a) Cost savings or increases resulting from consolidation of the selling utility’s system into the acquiring utility’s operations;
- (b) Improvements in the public utilities services resulting from the acquisition;
- (c) Remediation of public health, safety and welfare concerns of the selling utility’s system resulting from the acquisition;
- (d) Incentives for acquisition of a financially or operationally troubled system, which may be demonstrated by bankruptcy, financial distress, notice of violation, order of abatements, or inability to continue as a going concern of the selling utility;
- (e) Amount of any assets contributed or donated to the selling utility included in the proposed acquisition transaction; and
- (f) Any other measurable benefits, costs, or service changes affecting acquired and/or existing customers resulting from the acquisition.²⁹⁸

Factor (f) is a general consideration that provides for evaluating other circumstances that are not specifically mentioned elsewhere in the rule and the Parties did not otherwise address this factor. Therefore, the panel did not find in the evidentiary record any considerations that should be evaluated under factor (f).

In addition, the panel found that factor (e) relative to the amount of assets contributed to the selling utility was inapplicable. Specifically, while the value of some contributed plant acquired by Limestone was included in rate base, CIAC accounting was used to make appropriate rate base deductions and offsets to depreciation expense for the contributed plant acquired by Limestone. Therefore, the panel found that because the contributed plant was appropriately treated according to sound ratemaking principles, the contributed assets factor provides no support for or against recovery of an acquisition adjustment. Accordingly, the panel analyzed the recoverability of acquisition

²⁹⁸ Tenn. Comp. R. & Regs. 1220-04-14-.04(2).

adjustments by considering the remaining four criteria established in paragraphs (a) through (d) of Commission Rule 1220-04-14-.04(2). A table summarizing the analysis of each factor relative to each of the acquired systems is attached.²⁹⁹

E(3)a. Cost Savings or Increases

With respect to the first factor, the panel found no evidence that there are cost savings resulting from the consolidation of the acquired assets into the acquiring company's operations. In its testimony and post-hearing brief, the Company claims that it professionally operates its acquired systems, which costs more than operating a failing and non-compliant system.³⁰⁰ Though the Company claimed that it can procure third-party management services at better rates than small independent systems and favors lower-cost remote monitoring of its systems instead of using labor, the Company has not provided any quantified savings for consumers' benefit. Further, the Company admits that when acquiring distressed systems in dire need of professional operations, expectations of a "cost savings" in this scenario are unrealistic.³⁰¹

The panel concluded that no evidence has been presented to demonstrate cost savings for any of the acquired systems' customers. Indeed, seven of the eight acquired wastewater systems were regulated by the Commission before Limestone's acquisition, and the latest-filed Annual Reports before the acquisitions indicate that these systems were operating with a positive net operating income or a much smaller net operating loss than Limestone has calculated in this case.

In particular, the last filed Annual Reports before acquisition show (1) a combined water and sewer net operating loss equivalent to 8.5% of revenues for Aqua Utilities;³⁰² (2) a sewer net operating loss equivalent to 12.2% of revenues for the four Cartwright Creek systems;³⁰³ (3) a sewer net

²⁹⁹ See Atch. 3, Commission Wastewater Exhibit, Schedule 13.

³⁰⁰ Limestone's Post-Hearing Brief, p. 31 (March 12, 2025).

³⁰¹ *Id.* at 32, citing Todd Thomas, Pre-Filed Direct Testimony, p. 145 (July 16, 2024).

³⁰² See Aqua Utilities 2020 Annual Report, Schedule F-3, Income Statement, on file with the Commission.

³⁰³ See Cartwright Creek 2020 Annual Report, Schedule F-3, Income Statement, on file with the Commission.

operating income equivalent to 7.9% of revenues for DSH Lakeside Estates;³⁰⁴ and (4) a sewer net operating loss equivalent to 29.1% of revenues for Shiloh Falls.³⁰⁵ These pre-acquisition financial results demonstrate that the cost of service since Limestone's acquisition of the systems has risen dramatically according to the Company's calculations. In this case, Limestone calculated a sewer net operating loss equivalent to 102.5% of current revenues, which is substantially greater than the relative net operating losses experienced by these systems prior to Limestone's acquisitions.³⁰⁶

Given the significant service rate increase proposed by the Company in this case and its acknowledgement that costs are expected to increase, the Company's customers have received no measurable cost-related benefits in this case.

E(3)b. Improved Services

Concerning the second factor, whether any improvements in service have or may accrue to customers from the acquisition, the panel found evidence of improvements in service. For its wastewater system acquisitions, the Company has invested in improving the wastewater service for the Aqua, Cartwright Creek, Shiloh Falls, and DSH systems.³⁰⁷ For the Aqua system, the Company lists its improvements in the aeration system, effluent pumping function, spray field, electrical control systems, and lift stations.³⁰⁸ For the four Cartwright Creek wastewater systems, the Company explains that, aside from the Grassland system, it has replaced or repaired aeration systems, lagoon liners, disinfection systems, lift stations, pumps, and electrical control systems.

The oldest system acquired, Grassland, needs to be replaced.³⁰⁹ According to the Company, the long-term replacement project is currently in the permitting stage and crucial repairs to aeration, pumping, treatment, electrical, and piping systems have been made to improve service in the short-

³⁰⁴ See DSH 2023 Annual Report, Schedule F-3, Income Statement, on file with the Commission.

³⁰⁵ See Shiloh Falls 2020 Annual Report, Schedule F-3, Income Statement, on file with the Commission.

³⁰⁶ See Atch. 3, Commission Wastewater Exhibit, Sched. 6.

³⁰⁷ Todd Thomas, Pre-Filed Direct Testimony, pp.146-152 (July 16, 2024).

³⁰⁸ *Id.* at 146-147.

³⁰⁹ *Id.* at 148-149.

term. The Company made a series of repairs to the Shiloh Falls systems deferred by previous ownership. Despite owning the DSH system for a short time, the Company has improved service to customers by correcting the prior incorrect installation of STEP systems, which could have led to backups into customers' homes or overflows into their yards. Further, the Company details improvements to the DSH dosing and pumping systems.³¹⁰ Since acquiring its systems, the Company has offered a 24-hour live answering service for emergency customer service calls through a third-party customer service provider. It has staff available and trained to answer service and billing questions from 7:00 a.m. to 7:00 p.m. each day.³¹¹

On the other hand, the Consumer Advocate points to the number of customer complaints registered with the Commission in this docket. According to the Consumer Advocate, the customer comments suggest that Limestone's customers have neither seen nor felt the impacts of the improvements by Limestone since Limestone took over the systems from their original owners.³¹²

The panel has reviewed the complaints and comments of the customers and the investments in improvements to the operations of wastewater service. Offering customers a 24-hour live emergency answering service and daily 12-hour customer service availability is a significant benefit for Limestone's customers. Investing in improvements in the various systems has allowed quality service to continue. The panel is aware of the longer-term plans to replace Cartwright Creek's Grasslands system, which is in disrepair. Reviewing the totality of the record, it is evident the panel found that there has been improvement in service since Limestone acquired these systems. With individual exceptions noted by some customers, Limestone's investments operationally improve these systems and result in better utility and customer service. For these reasons, the panel found that

³¹⁰ *Id.* at 152.

³¹¹ Aaron Silas, Pre-Filed Direct Testimony, p. 11 (July 16, 2024).

³¹² Consumer Advocate Post-Hearing Brief, p. 37 (March 12, 2025).

Limestone’s customers have benefited and should benefit from improved and reliable service as a byproduct of the Company’s efforts.

E(3)c. Remediation of Public Health, Safety, or Welfare Concerns

Concerning the third factor, the panel evaluated potential remediations of public health, safety, or welfare concerns related to customers. According to the Company, its parent, CSWR, employs its Environmental, Health and Safety (“EHS”) team to work with contractors and CSWR engineers to maintain compliance with the Clean Water Act, Safe Drinking Water Act, and Occupational Safety and Health Administration regulatory requirements.³¹³ Among other functions, the Company notes that its EHS team monitors and completes system compliance tasks for each Limestone system; responds to any environmental agency correspondence related to inspections, complaints, or violations; and conducts inspections both before closing on an acquisition and at least once per year thereafter to ensure compliance with governing regulations.³¹⁴ The Company has taken steps to remediate TDEC violation notices issued when it acquired the Candlewood Lakes, Aqua, and Shiloh Falls systems.³¹⁵

In its post-hearing brief, the Consumer Advocate questioned the efficacy of the Company’s efforts given the two notices of violation from TDEC since taking ownership of Cartwright Creek’s Grassland and Hideaway systems.³¹⁶ According to the Consumer Advocate, the Company failed to accurately reflect information from its laboratory bench sheets in its monthly reports to TDEC. Given the TDEC notice of violations and lack of material change in sanitation scores, the Consumer Advocate argued that the Company has not met its burden of proof for recovering any acquisition adjustment related to improved remediation of public health, safety, or welfare concerns.³¹⁷

³¹³ Mike Duncan, Pre-Filed Direct Testimony, p. 19 (July 16, 2024).

³¹⁴ *Id.* at 19-20.

³¹⁵ Limestone’s Post-Hearing Brief, pp. 45-46 (March 12, 2025).

³¹⁶ Consumer Advocate’s Post-Hearing Brief, pp. 16-17 (March 12, 2025).

³¹⁷ *Id.* at 18-19.

There is evidence in the record underlying the Company's efforts to improve its systems' compliance with environmental regulations and protect customer health and welfare, reducing the probability of exposure to major public health, safety, and welfare incidents. However, as noted by the Consumer Advocate, the Company has been issued two TDEC notices of violation since its ownership of both the Grasslands and Hideaway systems; these violations involve inaccurate lab data on monthly reports to TDEC. During the Commission's hearing, the Company explained that its Grasslands violation resulted from negligence by a particular Company operator, whom it has since replaced.³¹⁸

The panel found sufficient remediation efforts for full recovery under this criterion for the wastewater facilities of Aqua, Arrington Retreat, Grasslands, Shiloh Falls, and DSH. Although no specific environmental or safety compliance efforts are evident in the record for the Company's Hardeman, Hideaway, and Chapel Woods systems, the panel concluded Limestone's adoption of its EHS procedure, with its ongoing environmental, health and safety compliance monitoring, sufficiently supports partial recovery of an acquisition adjustment for these systems under this criterion. Of the Cartwright Creek facilities, Arrington Retreat and Grasslands were assigned full credit. In contrast, Hardeman and Hideaway were assigned a ½ credit, resulting in Cartwright Creek cumulatively meeting 75% of the value of the third criterion of Commission Rule 122-04-14-.04 (2). Chapel Woods was assigned a ½ credit.³¹⁹ Consequently, the panel finds that a portion of the acquisition adjustments related to this public remediation factor can be allowed for recovery under this criterion.

³¹⁸ Transcript of Hearing, Vol. I, pp. 90-91 (February 18, 2025).

³¹⁹ See Atch. 3, Commission Wastewater Exh., Sched. 13.

E(3)d. Incentive for Purchasing Operationally or Financially Troubled Systems

Concerning the fourth criterion, the panel considered whether a company's acquisition adjustment costs should be evaluated for recovery from its customers as an incentive for acquiring a financially or operationally troubled system(s). The rule clarifies that "troubled" can be demonstrated by the following: bankruptcy, receivership, financial distress, TDEC notice of violation, order of abatement, or inability to continue as a going concern of the selling utility.³²⁰ According to the Company, the systems it acquired were all troubled systems.³²¹ Further, the Company argued that the existence of escrow charges for the Cartwright Creek and DSH systems indicates those systems' financial troubles. The Company further relied upon Candlewood Lakes' lack of financial resources to remain compliant with state regulations, Aqua's extensive potable water loss problems, Aqua's sand filter-related violation of TDEC regulations, and Shiloh Falls' mandate by TDEC to design and implement a new spray field. For these reasons, the Company requested approval to defer and recover all related acquisition adjustment costs.³²²

In its post-hearing brief, the Consumer Advocate asserted that determining whether a given system is technically or managerially troubled can be subjective. In its search for objective data, the Consumer Advocate reviewed TDEC data and found that only two of the ten Limestone systems in this case have previous and current formal enforcement orders: the Grassland wastewater system and the Candlewood Lakes water system. Further, the Consumer Advocate concluded that the presence of a customer escrow charge for Cartwright Creek and DSH does not equate to a system's financial trouble, and performing maintenance or repairs on a system does not automatically signal trouble. Rather, escrow charges and related funds are commonplace for small wastewater utilities in

³²⁰ Tenn. Comp. R. & Regs. 1220-04-14-.04(2)(d).

³²¹ Mike Duncan, Pre-Filed Rebuttal Testimony, p. 18 (January 13, 2025).

³²² Limestone's Post-Hearing Brief, pp. 46-48 (March 12, 2025).

Tennessee.³²³ However, the Consumer Advocate did concede that, given the customer comments and TDEC feedback on improvements and remediation-related concerns, “the only factor” that supports Limestone’s requested recovery of some of the Acquisition Premiums is the policy incentive of the Commission to allow larger companies to rescue failing systems.³²⁴

While an existing escrow charge for a given system does not necessarily denote that the system is struggling financially, the Aqua wastewater system, the Cartwright Creek systems, and the Shiloh Falls system reported operating losses in their annual reports to the Commission for at least three consecutive years before their acquisition by the Company. Also, in the cases of Aqua and Shiloh Falls, the Company has made, or is in the process of bringing, those systems into compliance with TDEC regulations. The Company has indicated to the Commission that it plans to replace Cartwright Creek’s aged Grasslands system. Nevertheless, while specific maintenance issues may have been addressed for DSH Lakeside Estates and Chapel Woods, the panel did not discern sufficient support in the administrative record to suggest that either of these two systems was financially or operationally distressed as contemplated by the acquisition rule. The Company has established that it has acquired specific systems that should be considered troubled. The panel concluded that Aqua Utilities, Cartwright Creek, and Shiloh Falls meet the requirements for recovery of an acquisition adjustment under the troubled-system criterion. DSH Lakeside Estates and Chapel Woods do not meet the troubled-system criteria.

E(3)e. Overall Recovery of Wastewater Acquisition Adjustment

The sheer amount of the requested rate increase militates against full recovery of the requested acquisition adjustment. Nevertheless, the evidentiary record supports a finding that the Company has met many of the criteria on a per-system basis for recovery. Based on the discussion herein, the panel

³²³ Consumer Advocate’s Post-Hearing Brief, pp. 12-16 (March 12, 2025).

³²⁴ *Id.* at 38.

authorizes allowing the Company to recover \$1,197,963 of the proposed \$1,704,141 (70.30%) of sewer-related acquisition adjustments over 20 years. Given that the first year's amortization of \$59,898 is included in the panel's recommended cost of service, the panel finds the Company's rate base shall include \$1,138,065 as a regulatory asset related to the unamortized sewer-related acquisition adjustment balance.

This decision evaluates the four applicable criteria set forth in the acquisition rule, with equal weighting given to each criterion. In some instances, the panel found evidence supporting partial recovery. For the eight acquired sewer systems, the panel found the following: 1) Aqua Utilities sewer met three of four criteria supporting recovery of an acquisition adjustment; 2) Cartwright Creek Arrington met three of four criteria; 3) Cartwright Creek Grassland met three of four criteria; 4) Cartwright Creek Hardeman met two of four criteria and partially met one of four criteria; 5) Cartwright Creek Hideaway met two of four criteria and partially met one of four criteria; 6) Shiloh Falls met three of four criteria; 7) DSH Lakeside Estates met two of four criteria; and 8) Chapel Woods met one of four criteria and partially met one of four criteria.³²⁵

E(4). CASH WORKING CAPITAL ("CWC")

Cash Working Capital refers to cash on hand that is needed to cover daily needs for the period from when cash is paid for expenses in providing reliable services to when cash is received as payment for these services from customers. Therefore, it is included in rate base and allowed a return thereon. The Company proposes a CWC amount of \$129,461 for its sewer operations. This number is based on the Company's proposed sewer-related operations and maintenance expense of \$1,050,069. The Company's proposed amount is based on its \$967,576 test year amount and increased by \$82,492 in known and measurable adjustments. The Company computed a daily average expense amount by dividing it by 365, then multiplying this daily amount by a total of 45 lag days for its proposed CWC

³²⁵ See Atch. 3, Commission Wastewater Exh., Sched. 13.

amount.³²⁶ This calculation did not include depreciation, allocations, or taxes. Mr. Thies also cites regulatory authors *Hahne and Aliff* and noted that the acceptance of the 1/8 formula [45 lag days] resulted from the fact that it was determined to be a reasonable estimate of what a formal CWC study would recommend without the cost of such a study.³²⁷ The Consumer Advocate does not present any adjustments to the Company's proposed CWC balance for its sewer operations. The panel found the Company's proposed CWC balance of \$129,461 reasonable.

E(5). PREPAID EXPENSES

Prepaid expenses, or prepayments, refer to cash paid in advance for expenses whose benefits will not be received until sometime in the future. Examples include operating permits or subscription services whose benefits are received over a future period. Because these expenses are paid before the associated benefits are received, the Company proposed their inclusion in rate base to compensate its investors. In its filing, the Company sought \$5,454 in prepaid sewer-related expenses.³²⁸ The Consumer Advocate did not propose any adjustments. The panel found the Company's proposed prepaid sewer-related expenses of \$5,454 reasonable.

E(6). ACCUMULATED DEPRECIATION

According to Mr. Thies, the \$3,199,129 proposed sewer-related accumulated depreciation valuation consists of the historical total accumulated depreciation as of April 30, 2024.³²⁹ When available, the Company used the original balances of accumulated depreciation associated with assets acquired by Limestone Water from prior owners, and those balances have been carried forward on the books of Limestone. The acquired assets and any post-acquisition improvements made have been depreciated according to rates presented in the acquisition application, and, in the case of regulated

³²⁶ Brent Thies, Pre-Filed Direct Testimony, Exhibits BT-3.1 & 13.1 (July 16, 2024).

³²⁷ *Id.* at 23.

³²⁸ *Id.* at 24.

³²⁹ *Id.* at 25, Exhibit BT-11.1 (July 16, 2024).

systems, the rates have been previously established by the Commission.³³⁰ The Company provided a breakdown of its proposed accumulated depreciation, disaggregated into sub-accounts.³³¹ Lastly, the Company has presented monthly trial balance data to support its summarized accounting valuations.³³²

While the Consumer Advocate is not challenging the overall valuation of the Company's proposed accumulated depreciation, Mr. Kaml raised issues regarding the Company's depreciation expense schedules. First, Mr. Kaml expressed concern regarding the Company's life expectancies for supply mains and hydrants, which each have an average service life of ten years; however, Mr. Kaml testified both are assets with life expectancies closer to fifty years or more.³³³ Secondly, Mr. Kaml emphasized that, while he believes the Company's depreciation calculations are formulaically accurate, the Company rounds the depreciation rates used to calculate the Test Period's depreciation expense. According to Mr. Kaml, this causes an inaccuracy in the Company's depreciation expense. Despite Mr. Kaml's concerns regarding certain asset lives and rounding of depreciation rates, the Consumer Advocate does not present any adjustments to the Company's proposed accumulated depreciation.³³⁴ The panel found the Parties' agreed-upon \$3,199,129 for the Company's April 30, 2024, sewer-related accumulated UPIS depreciation balance reasonable and appropriate for inclusion in rate base.

E(7). CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")

CIAC represents non-refundable assets received by the utility from a third party. Since CIAC does not represent investor-provided capital investment, its net value is deducted from the Company's overall used-and-useful asset values in the computation of the Company's rate base. The Company's

³³⁰ *Id.*

³³¹ *Id.*

³³² Limestone Responses to Consumer Advocate's Informal Data Requests, Updated Limestone MFG 010 - Limestone Trial Balance (August 27, 2024).

³³³ Clark D. Kaml, Pre-Filed Direct Testimony, pp. 31-32 (December 19, 2024).

³³⁴ *Id.* at 31.

proposed sewer-related CIAC balance is \$5,513,784. According to the Company, this amount represents its net \$5,124,592 April 30, 2024, balance, increased by a \$389,192 known and measurable adjustment.³³⁵ This adjustment represents the removal of CIAC amortization related to its Cartwright Creek system. In its response to a data request made by the Consumer Advocate, the Company indicated that it “removed [Cartwright Creek’s] CIAC amortization from its balance sheet and income statement as a known and measurable [adjustment].” Further, the Company stated there is no CIAC amortization for Cartwright Creek on Limestone’s books during the test period.³³⁶ Going forward, the Company proposed to amortize its Cartwright Creek CIAC at a rate of 5%.

The Consumer Advocate proposed \$6,167,641 as the Company’s CIAC balance.³³⁷ Mr. Kaml did not dispute the Company’s adjusted April 30, 2024, balance of CIAC as a starting point. However, Mr. Kaml recommended that the Company’s retained escrow funds be reclassified as CIAC, which would both increase that balance and further reduce the Company’s rate base.³³⁸ In response to the Company’s proposal to terminate escrow charges to its Cartwright Creek and DSH customers and potentially retain the existing escrow account balances as CIAC, Mr. Kaml agreed under the condition that the Company be required to use said funds for capital projects in the service areas from which the funds were collected.³³⁹

Given the Company’s adequate financial resources and access to capital, Mr. Kaml concluded there may be good reason to terminate the existing escrow charges to its Cartwright Creek and DSH customers. Terminating escrow charges would reduce DSH’s monthly bills by \$10.24 and eliminate Cartwright Creek’s customers’ tap fee and capital improvement surcharge. Mr. Kaml recommended

³³⁵ Brent Thies, Pre-Filed Direct Testimony, Exhibit BT-9.1, Line 14 (July 16, 2024).

³³⁶ Limestone’s Response to Consumer Advocate Data Request 1-32 (November 1, 2024).

³³⁷ David N. Dittmore, Pre-filed Direct Testimony of David N. Dittmore Adopting the Direct Testimony of Alex Bradley with Corrections, Wastewater Exhibit, Schedule 3, lines 8+9 (February 12, 2025).

³³⁸ Clark D. Kaml, Pre-Filed Direct Testimony, p. 32 (December 19, 2024); Consumer Advocate Letter to Commission Correcting Direct Testimony of Clark D. Kaml (January 7, 2025).

³³⁹ *Id.* at 24-27, 48.

that each prospective acquisition proposed by Limestone be evaluated on its own merits regarding the need for customer escrow charges, given that each system and transaction is unique.³⁴⁰

In addition, Mr. Novak recommended that the Company reclassify its recording of customer tap fees and facility inspection fees from its CIAC to its other operating revenues.³⁴¹ According to Mr. Novak, his estimated adjustment is \$493,125, with \$481,575 for tap fees and \$11,550 for inspection fees.³⁴² Mr. Novak did not explicitly state how his proposed \$493,125 adjustment should be split between the Company's sewer and water operations; however, the Consumer Advocate's exhibits suggest that \$473,175 is related to the Company's wastewater operations, with \$461,625 and \$11,550 associated with tap fees and inspection fees, respectively. Despite proposing an increase to the Company's other revenues, the Consumer Advocate does not include a proposed increase to the Company's rate base in its Schedules 3 for sewer and water operations, respectively, as provided by Mr. Bradley and subsequently adopted by Mr. Dittmore.³⁴³ Finally, the Consumer Advocate recommended that the Commission approve the Company's request to amortize the Cartwright Creek CIAC at a rate of 5% annually.³⁴⁴

In rebuttal testimony, the Company disagreed with the Consumer Advocate's proposal regarding the treatment of existing escrow funds. Though the Company does not include escrow funds as an offset to its rate base in its filed petition, both parties agreed that the escrow charges to Cartwright Creek and DSH customers should be terminated. Both parties further agree to allow the Company to retain the funds as offsets to the Company's rate base to be used for capital projects. However, the Company expressed concern about complying with Commission Rule 1220-04-13-.07 (7), which requires a utility to seek and receive Commission approval before making expenditures

³⁴⁰ *Id.* at 28.

³⁴¹ William H. Novak, Pre-Filed Direct Testimony, pp. 11-13 (December 19, 2024).

³⁴² *Id.* at 12.

³⁴³ David N. Dittmore, Pre-Filed Direct Testimony of David N. Dittmore Adopting the Direct Testimony of Alex Bradley with Corrections, Wastewater Exhibit, Schedule 3, (February 12, 2025).

³⁴⁴ Clark D. Kaml, Pre-Filed Direct Testimony, p. 48, (December 19, 2024).

with its escrow funds.³⁴⁵ Mr. Thies indicated that the Company does not oppose filing quarterly reports regarding its escrow fund usage and balance. Still, he requested an exemption from the “regulatory hardship” of preparing, filing, and processing requests to the Commission to use its retained escrow funds, particularly in cases where customer safeguards are not required.³⁴⁶

A review of the Company’s CIAC value to its trial balance confirms the Company’s assertion that its proposed \$389,192 known and measurable adjustment removes amortization related to the Cartwright Creek CIAC at April 30, 2024. Further, both parties agree that a reasonable rate for amortizing the Cartwright Creek CIAC would be 5% annually. According to the Company, it has maintained its other CIAC balances per Commission guidance in prior acquisition filings, and there is no evidence in the record to the contrary. For these reasons, the Company shall continue to follow existing Commission guidance for recording and amortizing its CIAC, provided that certain tap and facility inspection fees should be recorded as revenues as discussed below. Specifically for its Cartwright Creek-related CIAC, a 5% annual amortization rate, which implies a 20-year operating life, is reasonable. The Company shall begin amortizing its Cartwright Creek-related CIAC at this rate going forward.

Due to the Company’s adequate resources, the escrow-related charges to customers of the Cartwright Creek and DSH Lakeside Estates systems shall be terminated as of the date of the Commission’s decision. Funds accrued at such time shall be retained by the Company as Contributions in Aid of Construction. Nearly \$653,857 escrow funds, as of May 31, 2024, were contributed by customers. The panel concluded that the Company shall continue to be bound by the procedures in Commission Rule 1220-04-13-.07(7) for using these funds on a case-by-case basis. Concerning the future use of the escrow funds for approved capital projects or other approved

³⁴⁵ Brent Thies, Pre-Filed Rebuttal Testimony, p. 12 (January 13, 2025).

³⁴⁶ *Id.* at 11-12.

purposes, no determination or allocation has been made in this docket to limit use of the funds to any particular system.

Concerning tap and facility inspection fees, the *2019 Tap Fee Order* directed the Company to book all tap fees collected in the future as Contributions in Aid of Construction in accordance with the Uniform System of Accounts.³⁴⁷ Nevertheless, tap and inspection fees may be treated as other operating revenues when determining revenue requirements for its regulated utilities in a rate case. The Company shall begin booking its prospective tap and inspection fees as other operating revenue. Reclassification of tap and inspection fees as revenues provides for a more immediate use of these fees to lower the cost of service in the near term and, thus, is especially warranted in this case given the substantial rate increase requested by Limestone. Accordingly, the panel calculated a \$191,625 concomitant reduction to the Company's proposed CIAC for this change. This adjustment is discussed in the panel's revenue calculation and decision.

After consideration of the issues discussed above, the panel calculated the Company's April 30, 2024, sewer-related CIAC balance to be \$5,976,016, which includes its adjusted \$5,513,784 CIAC balance at April 30, 2024, \$653,857 escrow funds as of May 31, 2024, and the aforementioned \$191,625 revenue reclassification adjustment.

F. 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 is based on court decisions in the *Hope* and *Bluefield* cases.³⁴⁸ 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

³⁴⁷ *In Re: Petition Of Cartwright Creek, LLC To Increase Tap Fees To Address Environmental Issues Raised By The Tennessee Department Of Environment And Conservation*, Docket No. 19-00034, *Order Approving Increase of Tap Fee*, pp. 9-10 (August 19, 2019).

³⁴⁸ *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).

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.

This is Limestone's first general rate proceeding in Tennessee. Limestone is unique among the regulated water and wastewater utilities in Tennessee in that its rates are set based on a rate base, it is geographically diffuse, and its rate base was acquired through acquisition. Limestone is a utility that continues to expand as it acquires systems; thus, its capital structure and risk profile are still evolving. As such, the panel's decision here is based on the Commission's application of its judgment on the evidentiary record before it for a public utility, which may look very different or be operating under different circumstances in a future rate case.

Here, Limestone proposed an overall cost of capital of 9.6%.³⁴⁹ The Company indicated that its true capital structure is 100% equity.³⁵⁰ For ratemaking purposes, the Company proposed a hypothetical capital structure comprised of 57% equity and 43% long-term debt.³⁵¹ The Company proposed a long-term debt cost of 6.64% based on recent debt costs by Limestone's sister companies.³⁵² Limestone proposed an equity return of 11.9%, which includes an upward adjustment of 1.5% to reflect Limestone's greater business risk.³⁵³

Mr. Aaron Rothschild made several arguments against the Company's position and methodology on behalf of the Consumer Advocate. Mr. Rothchild argued that the Commission should reject (1) Mr. D'Ascendis's recommended return on equity ("ROE") of 11.90% because it is higher than Limestone Water's market-based cost of equity ("COE") and (2) Limestone Water's requested capital structure consisting of 57.00% equity and 43.00% debt, because they have a significantly

³⁴⁹ Brent Thies, Pre-Filed Direct Testimony, Exhibit BT 1.1 and BT 1.2 (July 16, 2024)

³⁵⁰ Dylan W. D'Ascendis, Pre-Filed Direct Testimony, p. 19 (July 16, 2024).

³⁵¹ *Id.*

³⁵² *Id.* at 20.

³⁵³ *Id.* at 3-5.

higher common equity ratio (57.00%) than the average common equity ratio (51.8%) used by other water utility companies in the country.³⁵⁴ Mr. Rothschild recommended an equity return of up to 8.04%.³⁵⁵ Further, he recommended adopting Limestone's proposed long-term debt cost of 6.64%.³⁵⁶ In sum, the Consumer Advocate's recommendations resulted in an overall cost of capital of 7.36%.³⁵⁷ In turn, the Company leveled several criticisms of Mr. Rothchild's analysis in pre-filed rebuttal testimony.

F(1). CAPITAL STRUCTURE

According to Mr. D'Ascendis, Limestone's capital structure is 100% equity, which is inappropriate for ratemaking purposes.³⁵⁸ The Company proposed to use a hypothetical capital structure to address Limestone's problematic all-equity capital structure. The Commission traditionally recognizes the importance of the parent-subsidiary relationship when establishing the appropriate capital structure for use in a rate proceeding.³⁵⁹ Limestone's parent, CSWR's, capital structure is also 100% equity.³⁶⁰ Several of Limestone's sister affiliates have engaged in debt issuance. Using a hypothetical capital structure for Limestone to set rates in this proceeding is appropriate. However, as the capital structure of CSWR is likely to change in the future, the decision here should not be considered to have a binding or precedential value as a long-term or stable capital structure for use in a future Limestone's rate case.

³⁵⁴ Aaron L. Rothschild, Pre-Filed Direct Testimony, p. 8 (December 19, 2024)

³⁵⁵ *Id.* at 8-9.

³⁵⁶ *Id.* at 75.

³⁵⁷ *Id.* at 10-11.

³⁵⁸ Dylan W. D'Ascendis, Pre-Filed Direct Testimony, p. 19 (July 16, 2024)

³⁵⁹ *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).

³⁶⁰ *Petition*, Coll. Exh. 1, TPUC MFG 064 (July 16, 2024). Mr. D'Ascendis notes that Limestone's parent CSWR issued debt in November 2024. *See* Rebuttal Testimony of Dylan W. D'Ascendis, p. 8 (January 13, 2025). In a February 12, 2025 Data Response, the Company indicated that CSWR's debt is a five-year delayed draw term loan facility. Given the nature of delayed draw facilities indicated the not have a mature and stable capital structure that can be used for rate setting.

The Company supported using a hypothetical capital structure for Limestone consisting of 43.00% long-term debt and 57.00% common equity. Mr. D'Ascendis selected a higher-than-average equity level for Limestone's hypothetical capital structure, claiming it has extraordinary operating risks.³⁶¹ Mr. D'Ascendis testified that Limestone's affiliated companies with debt have equity ratios ranging from 79.94% to 84.51%.³⁶² By contrast, Consumer Advocate witness Mr. Rothschild asserted that the average common equity ratio used by other water utility companies in the country is 51.8%.³⁶³

The peer group underlying the CAPD's capital structure recommendation is the same as the Company's proxy group of five companies.³⁶⁴ The data for 2023 is the median for the company's equity ratio is 53.5%, and the CAPD's median equity ratio is 54%. Here, it is appropriate to reflect the all-equity actual capital structure with an equity ratio greater than the median as suggested by Mr. Rothschild, but less than the Company's maximum range of comparable company equity ratios. The panel adopted a capital structure of 55% equity and 45% debt. The 55% equity ratio lies between the median and maximum of the respective witnesses' comparable companies. It is both more reflective of the data for the comparable companies and more reflective of Limestone's actual 100% equity ratio.

F(2). COST OF DEBT

Mr. D'Ascendis recommended a long-term debt cost of 6.64%, based on the weighted debt-cost rate from recent debt issuances of Limestone Water's sister companies as of May 31, 2024.³⁶⁵ Mr. Rothchild recommended adopting Limestone's proposed long-term debt cost of 6.64%.³⁶⁶ As Mr.

³⁶¹ Dylan W. D'Ascendis, Pre-Filed Direct Testimony, pp. 19-20 (July 16, 2024).

³⁶² *Id.* at 20.

³⁶³ Aaron L. Rothschild, Pre-Filed Direct Testimony, p. 8 (December 19, 2024).

³⁶⁴ While using the same peer group, the Company utilized data from SEC 10-k forms; whereas, the CAPD utilized data from ValueLine.

³⁶⁵ Dylan W. D'Ascendis, Pre-Filed Direct Testimony, p. 20 (July 16, 2024).

³⁶⁶ Aaron L. Rothschild, Pre-Filed Direct Testimony, p. 75 (December 19, 2024).

D'Ascendis's approach to estimating the debt cost in the adopted hypothetical capital structure is reasonable, the panel adopted a long-term debt cost of 6.64%.

F(3). EQUITY RETURN

The other major issue within the cost of capital is setting the 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. The Commission recently set a 9.7% equity return for Tennessee-American Water Company. The parties value Limestone as a water company and used Tennessee-American Water Company as part of the proxy group. Based on the record, Limestone appears to be a riskier investment than Tennessee-American Water.

The Commission generally values the central tendency of cost of capital estimates and recent regulatory decisions. At a high level, the Company recommended an equity return of 11.9%, which includes an upward adjustment of 1.5% to reflect Limestone's greater business risk.³⁶⁷ The Consumer Advocate recommended an equity return of 8.04%.³⁶⁸ The midpoint of the recommendations is 10%. The Company provided data from Regulatory Research Associates, showing that the most common equity return for water utilities from 2020 to 2024 was 9.75%.³⁶⁹ A review of the underlying data shows that equity returns awarded to companies providing water service in 2024 range from 9.1% to 9.8%, with a mean of 9.5%.³⁷⁰ Mr. Rothschild's constant growth DCF analysis resulted in a range of

³⁶⁷ Dylan W. D'Ascendis, Pre-Filed Direct Testimony, pp. 3 - 5 (July 16, 2024).

³⁶⁸ Aaron L. Rothschild, Pre-Filed Direct Testimony, pp. 10-11 (December 19, 2024).

³⁶⁹ Dylan W. D'Ascendis, Pre-Filed Rebuttal Testimony, pp. 5-6 (January 14, 2025).

³⁷⁰ Limestone Water Utility Operating Company Response to Commission January 30, 2025 Data Request (February 10, 2025). The data were analyzed by filtering for Orders issued in 2024.

equity return estimates from 8.03% to 8.04%.³⁷¹ Mr. Rothschild's non-constant growth DCF analysis resulted in a range of equity return estimates from 6.85% to 6.89%.³⁷²

According to Mr. Rothschild, there is substantial evidence that the cost of equity may be decreasing. Mr. Rothschild testified that (1) price-to-earnings ratios have increased; (2) the market risk premium has decreased; (3) market volatility has stabilized; investors accept that the probability of water utility stocks suffering a large drop is less than the overall market.³⁷³

Limestone's parent company recently issued debt in November 2024 at a rate of 8.50%.³⁷⁴ According to Mr. D'Ascendis, given the 8.5% rate on a related party debt issuance, investors would require more than the 8.04% equity return recommended by Mr. Rothschild.³⁷⁵ Generally, equity returns must always be higher than the cost of debt, although 8.5% could be an appropriate lower bound for the zone of reasonableness in this proceeding. The Company's use of a comparison group of non-regulated companies is problematic. The non-regulated proxy groups introduced equity return results higher than 11.4% into Mr. D'Ascendis's pre-adjustment recommendation.³⁷⁶ As noted by Mr. Rothschild, the companies in Mr. D'Ascendis's Non-Price Regulated Proxy Group are not comparable in risk to Limestone Water because of significant operational characteristics, ongoing legal exposure, radically different capital structure ratios, and differing regulatory or political risks.³⁷⁷

Furthermore, Mr. D'Ascendis's ultimate recommendation of an 11.9% equity return is over 200 basis points higher than the average of 2024 equity return decisions. Mr. D'Ascendis included a 150-basis-point upward adjustment to account for additional risk, implying a pre-adjustment equity return of 10.4% less than 100 basis points higher than the average.

³⁷¹ Aaron L. Rothschild, Pre-Filed Direct Testimony, pp. 53-54 (December 19, 2024).

³⁷² *Id.* at 55.

³⁷³ *Id.* at 24-32.

³⁷⁴ Dylan W. D'Ascendis, Pre-Filed Rebuttal Testimony, p. 8 (January 14, 2025).

³⁷⁵ *Id.*

³⁷⁶ *Id.* at 43-44.

³⁷⁷ *Id.* at 94-95.

The fundamental idea underlying the Capital Asset Pricing Model is that investors demand higher returns for assuming additional risk. The CAPM quantitatively measures 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:

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

Where: 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 4.31% for the 30-year Treasury for the CAPM calculation, as proposed by Mr. D’Ascendis.³⁷⁸

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 2017.³⁷⁹ In the recent rate case of Tennessee-American Water Company, neither party used a long-term risk premium measure, and the panel applied a 6.35% long-run risk premium from a similar range of time.³⁸⁰ Here, Mr. D’Ascendis calculated the risk premium by combining five risk premium measures, calculating an 8.58% risk premium.³⁸¹ Mr. D’Ascendis incorporated a 7.17% risk premium calculated from the “Historical Spread Between Total Returns of Large Stocks and Long-Term Government Bond Yields (1926 – 2023)” using Kroll data.³⁸² The panel applied the 7.17% market risk premium, finding it acknowledged, in part, the increased operational risk of Limestone. Finally, the panel applied a BETA value of 0.77, which was derived

³⁷⁸ *Id.* at Exhibit DWD-6, p. 2.

³⁷⁹ *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).

³⁸⁰ *See In Re: Petition of Tennessee-American Water Company to Modify Tariff, Change and Increase Charges, Fees, and Rates, and for Approval of a General Rate Increase*, Docket No. 24-00032, *Order Setting Utility Rates*, p. 73 (April 21, 2025).

³⁸¹ Dylan W. D’Ascendis, Pre-Filed Direct Testimony, pp. 41- 42 (July 16, 2024).

³⁸² *Id.* at Exhibit DWD-6, p. 2.

as the average BETAs for the five-company peer groups in Mr. D'Ascendis's testimony.³⁸³ Essentially, the panel's calculation of the CAPM is a recast of Mr. D'Ascendis's analysis with a different risk premium. While the panel had concerns that the Company's risk premium was inflated, the panel analysis was impacted by Mr. D'Ascendis's DCF analysis. Mr. D'Ascendis calculated the constant growth DCF-indicated common equity cost rate for his proxy groups by averaging the mean and median DCF results for each respective proxy group.³⁸⁴ Mr. D'Ascendis calculated DCF equity costs of 9.97% for the utility proxy group and 9.26% for the U.S. water proxy group.³⁸⁵

The average of the Commission's CAPM calculation and the Company's DCF results for Mr. D'Ascendis's two proxy groups leads to a calculated equity return of 9.69%. Before considering the 1.5% risk adjustment proposed by Mr. D'Ascendis, the panel adopted an ROE of 9.7%. This amount falls within the range of 2024 water utility rate case decisions. A review of the underlying data shows that equity returns awarded to companies providing water service in 2024 range from 9.1% to 9.8%, with a mean of 9.5%. A Limestone affiliate in Missouri was awarded an equity return of 9.9% in an Order dated October 2023.³⁸⁶ On June 13, 2024, the Public Utility Commission of Texas set a 9.53% equity return for CSWR-Texas.³⁸⁷ 9.7% is slightly higher than the mean and, as such, partially acknowledges Limestone's claims of elevated business and operational risk. Further, the pre-adjustment result lies between the results of Limestone affiliate rate cases in Missouri and Texas.

The Company has asserted that it faces extraordinary operating risks because it acquired mainly troubled water and wastewater systems to support Mr. D'Ascendis's proposed business risk adjustment of 1.50%.³⁸⁸ The Company's supporting arguments are not based on utility-specific data.

³⁸³ *Id.* at Exhibit DWD-6, p. 1.

³⁸⁴ *Id.* at 24-25.

³⁸⁵ *Id.*

³⁸⁶ Limestone Water Utility Operating Company Response To Commission Data Request of January 30, 2025, Response 2, WR-2023-0006, (February 10, 2025).

³⁸⁷ *Id.* at file 54565 - CSWR Texas - Final Order.

³⁸⁸ Dylan W. D'Ascendis, Pre-Filed Direct Testimony, pp. 50-51 (July 16, 2024).

Mr. D'Ascendis's single variable model with an R-Square statistic of .41 did not have sufficient supporting detail when a multivariate model or an alternative specification of the dependent variable could alter the result. As such, the panel rejected an adjustment to Limestone's ROE based on size alone.

Nevertheless, some adjustment of equity return is warranted under the facts and circumstances of this docket. Without an adjustment, the Company's return on equity would be the same 9.7% recently awarded to Tennessee-American Water Company. It is unsurprising that the numbers would be similar, before risk adjustment, as the equity return for both companies stemmed from an analysis of a proxy group of water utility companies. Limestone, a company assembled from several aged, geographically disbursed utility systems, is riskier than Tennessee-American Water Company. As such, the Commission adopted a 0.3% risk adjustment to Limestone's ROE, representing 20% of the premium sought by the Company, resulting in a 10% equity return.³⁸⁹ The panel acknowledged that this risk adjustment is conservative. Yet it also balances the need for the service to be affordable, a concern expressed by the Consumer Advocate and many of Limestone's customers.

In this proceeding, the panel adopted a conservatively determined premium to the equity return to account for the business and operational risks of running Limestone's problematic systems. The acquired systems will have a lower operational risk profile as they are rehabilitated. The Commission expects that Limestone will become less risky with prudent investment and provide increased value to its customers. The impact of affordability has not been a substantive factor that has entered into cost of capital analysis in prior proceedings. In future cases, the Commission anticipates that analysis of Limestone's efforts to mitigate its business risk through capital-intensive

³⁸⁹ Approving an adjustment in an attempt to isolate and capture a heightened or lower business risk factor is rare in proceedings before the Commission. In a rate case in 2009 for a natural gas utility, the approved return on equity was lowered by 0.25% to account for the shifting of business risk due to the approval of an experimental revenue decoupling rate mechanism. See *Petition of Chattanooga Gas Company For a General; Rate Increase, Implementation of the EnergySmart Conservation Programs and Implementation of a Revenue Decoupling Mechanism*, Docket No. 09-00183, Order, p. 45 (November 8, 2010).

rehabilitation investment and the impact of those rehabilitation investments could become a factor in establishing equity return.

F(4). OVERALL RATE OF RETURN

After determining the equity return, debt costs, and capital structure, the overall rate of return is calculated mechanically, resulting in an overall rate of return of 8.49%. This return falls within the zone of reasonableness, lying between the Consumer Advocate's proposed 7.36% and the Company's 9.6%.

G. REVENUE CONVERSION FACTOR

The Revenue Conversion Factor represents the adjustment factor necessary to translate any surplus or deficiency in net operating income into a Revenue Deficiency or Surplus that rates will be designed to produce. To determine the proper amount of revenue needed for the Company to have the opportunity to earn a fair rate of return, it is necessary to apply a revenue conversion factor to the net income deficiency or the net operating income. After this amount is calculated, it is necessary to subtract uncollectibles, state excise tax, and federal income tax. The panel reviewed the calculations of both the Company.³⁹⁰ and the Consumer Advocate³⁹¹ and performed its own calculations based upon the relevant findings herein. Based upon these calculations, the panel approved an overall Revenue Conversion Factor of 1.367496, applying an Uncollectible Ratio of 1.0%, a state excise tax rate of 6.5%, and a Federal Income Tax rate of 21%.

H. REVENUE DEFICIENCY

Based upon the preceding determinations for water and sewer revenues, expenses, rate base, taxes, rate of return, including return on equity, and the revenue conversion factor, the panel adopted

³⁹⁰ Brent Thies, Pre-Filed Direct Testimony, Exh. BT-7, BT-8 (July 16, 2024).

³⁹¹ David N. Dittmore, Pre-Filed Direct Testimony of David N. Dittmore Adopting the Direct Testimony of Alex Bradley with Corrections, p. 2, Wastewater Exhibit Schedule 9, Water Exhibit Schedule 9 (February 6, 2025); Alex Bradley, Pre-Filed Direct Testimony, Wastewater Exhibit Schedule 11, Water Exhibit Schedule 12 (December 19, 2024).

a Revenue Deficiency of \$432,751 for water operations and a Revenue Deficiency of \$929,573 for sewer operations. This calculates to a combined Revenue Deficiency for all operations of \$1,362,324.

I. RATE DESIGN

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. Many factors are considered when designing rates, including economic and social considerations. The Commission is given broad discretion concerning rate design in recognition of the many factors to be considered.

In this case, Limestone and the Consumer Advocate filed contrasting proposals for recovery of the revenue deficiencies by water and wastewater operations and customer rates necessary to generate the required revenues. While Limestone did not maintain separate books and accounting records by individual systems, the Company calculated an overall revenue deficiency separately for water and wastewater by allocating expenses between the two. Limestone's calculations resulted in a revenue deficiency of \$575,061 for water operations, representing a 289% deficit, and a revenue deficiency of \$1,688,011 for wastewater operations, representing a 142% deficit.³⁹² The Company proposed to increase overall monthly revenues by these same percentages for water and wastewater operations to recover their respective share of total operational costs. Limestone also proposed consolidated rates for two water and all eight wastewater systems. Under Limestone's proposal, the average residential water rates of \$25.62 for Aqua operations and \$40 for Candlewood Lakes would increase to \$84.84 monthly. Likewise, existing wastewater residential rates ranging from \$8.93 to \$55.25 would increase to \$103.34 monthly.³⁹³

³⁹² Limestone Water Utility Operating Company, LLC's Replacement Attachment to Response No. 6 to Staff's January 31st Data Request (February 27, 2025).

³⁹³ This average rate will vary depending on individual customer usage.

Based on its proposed adjustments, the Consumer Advocate calculated revenue deficiencies for water operations of \$343,745, representing a 171% deficit, and a wastewater revenue deficiency of \$296,489, representing a 19% deficit.³⁹⁴ The Consumer Advocate did not calculate rates separately for water and wastewater operations to recover their respective costs. Instead, it proposed a 52.21% rate increase company-wide to water and wastewater rates, including residential and commercial classes, to recover the overall deficiency.³⁹⁵

As set forth herein, the panel found a revenue deficiency of \$432,751 for Limestone's water operations and a revenue deficiency of \$929,573 for sewer operations. Recovering these deficiencies for water and sewer separately would require that overall water rates increase by 195% while overall sewer rates increase by 63%. As proposed by Limestone, establishing separate rates for water and wastewater operations to recover their respective revenue deficiencies could result in water rates that may reach an unaffordable level. Limestone also proposed consolidating rates across all water and sewer systems. While this would simplify Limestone's billing system, this approach would also create extreme fluctuations in customer rates. Some customers would experience smaller rate increases, while existing customers with low existing rates would experience substantial rate increases, which could result in rate shock. For this reason, the panel rejected consolidated rates for this proceeding.

The Consumer Advocate's approach of an across-the-board increase to all customer classes is not appropriate here, as some customer rates are quite low and have not increased in nearly 20 years. Other rates are significantly higher due to more recent rate increases. An across-the-board rate increase could result in disparate rates for the same basic utility service. For example, an across-the-board approach for a 51.02% increase for all rates would result in a rate increase of only \$4.55 for

³⁹⁴ David N. Dittmore, Pre-Filed Direct Testimony of David N. Dittmore Adopting the Direct Testimony of Alex Bradley with Corrections, Wastewater Exhibit Schedule 1.1, Water Exhibit Schedule 1.2. (February 6, 2025).

³⁹⁵ *Id.* at Schedule 10.

Shiloh Falls' residential customers while increasing the rates for Grasslands' three-bedroom residential customers by \$23.72.

The collective impact on customers' bills led to the panel adopting a rate design to recover the entire deficiency company-wide, which is warranted to lessen the impact on water rates. Moreover, to further alleviate the immediate impact on customers, the panel determined that the overall rate increase be spread over two phases, one effective May 1, 2025, and the second effective May 1, 2026. This approach is reflected in Commission Rule 1220-04-14-.07(4). Moreover, the Company indicated at the hearing that it had a phase-in of rates in at least one other state and did not otherwise indicate an objection to a phase-in of new rates.³⁹⁶

Limestone, however, will be allowed to apply its authorized rate of return on the deferred amount of revenue deficiency for recovery in phase two rates. The phase-in approach should recover approximately 50% of the revenue deficiency in phase one and the remaining 50% in phase two. To accomplish this 50-50 recovery between phase one and phase two, it will be necessary to increase rates in the first phase by 53%. The second phase of rate increases will recover the remaining revenue deficiency, which will approximately equal the first phase rate increase because Limestone will be allowed to earn its authorized return (carrying charges) on the unrecovered revenue deficiency.

Before implementing phase two of the rate increases, the Commission will need updated information from Limestone, including, but not limited to, the amount of revenues collected by month by system and the latest available monthly billing determinants by system. Accordingly, Limestone shall file this information by March 2, 2026, including a proposed rate design to collect the remaining revenue deficiency and supporting testimony. This should provide ample time for the Consumer Advocate to review the filing and gather the necessary information to file any proposed alternative rate design and testimony, if needed.

³⁹⁶ Transcript of Hearing, Vol. 1, pp. 117-118 (February 18, 2025).

In developing the phase one rate design, the panel prioritized maintaining affordable residential rates and shifting a higher portion of the additional revenue increase to commercial sewer customers. Depending on the system, the panel's rate design will increase water and sewer rates for residential customers between 20% and 40%.³⁹⁷ The panel adopted a 63.61% overall revenue increase to the commercial sewer customers. However, the panel did not have enough underlying data for sewer billing determinants to set commercial sewer rates. Basing a rate design on this questionable data could result in extreme rate increases to certain groups of commercial customers, especially small customers such as small offices, which tend to have low sewer usage. Further complicating this problem, Limestone recommended one consolidated sewer rate for all systems. Therefore, the panel directed Limestone to file a rate design for commercial sewer customers to generate an additional \$242,076 from sewer customers, representing a 63.61% increase in overall commercial sewer revenues. Further, Limestone was directed to work with Commission Staff to implement the rate design ordered herein.³⁹⁸

Limestone also proposed eliminating the \$7.50 capital surcharge for Cartwright Creek customers and the \$10.24 escrow charge for DSH (Lakeside Estate) customers. These charges were established by the Commission to assist the former owners in collecting funds to be available in case there was a need for capital expenditures. Before being purchased by Limestone, these individual companies were relatively small and did not always have existing funds or the ability to borrow the funds necessary to address all system repairs that might occur. Therefore, the Commission created

³⁹⁷ *Chairman David F. Jones Pre-Filed Motion On The Merits Of The Limestone Water Utility Operating Company, LLC Rate Case*, Staff Rate Design Exhibit (April 11, 2025). Shiloh Falls residential sewer customers will see an increase of 180%, but their current rate is only \$8.93 and has not been increased in nearly 20 years. The new rate is \$25.00 monthly and there are no usage charges.

³⁹⁸ Limestone Water Utility Operating Company, LLC Rate Design And UOC Tariff (May 1, 2025); Limestone Water Utility Operating Company, LLC Revised Rate Design And UOC Tariff (May 19, 2025); Commission Acknowledgement Receipt Of Limestone Water Utility Operating Company's Tariff Filing Number 2025-0017, on May 1, 2025, Which Includes Tariff Rate Schedules and Rules and Regulations. Additionally, the Company filed a Revised Tariff Filing on May 19, 2025 (May 22, 2025).

funds through escrow or capital surcharges collected from customers for use when capital expenditures were needed. However, Limestone is a much larger company and has demonstrated access to capital markets to fund necessary capital projects. Therefore, Limestone has proposed to eliminate such surcharges. Given Limestone's access to sufficient capital to make critical system repairs, the panel voted to eliminate said surcharges. Further, removing these surcharges will also help mitigate the overall bill increases to existing DSH and Cartwright systems' customers.

There are existing balances in escrow funds for several of the systems that Limestone has purchased. Likewise, there is an existing fund balance in the capital surcharge account for Cartwright Creek. Under Commission rules and previous Commission orders, these funds cannot be accessed unless Limestone files a petition with the Commission for prior approval. Limestone is requesting, in this case, that it be allowed to access and use these funds without Commission approval, thereby waiving Commission escrow rules and mooted prior Commission orders. The panel denied the Company's request as such funds were explicitly generated for capital expenditures. Commission oversight is still necessary to ensure that ratepayers' money is spent prudently.

J. NOTICE OF INTENT REQUIREMENT FOR FUTURE RATE CASE PETITION AND PUBLIC NOTICE

The Commission received no advance notice that Limestone was filing its first rate case in Tennessee. As the length of this order indicates, the *Petition* requested a significant rate increase that included many complex issues and covered several different service areas. Rate cases of this 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 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 a steady stream of various alternative regulatory rate mechanism filings for several utilities within relatively short statutory deadlines.

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 party to this docket with written notice of its intention to file a rate case at least 30 days before it is filed. This written notice will allow the Commission to plan and organize its resources in anticipation of a rate case. The written notice does not need details other than the intent to file a rate case in 30 days. Further, the notice of intent may be withdrawn or amended, and the Commission's requirement may be waived altogether for good cause.

Many of the customers who filed or provided public comments in the docket indicated a lack of notice to customers. Indeed, the Company's published notice of proposed rates was unclear and contained proposed rates that did not reflect the total revenue deficiency it was seeking to recover. Further, based on customer comments, the extent of the reach of the Company's notice effort was not far-reaching until well into the process. The panel acknowledges that the Commission's public notice requirements have not kept pace with technological advances and trends in how the public obtains news of important events. Additional notice requirements are pending approval in an active Commission rulemaking proceeding.³⁹⁹ Nevertheless, the panel directed Limestone to provide accurate notice information to customers in the same manner that customers receive utility bills, whether electronic or paper, and through any other means required by the Commission's rules and regulations when the Company files its next rate case.

VI. IT IS THEREFORE ORDERED THAT:

1. Limestone Water Utility Operating Company, LLC's *Petition*, including the proposed rates and rate design, filed on July 16, 2024, is denied.

³⁹⁹ *In Re: Docket To Collect And Consider Information Relating To Commission Practice And Procedure For Rulemaking On Tenn. R. & Regs. 1220-01-01, 1220-01-02, And Other Sections As Determined Relevant*, Docket No. 21-00018, *Notice of Rule-Making Hearing*, attached Proposed Rule 1220-01-02, pp. 16-17 (February 24, 2025).

2. For the rates set herein, the test period for Limestone Water Utility Operating Company, LLC water operations shall be the twelve months ended April 30, 2024, and the attrition period shall be the normalized adjusted test period.

3. For the rates set herein, the panel adopted Water Sales Revenues of \$197,053 and Other Revenues of \$24,641 for water service, which brings total operating water revenues to \$221,694 for the adjusted test period.

4. For the rates set herein, the panel adopted \$431,588 for adjusted test period expenses for water operations.

5. For the rates set herein, the panel adopted a Net Operating Loss of \$209,864 for water operations for the adjusted test period, based on current rates before accounting for taxes related to additional revenues.

6. For the rates set herein, the panel adopted a Rate Base of \$1,255,786 for water operations for the adjusted test period.

7. For the rates set herein, the panel adopted an overall Revenue Conversion Factor of 1.367496 based upon an Uncollectible Ratio of 1.0%, a state excise tax rate of 6.5%, and a Federal Income Tax rate of 21% for water operations.

8. For the rates set herein, the panel adopted a capital structure composed of 45.00% long-term debt and 55.00% common equity for water operations. The panel adopted a long-term debt cost of 6.64%, a short-term debt cost of 0.00%, a return on equity of 10.00%, and an overall rate of return of 8.488% for Limestone Water Utility Operating Company, LLC's water operations.

9. For the rates set herein, the panel adopted a Water Revenue Deficiency of \$432,751 for the adjusted test period.

10. For the rates set herein, the test period for Limestone Water Utility Operating Company, LLC wastewater operations shall be the twelve months ended April 30, 2024, and the attrition period shall be the normalized adjusted test period.

11. For the rates set herein, the panel adopted Wastewater Sales Revenues of \$1,263,575 and Other Revenues of \$206,958 for wastewater service, which brings total operating wastewater revenues to \$1,470,533 for the adjusted test period.

12. For the rates set herein, the panel adopted \$1,890,784 for adjusted test period expenses for wastewater operations.

13. For the rates set herein, the panel adopted a Net Operating Loss of \$420,251 for wastewater operations for the adjusted test period, based on current rates before accounting for taxes related to additional revenues.

14. For the rates set herein, the panel adopted a Rate Base of \$3,057,402 for wastewater operations for the adjusted test period.

15. For the rates set herein, the panel adopted an overall Revenue Conversion Factor of 1.367496 based upon an Uncollectible Ratio of 1.0%, a state excise tax rate of 6.5%, and a Federal Income Tax rate of 21% for wastewater operations.

16. For the rates set herein, the panel adopted a capital structure of 45.00% long-term debt and 55.00% common equity for wastewater operations. The panel adopted a long-term debt cost of 6.64%, a short-term debt cost of 0.00%, a return on equity of 10.00%, and an overall rate of return of 8.488% for Limestone Water Utility Operating Company, LLC's wastewater operations.

17. For the rates set herein, the panel adopted a Wastewater Revenue Deficiency of \$929,573 for the adjusted test period.

18. The revenue deficiencies for water and wastewater operations are combined, and the overall revenue deficiency of \$1,362,324 shall be recovered in two phases. Effective May 1, 2025, the first phase will recover approximately 50% of the revenue deficiency. The second phase shall recover the remainder of the revenue deficiency and associated carrying charges.

19. For the rates set herein, Limestone Water Utility Operating Company, LLC shall file tariffs reflecting the rates for water and wastewater customers in Commission Attachment 4, effective

from May 1, 2025.

20. Before the implementation of the second phase of the approved rate adjustment and to facilitate implementation of the second phase, Limestone Water Utility Operating Company, LLC shall file by March 2, 2026, the amount of revenues collected by month, by system; the latest available monthly billing determinants by system; a proposed rate design to collect the remaining revenue deficiency; and supporting testimony.

21. The actual rate case costs of Limestone Water Utility Operating Company, LLC shall be recovered through a separate surcharge for which the Company shall file a tariff to begin surcharging customers based on the initially estimated rate case cost of \$250,000, with an amortization period of three years. The surcharge shall only be charged to current customers within the systems included in this rate case. The amount to be recovered through this customer surcharge shall not exceed the \$250,000 estimate requested. Supporting documentation of actual rate case costs shall be filed for review no later than July 1, 2025. Further, the rate case surcharge shall be terminated after actual rate case costs have been recovered from customers.

22. Limestone Water Utility Operating Company, LLC'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 is approved. The request to remove the Commission's requirements for approval before expenditure of escrow funds is denied. The Company is ordered to seek prior Commission approval before spending any escrow or capital surcharge funds.

23. Limestone Water Utility Operating Company, LLC is directed to begin filing quarterly reports with the Commission as required by Commission Rule 1220-04-01-.10, *Reports - Uniform Financial Report Forms*. These quarterly reports shall include an additional line item that details the dollar amount of rate case expense that has been recovered through the rate case expense surcharge to customer bills.

24. Limestone Water Utility Operating Company, LLC shall file a notice with the

Commission of its intention to file a rate case at least 30 days before such filing. The notice is intended to alert the Commission and the interested parties intervening in this docket that a rate case filing is anticipated. The notice may be withdrawn, modified, altered, or amended, and may be waived for good cause.

25. When it files its next rate case, Limestone Water Utility Operating Company, LLC shall provide accurate notice of the case proceeding and its proposed rates to customers in the same manner that customers receive utility bills and by any other means required by Commission rules and regulations.

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

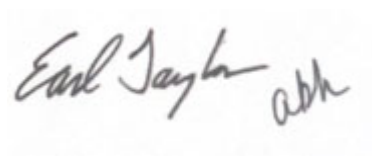
27. Any person aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within 60 days from the date of this Order.

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 concurred.**

None dissented.

ATTEST:

A handwritten signature in dark ink, appearing to read "Earl Taylor" with a stylized flourish or initials "abh" at the end.

Earl R. Taylor, Executive Director

Commission Exhibits

Attachment No.1

Limestone Water Operating Company, LLC - Water and Wastewater
Results of Operations
For the 12 Months Ending April 30, 2024

Line No.		<u>Company</u>	<u>Consumer Advocate</u>	<u>Commission</u>
1	Water and Wastewater Rate Base	\$ 6,008,351	\$ 1,941,111	\$ 4,313,187
2	Operating Income At Current Rates	-1,640,895	-349,960	-630,115
3	Earned Rate Of Return	-27.31%	-18.03%	-14.61%
4	Fair Rate Of Return	9.64%	7.37%	8.49%
5	Required Operating Income	579,097	142,972	366,103
6	Operating Income Deficiency	2,219,992	492,932	996,218
7	Gross Revenue Conversion Factor	1.367496	1.298829	1.367496
8	Gross Income Conversion Factor	<u>1.010101</u>	<u></u>	<u></u>
9	Revenue Deficiency	\$ <u>2,388,072</u>	\$ <u>640,234</u>	\$ <u>1,362,324</u>
10	Correct 2 year amortization of rate case expense	(125,000)		
11	Corrected Revenue Deficiency	<u>2,263,072</u>	<u>640,234</u>	<u>1,362,324</u>

Attachment No.2

Limestone Water Operating Company, LLC - Water
INDEX TO SCHEDULES
For the 12 Months Ending April 30, 2024

	<u>Schedule</u>
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Limestone Water Operating Company, LLC - Water
Results of Operations
For the 12 Months Ending April 30, 2024

Line No.		Company E/	Consumer Advocate F/	Commission
1	Rate Base	\$ 1,452,645	\$ 754,949	\$ 1,255,786 A/
2	Operating Income At Current Rates	-422,950	-209,052	-209,864 B/
3	Earned Rate Of Return	-29.12%	-27.69%	-16.71%
4	Fair Rate Of Return	9.64%	7.37%	8.49% C/
5	Required Operating Income	140,009	55,606	106,591
6	Operating Income Deficiency	562,959	264,658	316,455
7	Gross Revenue Conversion Factor	1.367496	1.298829	1.367496 D/
8	Gross Income Conversion Factor	<u>1.010101</u>	<u> </u>	<u> </u>
9	Revenue Deficiency	\$ <u>603,860</u>	\$ <u>343,745</u>	\$ <u>432,751</u>
10	Correct 2 year amortization of rate case expense	(28,800)		
11	Corrected Revenue Deficiency	<u>575,061</u>	<u>343,745</u>	<u>432,751</u>

A/ Exhibit, Schedule 2.

B/ Exhibit, Schedule 7.

C/ Exhibit, Schedule 10.

D/ Exhibit, Schedule 11.

E/ Limestone's Revised Response to Staff DR 2-6 (February 25, 2025).

F/ Consumer Advocate Revised Schedule 1 (February 20, 2025).

Limestone Water Operating Company, LLC - Water
Average Rate Base
For the 12 Months Ending April 30, 2024

Line No.		Test Period	A/	Adjustments	Adjusted Test Period
	Additions:				
1	Utility Plant in Service	\$ 1,688,819		\$ 0	\$ 1,688,819
2	Land and Land Rights	0		-133,458	-133,458 B/
3	Acquisition Adjustment	0		317,873	317,873 D/
4	Transaction Costs Adjustment	0		160,164	160,164 D/
5	Deferred Rate Case Cost	0		0	
6	Prepayments	902		0	902
7	Working Capital	39,210		0	39,210 C/
8	Total Additions	\$ 1,728,931		\$ 344,578	\$ 2,073,510
9	Deductions:				
10	Accumulated Depreciation	\$ 673,587		\$ 0	\$ 673,587
11	Accumulated Amortization	0		0	0
12	Contributions in Aid of Construction	166,937		-22,800	144,137 E/
13	Total Deductions	\$ 840,524		\$ -22,800	\$ 817,724
14	Rate Base	\$ 888,408		\$ 367,378	\$ 1,255,786

A/ CONFIDENTIAL Limestone UOC Exhibits Submission.xlsx, tab "BT-9.2"

B/ Response to Jan31st TPUC DR 5

C/ Exhibit, Schedule 4.

D/ Commission Staff Workpaper - Rate Base

E/ Include Reclassification adjustment for Tap and Inspection Fee of \$22,800

Limestone Water Operating Company, LLC - Water
Comparative Rate Base
For the 12 Months Ending April 30, 2024

Line No.		<u>Company</u>	<u>Consumer Advocate</u> C/	<u>Commission</u> A/
	Additions:			
1	Utility Plant in Service	\$ 1,688,819	\$ 1,688,819	\$ 1,688,819
2	Land and Land Rights	0	-133,458	-133,458
3	Acquisition Adjustment	446,137	0	317,873
4	Transaction Costs Adjustment	118,100	0	160,164
5	Deferred Rate Case Cost	0	0	0
6	Prepayments	902	902	902
7	Working Capital	<u>39,210</u>	<u>39,210</u>	<u>39,210</u>
8	Total Additions	\$ <u>2,293,169</u>	\$ <u>1,595,473</u>	\$ <u>2,073,510</u>
9	Deductions:			
10	Accumulated Depreciation	\$ 673,587	\$ 673,587	\$ 673,587
11	Accumulated Amortization	0	0	0
12	Contributions in Aid of Construction	166,937	166,937	144,137
13	Total Deductions	\$ <u>840,524</u>	\$ <u>840,524</u>	\$ <u>817,724</u>
14	Rate Base	\$ <u>1,452,645</u> B/	\$ <u>754,949</u>	\$ <u>1,255,786</u>

A/ Exhibit, Schedule 2.

B/ Limestone's Revised Response to Staff DR 2-6 (February 25, 2025).

C/ Consumer Advocate Exhibit, Revised Water Schedule 2

Limestone Water Operating Company, LLC - Wastewater
Comparative Working Capital
For the 12 Months Ending April 30, 2024

Line No.		Company A/	Consumer Advocate A/	Commission A/
1	Operating Expenses for Test Period	\$ 39,210	\$ 39,210	\$ 39,210
2	Working Capital Requirement	<u>\$ 39,210</u>	<u>\$ 39,210</u>	<u>\$ 39,210</u>

A/ Company Exhibit BT-13.2.

Limestone Water Operating Company, LLC - Water
Income Statement at Current Rates
For the 12 Months Ending April 30, 2024

Line No.		Test Period	A/	Adjustments	Adjusted Test Period Amount
	Operating Revenues:				
1	Water Sales Revenues	\$ 184,219		\$ 12,834	\$ 197,053
2	Other Revenues	1,840		22,801	24,641 F/
3	Total Water Revenue	\$ 186,059		\$ 35,635	\$ 221,694
	Operating & Maintenance Expenses:				
4	Gain/Loss of Utility Property	\$ 229		\$ -229	\$ 0
5	Customer Record Collect (Billing)	22,814		-6,746	16,069
6	Customer Collection Expenses	71		0	71
7	Customer Record Collect (Bank Fees)	4,612		0	4,612
8	Uncollectibles	1,487		0	1,487
9	Meals & Travel	0		0	0
10	Communication	0		0	0
11	Support Services (Admin Expenses Transferred)	90,522		-3,180	87,343 B/
12	Bank Fees	5,847		0	5,847
13	Legal	523		231	754
14	Audit And Accounting	1,664		-784	880
15	MGMT Consult	1,452		0	1,452
16	IT	0		0	0
17	Property Insurance-Commercial	12,506		-167	12,340
18	Regulatory Expense	895		0	895
19	Miscellaneous	5,193		0	5,193
20	Purchased Water	164,876		-5,688	159,188 C/
21	Purchased Power	5,323		-184	5,140 C/
22	Chemicals	1,975		-68	1,907 C/
23	Materials and Supplies	1,866		-64	1,801 C/
24	Mowing and Lawn Maintenance	1,699		0	1,699
25	Contract Services	101,900		11,991	113,891
26	Maintenance Expense	29,287		-3,758	25,529
27	Testing	850		0	850
28	Bad Debt	1,477		0	1,477
29	Total Operating & Maintenance Expenses	\$ 457,069		\$ -8,646	\$ 448,424
30	Depreciation Expense	46,753		0	46,753
31	CIAC Amortization Expense	-7,085		-532	-7,617 D/
32	Amortization of Regulatory Asset Expense	0		25,160	25,160 E/
33	General Taxes	620		0	620
34	Property Taxes	5,749		0	5,749
35	State Excise Taxes	0		-21,770	-21,770
36	Federal Income Taxes	0		-65,761	-65,761
37	Total Operating Expenses	\$ 503,107		\$ -71,549	\$ 431,558
38	Utility Operating Income	\$ -317,048		\$ 107,184	\$ -209,864

A/ CONFIDENTIAL Limestone UOC Exhibits Submission.xlsx, tab "BT-3.2"

B/ TPUC Staff Adjustment 1

C/ TPUC Staff Adjustment 2

D/ TPUC Staff Adjustment 3

E/ \$16,730.18 for acquisition adjustments \$8,429.66 for transaction costs.

F/ Include Tap Fees of \$22,800

Water Utility Company, LLC - Water
Statement at Current Rates
Period Ending April 30, 2024

Line No.		<u>Company</u> B/	<u>Consumer Advocate</u> D/	<u>Commission</u> A/
Operating Revenues:				
1	Water Sales Revenues	\$ 197,053	\$ 200,935	\$ 197,053
2	Other Revenues	1,841	0	24,641
3	Total Water Revenue	\$ 198,894	\$ 200,935	\$ 221,694
Operating & Maintenance Expenses:				
4	Gain/Loss of Utility Property	\$ 0	\$ 0	\$ 0
5	Customer Record Collect (Billing)	16,069	16,069	16,069
6	Customer Collection Expenses	71	71	71
7	Customer Record Collect (Bank Fees)	4,612	4,612	4,612
8	Uncollectibles	1,487	1,487	1,487
9	Meals & Travel	0	0	0
10	Communication	0	0	0
11	Support Services (Admin Expenses Transferred)	90,522	86,837	87,343
12	Bank Fees	5,847	5,847	5,847
13	Legal	754	754	754
14	Audit And Accounting	880	880	880
15	MGMT Consult	1,452	1,452	1,452
16	IT	0	0	0
17	Property Insurance-Commercial	12,340	12,340	12,340
18	Regulatory Expense	895	895	895
19	Miscellaneous	5,193	5,193	5,193
20	Purchased Water	164,876	159,188	159,188
21	Purchased Power	5,323	5,140	5,140
22	Chemicals	1,975	1,907	1,907
23	Materials and Supplies	1,866	1,801	1,801
24	Mowing and Lawn Maintenance	1,699	1,699	1,699
25	Contract Services	113,891	113,891	113,891
26	Maintenance Expense	25,529	25,529	25,529
27	Testing	850	850	850
28	Bad Debt	1,477	1,477	1,477
29	Total Operating & Maintenance Expenses	\$ 457,608	\$ 447,918	\$ 448,424
30	Depreciation Expense	52,666	52,666	46,753
31	CIAC Amortization Expense	-7,441	-14,896	-7,617
32	Amortization of Regulatory Asset Expense	112,643 C/	0	25,160
33	General Taxes	620	620	620
34	Property Taxes	5,749	5,749	5,749
35	State Excise Taxes	0	-20,079	-21,770
36	Federal Income Taxes	0	-61,991	-65,761
37	Total Operating Expenses	\$ 621,844	\$ 409,987	\$ 431,558
38	Utility Operating Income	\$ -422,950 D/	\$ -209,052	\$ -209,864

A/ Exhibit, Schedule 5.

B/ CONFIDENTIAL Limestone UOC Exhibits Submission.xlsx, tabs "BT-3.2" & "BT-4.2"

C/ Limestone initially recorded \$28,800 for Rate Case expenses, which reflected a two-year amortization of \$57,600. This amount was later revised to include an additional \$22,306.86 for acquisition adjustments, \$3,936.66 for transaction costs, and another \$57,600 for rate case expenses. The updated amount was provided in response to Staff DR 6, resulting in a Net Income at Present Rates of \$422,951.

D/ Consumer Advocate Revised Schedule 6 (February 20, 2025).

Limestone Water Operating Company, LLC - Water
Comparative Water Revenue Summary
For the 12 Months Ending April 30, 2024

Line No.	Customer Class	Company B/	Consumer Advocate A/	Commission A/
1	Aqua Utilities	\$	\$ 151,015	\$ 138,973
2	Candlewood Lakes		49,920	58,080
3	Total Water Sales Revenue	\$ <u>197,053</u>	\$ <u>200,935</u>	\$ <u>197,053</u>
4	Forfeited Discounts			
5	Non-Sufficient Fund Fees			
6	Inspection Fees			1,841
7	Connection Fees / Tap Fees			22,800 C/
8	Total Other Operating Revenue	\$ <u>1,841</u>	\$ <u>0</u>	\$ <u>24,641</u>
9	Total Revenues	\$ <u>198,894</u>	\$ <u>200,935</u>	\$ <u>221,694</u>

A/ Consumer Advocate Exhibit, Schedule 6

B/ Limestone Witness Thies Exhibit, Workpapers BT-3.2

C/ Response to Jan 31st TPUC DR 3 (2025.2.11)

Limestone Water Operating Company, LLC - Water
Excise and Income Taxes
For the 12 Months Ending April 30, 2024

Line No.		Commission A/
1	Operating Revenues	\$ 221,694
	Operating Expenses:	
2	Gain/Loss of Utility Property	\$ 0
3	Customer Record Collect (Billing)	16,069
4	Customer Collection Expenses	71
5	Customer Record Collect (Bank Fees)	4,612
6	Uncollectibles	1,487
7	Meals & Travel	0
8	Communication	0
9	Support Services (Admin Expenses Transferred)	87,343
10	Bank Fees	5,847
11	Legal	754
12	Audit And Accounting	880
13	MGMT Consult	1,452
14	IT	0
15	Property Insurance-Commercial	12,340
16	Regulatory Expense	895
17	Miscellaneous	5,193
18	Purchased Water	159,188
19	Purchased Power	5,140
20	Chemicals	1,907
21	Materials and Supplies	1,801
22	Mowing and Lawn Maintenance	1,699
23	Contract Services	113,891
24	Maintenance Expense	25,529
25	Testing	850
26	Bad Debt	1,477
27	Depreciation Expense	46,753
28	Amortization Expense	-7,617
29	Amortization of Regulatory Asset Expense	25,160
30	General Taxes	620
31	Property Taxes	5,749
32	Total Operating Expenses	\$ 519,089
33	NOI Before Excise and Income Taxes	\$ -297,395
34	less Interest Expense	37,523 B/
35	Net Income Income Before Income Taxes	\$ -334,918
	Tennessee Excise Taxable Income Calculation	
36	Net Income Before Income Taxes	\$ -334,918
37	Excise Tax Rate	6.50%
38	Excise TaxExpense	\$ -21,770
	Federal Income Tax Calculation:	
39	Net Income Before Income Taxes	\$ -334,918
40	State Excise Tax Expense	-21,770
41	Net Income Before Federal Income Tax	\$ -313,148
42	FIT Rate	21.00%
43	Federal Income Tax Expense	\$ -65,761

A/ Exhibit, Schedule 7.

B/ Exhibit, Schedule 10.

Limestone Water Operating Company, LLC - Water
Income Statement at Proposed Rates
For the 12 Months Ending April 30, 2024

Line No.		Current Rates	A/	Rate Increase	Proposed Rates
Operating Revenues:					
1	Water Sales Revenues	\$ 197,053		\$ 432,751 B/	\$ 629,804
2	Other Revenues	24,641			24,641
3	Total Water Revenue	\$ 221,694		\$ 432,751	\$ 654,445
Operating & Maintenance Expenses:					
4	Gain/Loss of Utility Property	\$ 0		\$ 0	\$ 0
5	Customer Record Collect (Billing)	16,069		0	16,069
6	Customer Collection Expenses	71		0	71
7	Customer Record Collect (Bank Fees)	4,612		0	4,612
8	Uncollectibles	1,487		4,328	5,814
9	Meals & Travel	0		0	0
10	Communication	0		0	0
11	Support Services (Admin Expenses Transferred)	87,343		0	87,343
12	Bank Fees	5,847		0	5,847
13	Legal	754		0	754
14	Audit And Accounting	880		0	880
15	MGMT Consult	1,452		0	1,452
16	IT	0		0	0
17	Property Insurance-Commercial	12,340		0	12,340
18	Regulatory Expense	895		0	895
19	Miscellaneous	5,193		0	5,193
20	Purchased Water	159,188		0	159,188
21	Purchased Power	5,140		0	5,140
22	Chemicals	1,907		0	1,907
23	Materials and Supplies	1,801		0	1,801
24	Mowing and Lawn Maintenance	1,699		0	1,699
25	Contract Services	113,891		0	113,891
26	Maintenance Expense	25,529		0	25,529
27	Testing	850		0	850
28	Bad Debt	1,477		0	1,477
29	Total Operating & Maintenance Expenses	\$ 448,424		\$ 4,328	\$ 452,751
30	Depreciation Expense	46,753		0	46,753
31	CIAC Amortization Expense	-7,617		0	-7,617
32	Amortization of Regulatory Asset Expense	25,160		0	25,160
33	General Taxes	620		0	620
34	Property Taxes	5,749		0	5,749
35	State Excise Taxes	-21,770		27,848	6,078
36	Federal Income Taxes	-65,761		84,121	18,360
37	Total Operating Expenses	\$ 431,558		\$ 116,296	\$ 547,854
38	Utility Operating Income	\$ -209,864		\$ 316,455	\$ 106,591

A/ Exhibit, Schedule 5.

Limestone Water Operating Company, LLC - Water
Rate of Return Summary
For the 12 Months Ending April 30, 2024

Line No.	Class of Capital	Commission ^{A/}		
		Percent of Total	Cost Rate	Weighted Cost Rate
1	Short-Term Debt	0.00%	0.00%	0.0000%
2	Long-Term Debt	45.00%	6.64%	2.9880%
4	Parent Long Term Debt	0.00%	0.00%	0.0000%
5	Preferred Equity	0.00%	0.00%	0.0000%
6	Common Equity	55.00%	10.00%	5.5000%
7	Total	100.00%		8.4880%
Interest Expense Short-Term Debt				
8	Rate Base			\$ 1,255,786 B/
9	Short-Term Weighted Debt Cost			0.0000%
10	Short-Term Debt Interest Expense			\$ 0
Interest Expense Long-Term Debt				
11	Rate Base			\$ 1,255,786 B/
12	Long-Term Weighted Debt Cost			2.9880%
13	Long-Term Debt Interest Expense			\$ 37,523
14	Total Interest Expense			\$ 37,523

A/ Commission Staff Cost of Capital Workpaper
B/ Exhibit Schedule 2.

Limestone Water Operating Company, LLC - Water
Revenue Conversion Factor
For the 12 Months Ending April 30, 2024

<u>Line No.</u>		<u>Amount</u>	<u>Balance</u>
1	Operating Revenues		1.000000
2	Uncollectible Ratio	0.010000 A/	<u>0.010000</u>
3	Balance		0.990000
4	State Excise Tax	0.065000 B/	<u>0.064350</u>
5	Balance		0.925650
6	Federal Income Tax	0.210000 C/	<u>0.194387</u>
7	Balance		0.731264
8	Revenue Conversion Factor (Line 1 / Line 7)		<u><u>1.367496</u></u>

A/ Limestone UOC Exhibits BT-7
B/ Statutory Rates

Limestone Water Operating Company, LLC
Transaction Cost Analysis
Balances Approved for Rate Determination

Line No.		Limestone Sewer Operations	Limestone Water Operations	Limestone Total
1	Transaction Costs, as Proposed by Company	\$ 426,354 A/	\$ 118,100 A/	\$ 544,454 A/
2	Commission's Reclassification of Land and Land Rights Debits to Transaction Costs	543,901 B/	133,458 B/	677,359 B/
3	Total Company Transaction Costs and Commission-Reclassified Land and Land Rights Debits	\$ 970,255 C/	\$ 251,558 C/	\$ 1,221,813 C/
4	Commission's Identified Closing Transaction Costs	\$ 717,572 D/	\$ 223,512 D/	\$ 941,084 D/
5	Commission's Recommended 75% for Recovery from Customers	538,179	167,634	705,813
6	Commission's Recommended 25% Assigned to Company	179,393	55,878	235,271
7	Commission's Identified Due Diligence Costs	127,491 D/	3,837 D/	131,328 D/
8	Commission's Recommended 25% for Recovery from Customers	31,873	959	32,832
9	Commission's Recommended 75% Assigned to Company	95,618	2,878	98,496
10	Commission's Identified Out-of-Period O&M Costs and Other Reclassification Adjustments	125,192 E/	24,209 E/	149,401 E/
11	Commission's Transaction Costs Recommended for Recovery from Customers	\$ 570,052 F/	\$ 168,593 F/	\$ 738,645 F/
12	Commission's Transaction Costs Assigned to Company	400,203 G/	82,965 G/	483,168 G/
13	Total Transaction Costs Approved by Commission	\$ 970,255 H/	\$ 251,558 H/	\$ 1,221,813 H/
14	Commission's Approved Transaction Cost Impacts on Rate Base and Cost of Service:			
15	Impact to Company Rate Base for Transaction Cost Regulatory Asset	\$ 541,549 I/	\$ 160,164 I/	\$ 701,713 I/
16	Impact to Company's Annual Amortization Expenses	28,503 J/	8,430 J/	36,932 J/
17	Total Transaction Cost Impact to Company's Required Revenue	\$ 570,052	\$ 168,593	\$ 738,645

A/ Limestone's Response to Consumer Advocate DR 1-67, Excel file <DR 67 Transaction Costs.xlsx> (November 1, 2024).

B/ Company Response to Staff DR 2-7, Excel File DR 2-7 Land - CONFIDENTIAL.xlsx (February 11, 2025). These costs represent transaction and closing costs per Commission Rule 1220-04-14-.06.

C/ Line 1 + Line 2.

D/ Per Staff WP 1-Sewer TC. These costs represent the Company's transactional costs associated with closing each of the acquisitions included in this case, Docket No. 24-00044 Per Commission Rule 1220-04-14-.06, maximum amortization period is 20 years. To minimize impact on customers, the Commission authorizes a 20-year amortization period.

E/ Line 3 minus Line 4 minus Line 7.

F/ Line 5 + Line 8.

G/ Line 6 + Line 9 + Line 10.

H/ Line 11 + Line 12.

I/ Rate base impact consists of 19/20 of recommended amount for recovery. One year's amortization expense (1/20) is included in Company's cost of service.

J/ Represents first year of annual amortization expense of the Commission's approved transaction cost amount.

ACQUISITION ADJUSTMENT ANALYSIS

24-00044
Commission Water Exhibit
Schedule 13

Commission Rule Footnote Reference		Factors Applicable to This Case							Approved per Commission	
		1220-04-14-.04(2)(a)	1220-04-14-.04(2)(b)	1220-04-14-.04(2)(c)	1220-04-14-.04(2)(d)					
		1/ Cost Savings or increases resulting from consolidation of the selling utility's system into the acquiring utility's operations	2/ Improvements in services resulting from the acquisition	3/ Remediation of public health, safety and welfare concerns of the selling utility's system resulting from the acquisition	4/ Incentives for acquisition of a financially or operationally troubled system, which may be demonstrated by bankruptcy, receivership, financial distress, notice of violation, order of abatement, or inability to continue as a going concern of the selling utility					
Line	System					Total Allocation	Company's Requested Acquisition Costs for Deferral/Recovery	Approved Acquisition Adjustment for Deferral/Recovery	Approved % Acquisition Adjustment for Deferral/Recovery	
1	Aqua (water)	X	√	√	√	75.00%	\$ 386,816	\$ 290,112		
2	Candlewood (water)	X	√	√	√	75.00%	\$ 59,322	\$ 44,492		
3	Total Water-related						\$ 446,138	\$ 334,604	75.00%	
4							Approved Amortization Expense - Water	\$ 16,730		
5							Approved Rate Base Impact - Water	\$ 317,873		
6	Aqua (wastewater)	X	√	√	√	75.00%	\$ 323,487	\$ 242,615		
7	CC - Arrington Retreat (WW)	X	√	√	√					
8	CC - Grasslands (WW)	X	√	√	√					
9	CC - Hardeman Springs (WW)	X	√	-	√					
10	CC - Hideaway (WW)	X	√	-	√					
11	Cartwright Creek Systems (WW)	X	√	mix	√	68.75%	\$ 1,240,278	\$ 852,691		
12	Chapel Woods (wastewater)**	X	√	-	X	62.50%	\$ (41,290)	\$ (25,806)		
13	Shiloh Falls (wastewater)	X	√	√	√	75.00%	\$ 150,519	\$ 112,889		
14	DSH (wastewater)	X	√	√	X	50.00%	\$ 31,147	\$ 15,574		
15	Total Sewer-related						\$ 1,704,141	\$ 1,197,963	70.30%	
16							Approved Amortization Expense - Sewer	\$ 59,898		
17							Approved Rate Base Impact - Sewer	\$ 1,138,065		
18	Total Acquisition Adjustment Costs - Water and Sewer Operations						\$ 2,150,279	\$ 1,532,566	71.27%	
19						Approved Amortization Expense - Overall		\$ 76,628		
20						Approved Rate Base Impact - Overall		\$ 1,455,938		

Co met burden of proof; approved for customer recovery	√
Co not met burden of proof; disallowed from customer recovery	X
Co partially met burden of proof; partial recovery approved	- / mix

Notes

- 1/ The Company expressed its expectation that costs would not decrease; the Commission sees no evidence any system has or will offer cost savings for customers.
- 2/ Given the work made by the Company and its 24-hr live emergency answering service and 12-hour daily customer service line, the Commission views the Company has improved its customers' level of service.
- 3/ The Company has documented efforts to bring its systems into compliance with TDEC regulations. In addition, it provides CSWR's EHS team to work with the state to maintain compliance. An assessment of "-" has been given for the potential future benefits of CSWR's EHS team when no other specific example of remediation was noted.
- 4/ Aqua, Cartwright Creek, and Shiloh Falls all reported operating losses for at least 3 consecutive years prior to their acquisition by Limestone. In addition, the other systems noted had issues with TDEC, which the Company has addressed or is in the process of addressing.
- ** Because the Chapel Woods system has a negative acquisition adjustment associated with it, the Commission's allocation percentage is the inverse of the other systems with positive acquisition adjustments.

Attachment No.3

Limestone Water Operating Company, LLC - Wastewater

INDEX TO SCHEDULES

For the 12 Months Ending April 30, 2024

	<u>Schedule</u>
Results of Operations	1
Average Rate Base	2
Comparative Rate Base	3
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Limestone Water Operating Company, LLC - Wastewater
Results of Operations
For the 12 Months Ending April 30, 2024

Line No.		Company E/	Consumer Advocate F/	Commission
1	Rate Base	\$ 4,555,707	\$ 1,186,162	\$ 3,057,402 A/
2	Operating Income At Current Rates	-1,217,945	-140,908	-420,251 B/
3	Earned Rate Of Return	-26.73%	-11.88%	-13.75%
4	Fair Rate Of Return	9.64%	7.37%	8.49% C/
5	Required Operating Income	439,088	87,367	259,512
6	Operating Income Deficiency	1,657,033	228,274	679,763
7	Gross Revenue Conversion Factor	1.367496	1.298829	1.367496 D/
8	Gross Income Conversion Factor	<u>1.010101</u>	<u> </u>	<u> </u>
9	Revenue Deficiency	\$ <u>1,784,211</u>	\$ <u>296,489</u>	\$ <u>929,573</u>
10	Correct 2 year amortization of rate case expense	(96,200)		
11	Corrected Revenue Deficiency	<u>1,688,011</u>	\$ <u>296,489</u>	\$ <u>929,573</u>

A/ Exhibit, Schedule 2.

B/ Exhibit, Schedule 7.

C/ Exhibit, Schedule 14.

D/ Exhibit, Schedule 15.

E/ Limestone's Revised Response to Staff DR 2-6 (February 25, 2025).

F/ Consumer Advocate Revised Schedule 1 (February 20, 2025).

Limestone Water Operating Company, LLC - Wastewater
Average Rate Base
For the 12 Months Ending April 30, 2024

Line No.		Test Period	A/	Adjustments	Adjusted Test Period	B/
	Additions:					
1	Utility Plant in Service	\$ 10,961,828		\$ 0	\$ 10,961,828	
2	Land and Land Rights		0	-543,901	-543,901	
3	Acquisition Adjustment		0	1,138,065	1,138,065	
4	Transaction Costs Adjustment		0	541,549	541,549	
5	Deferred Rate Case Cost		0	0	0	
6	Prepayments		5,545	0	5,545	
7	Working Capital	<u>129,461</u>		<u>0</u>	<u>129,461</u>	
8	Total Additions	\$ <u>11,096,834</u>		\$ <u>1,135,713</u>	\$ <u>12,232,547</u>	
9	Deductions:					
10	Accumulated Depreciation	\$ 3,199,129		\$ 0	\$ 3,199,129	
11	CIAC For Finance and Escrow Riders			653,857	653,857	
12	Contributions in Aid of Construction	<u>5,124,592</u>		<u>197,567</u>	<u>5,322,159</u>	C/
13	Total Deductions	\$ <u>8,323,721</u>		\$ <u>851,424</u>	\$ <u>9,175,145</u>	
14	Rate Base	\$ <u>2,773,113</u>		\$ <u>284,289</u>	\$ <u>3,057,402</u>	

A/ CONFIDENTIAL Limestone UOC Exhibits Submission.xlsx, tab "BT-9.1"

B/ Commission Staff Rate Base Workpaper

C/ Include Reclassification adjustment for Tap and Inspection Fee of \$191,625

Limestone Water Operating Company, LLC - Wastewater
Comparative Rate Base
For the 12 Months Ending April 30, 2024

Line No.		<u>Company</u>	<u>Consumer Advocate</u> C/	<u>Commission</u> A/
	Additions:			
1	Utility Plant in Service	\$ 10,961,828	\$ 10,961,828	\$ 10,961,828
2	Land and Land Rights	0	-543,901	-543,901
3	Acquisition Adjustment	1,745,431 B/		1,138,065
4	Transaction Costs Adjustment	426,354 B/		541,549
5	Deferred Rate Case Cost			0
6	Prepayments	5,545	5,545	5,545
7	Working Capital	<u>129,461</u>	<u>129,461</u>	<u>129,461</u>
8	Total Additions	\$ <u>13,268,619</u>	\$ <u>10,552,933</u>	\$ <u>12,232,547</u>
9	Deductions:			
10	Accumulated Depreciation	\$ 3,199,129	\$ 3,199,129	\$ 3,199,129
11	CIAC For Finance and Escrow Riders	0	653,857	653,857
12	Contributions in Aid of Construction	<u>5,513,784</u>	<u>5,513,784</u>	<u>5,322,159</u>
13	Total Deductions	\$ <u>8,712,913</u>	\$ <u>9,366,770</u>	\$ <u>9,175,145</u>
14	Rate Base	\$ <u>4,555,707</u> B/	\$ <u>1,186,162</u>	\$ <u>3,057,402</u>

A/ Exhibit, Schedule 2.

B/ Limestone's Revised Response to Staff DR 2-6 (February 25, 2025).

C/ Consumer Advocate Exhibit, Revised Wastewater Schedule 3

Limestone Water Operating Company, LLC - Wastewater
Comparative Working Capital
For the 12 Months Ending April 30, 2024

Line No.		Company A/	Consumer Advocate A/	Commission A/
1	Operaing Expenses for Test Period	\$ 129,461	\$ 129,461	\$ 129,461
2	Working Capital Requirement	\$ 129,461	\$ 129,461	\$ 129,461

A/ Company Exhibit BT-13.1.

Limestone Water Operating Company, LLC - Wastewater
Income Statement at Current Rates
For the 12 Months Ending April 30, 2024

Line No.		Test Period	A/ Adjustments	Adjusted Test Period Amount
	Operating Revenues:			
1	Sewer Revenues	\$ 846,589	\$ 416,986	\$ 1,263,575
2	Other Revenues	14,724	192,234	206,958 B/
3	Total Sewer Revenue	\$ 861,313	\$ 609,220	\$ 1,470,533
	Operating & Maintenance Expenses:			
4	Gain/Loss of Utility Property	\$ 76,473	\$ -76,473	\$ 0
5	Customer Record Collect (Billing)	73,192	-18,029	55,163
6	Customer Collection Expenses	236	0	236
7	Customer Record Collect (Bank Fees)	15,407	0	15,407
8	Uncollectibles	4,966	0	4,966
9	Meals & Travel	31	-31	0
10	Communication	3,553	0	3,553
11	Support Services (Admin Expenses Transferred)	302,373	-10,645	291,728
12	Bank Fees	19,531	0	19,531
13	Legal	5,025	-3,713	1,312
14	Audit And Accounting	5,559	-2,618	2,941
15	MGMT Consult	4,851	0	4,851
16	IT	669	-252	417
17	Property Insurance-Commercial	43,536	1,525	45,061
18	Regulatory Expense	27,925	233	28,158
19	Purchased Treatment	352	0	352
20	Sludge Removal	(80)	0	(80)
21	Purchased Power	173,269	2,151	175,420
22	Fuel for Power Production	38	0	38
23	Chemicals	18,508	0	18,508
24	Materials and Supplies	7,590	316	7,906
25	Mowing and Lawn Maintenance	141,876	0	141,876
26	Contract Services	413,507	84,642	498,149
27	Contract Services-Collections	31,578	0	31,578
28	Maintenance Expense	87,595	-300	87,295
29	Contract Operations - Pumping Ops	480	0	480
30	Pumping Maintenance	100	0	100
31	Treatment & Disposal	37,967	-4,634	33,333
32	Contract Services-Testing	42,596	318	42,914
33	Bad Debt	6,749	0	6,749
34	Misc, Exepense	20,003	0	20,003
35	Total Operating & Maintenance Expenses	\$ 1,565,454	\$ -27,510	\$ 1,537,944
36	Depreciation Expense	443,445	0	443,445
37	CIAC Amortization Expense	-189,623	164,182	-25,441
38	Amortization of Regulatory Asset Expense	0	88,401	88,401 C/
39	General Taxes	2,073	0	2,073
40	Property Taxes	25,379	0	25,379
41	State Income Taxes	0	-45,020	-45,020
42	Federal Income Taxes	0	-135,996	-135,996
43	Total Operating Expenses	\$ 1,846,728	\$ 44,056	\$ 1,890,784
44	Utility Operating Income	\$ -985,414	\$ 565,164	\$ -420,251

A/ CONFIDENTIAL Limestone UOC Exhibits Submission.xlsx, tab "BT-3.1"

B/ Include Tap Fees of \$191,625

C/ \$59,898.14 for acquisition adjustments and \$28,502.60 for transaction costs.

Limestone Water Operating Company, LLC - Wastewater
Comparative Income Statement at Current Rates
For the 12 Months Ending April 30, 2024

Line No.		Company B/	Consumer Advocate D/	Commission A/
	Operating Revenues:			
1	Sewer Revenues	\$ 1,172,345	\$ 986,046	\$ 1,263,575
2	Other Revenues	15,332	555,943	206,958
3	Total Sewer Revenue	\$ 1,187,678	\$ 1,541,989	\$ 1,470,533
	Operating & Maintenance Expenses:			
4	Gain/Loss of Utility Property	\$ 0	\$ 0	\$ 0
5	Customer Record Collect (Billing)	55,163	55,163	55,163
6	Customer Collection Expenses	236	236	236
7	Customer Record Collect (Bank Fees)	15,407	15,407	15,407
8	Uncollectibles	4,966	4,966	4,966
9	Meals & Travel	0	0	0
10	Communication	3,553	3,553	3,553
11	Support Services (Admin Expenses Transferred)	302,373	290,034	291,728
12	Bank Fees	19,531	19,531	19,531
13	Legal	1,312	1,312	1,312
14	Audit And Accounting	2,941	2,941	2,941
15	MGMT Consult	4,851	4,851	4,851
16	IT	417	417	417
17	Property Insurance-Commercial	45,061	45,061	45,061
18	Regulatory Expense	28,158	28,158	28,158
19	Purchased Treatment	352	352	352
20	Sludge Removal	-80	-80	-80
21	Purchased Power	175,420	175,420	175,420
22	Fuel for Power Production	38	38	38
23	Chemicals	18,508	18,508	18,508
24	Materials and Supplies	7,906	7,906	7,906
25	Mowing and Lawn Maintenance	141,876	141,876	141,876
26	Contract Services	498,149	498,149	498,149
27	Contract Services-Collections	31,578	31,578	31,578
28	Maintenance Expense	87,295	87,295	87,295
29	Contract Operations - Pumping Ops	480	480	480
30	Pumping Maintenance	100	100	100
31	Treatment & Disposal	33,333	33,333	33,333
32	Contract Services-Testing	42,914	42,914	42,914
33	Bad Debt	6,749	6,749	6,749
34	Misc, Expense	20,003	20,003	20,003
35	Total Operating & Maintenance Expenses	\$ 1,548,589	\$ 1,536,249	\$ 1,537,944
36	Depreciation Expense	465,940	465,940	443,445
37	CIAC Amortization Expense	-26,441	-293,174	-25,441
38	Amortization of Regulatory Asset Expense	390,084 C/	0	88,401
39	General Taxes	2,072	2,073	2,073
40	Property Taxes	25,379	25,379	25,379
41	State Income Taxes	0	-13,323	-45,020
42	Federal Income Taxes	0	-40,247	-135,996
43	Total Operating Expenses	\$ 2,405,623	\$ 1,682,897	\$ 1,890,784
44	Utility Operating Income	\$ -1,217,945 B/	\$ -140,908	\$ -420,251

A/ Exhibit, Schedule 5.

B/ Limestone's Revised Response to Staff DR 2-6 (February 25, 2025).

C/ Limestone initially recorded \$96,200 for Rate Case expenses, which reflected a two-year amortization of \$192,400. This amount was later revised to include an additional \$87,271.57 for acquisition adjustments, \$14,211.80 for transaction costs, and another \$192,400 for rate case expenses. The updated amount was provided in response to Staff DR 6, resulting in a Net Income at Present Rates of \$(1,217,945).

D/ Consumer Advocate Revised Schedule 6 (February 20, 2025).

Limestone Water Operating Company, LLC - Wastewater
Comparative Water Revenue Summary
For the 12 Months Ending April 30, 2024

Line No.	Customer Class	Company B/	Consumer Advocate A/	Commission
1	Cartwright Creek - Grassland	\$	\$ 296,218	\$ 299,439 D/
2	Cartwright Creek - Arrington/Hardeman/Hideaway		278,736	582,968 D/
3	Cartwright Creek commercial usages		97,446	91,230 C/
4	Aqua Utilities		118,127	116,221 D/
5	Chapel Woods		49,822	50,460 D/
6	Lakeside Estates (DSH)		54,005	33,296 D/
7	Shiloh Falls		91,692	89,962 D/
9	Total Sewer Sales Revenue	\$ 1,172,345	\$ 986,046	\$ 1,263,575
10	Forfeited Discounts		62,753	
11	Non-Sufficient Fund Fees		65	
12	Inspection Fees		11,550	15,333
13	Connection Fees / Tap Fees		481,575	191,625
14	Total Other Operating Revenue	\$ 15,333	\$ 555,943	\$ 206,958
15	Total Revenues	\$ 1,187,678	\$ 1,541,989	\$ 1,470,533

A/ Consumer Advocate Exhibit, Schedule 6

B/ Limestone Witness Thies Exhibit, Workpapers BT-3.1

C/ WHN R-1-1.01 Usage revenues for Cartwright Creek

D/ Limestone's Response to CA 1-35 "Revenue Adjustment" Tab

Limestone Water Operating Company, LLC - Wastewater
Excise and Income Taxes
For the 12 Months Ending April 30, 2024

Line No.		<u>Commission</u> A/
1	Operating Revenues	\$ <u><u>1,470,533</u></u>
	Operating Expenses:	
2	Gain/Loss of Utility Property	\$ 0
3	Customer Record Collect (Billing)	55,163
4	Customer Collection Expenses	236
5	Customer Record Collect (Bank Fees)	15,407
6	Uncollectibles	4,966
7	Meals & Travel	0
8	Communication	3,553
9	Support Services (Admin Expenses Transferred)	291,728
10	Bank Fees	19,531
11	Legal	1,312
12	Audit And Accounting	2,941
13	MGMT Consult	4,851
14	IT	417
15	Property Insurance-Commercial	45,061
16	Regulatory Expense	28,158
17	Purchased Treatment	352
18	Sludge Removal	-80
19	Purchased Power	175,420
20	Fuel for Power Production	38
21	Chemicals	18,508
22	Materials and Supplies	7,906
23	Mowing and Lawn Maintenance	141,876
24	Contract Services	498,149
25	Contract Services-Collections	31,578
26	Maintenance Expense	87,295
27	Contract Operations - Pumping Ops	480
28	Pumping Maintenance	100
29	Treatment & Disposal	33,333
30	Contract Services-Testing	42,914
31	Bad Debt	6,749
32	Misc, Exepense	20,003
33	Depreciation Expense	443,445
34	CIAC Amortization Expense	-25,441
35	Amortization of Regulatory Asset Expense	88,401
36	General Taxes	2,073
37	Property Taxes	25,379
38	Total Operating Expenses	\$ <u><u>2,071,801</u></u>
39	NOI Before Excise and Income Taxes	\$ -601,267
40	less Interest Expense	91,355 B/
41	Net Income Before Income Taxes	<u><u>-692,623</u></u>
	Tennessee Excise Taxable Income Calculation	
42	Net Income Before Income Taxes	\$ -692,623
43	Excise Tax Rate	6.50%
44	Excise TaxExpense	\$ <u><u>-45,020</u></u>
	Federal Income Tax Calculation:	
45	Net Income Before Income Taxes	\$ -692,623
46	State Excise Tax Expense	-45,020
47	Net Income Before Federal Income Tax	\$ -647,602
48	FIT Rate	21.00%
49	Federal Income Tax Expense	\$ <u><u>-135,996</u></u>

A/ Exhibit, Schedule 5.
B/ Exhibit, Schedule 10.

Limestone Water Operating Company, LLC - Wastewater
Income Statement at Proposed Rates
For the 12 Months Ending April 30, 2024

Line No.		Current Rates ^{A/}	Rate Increase	Proposed Rates
	Operating Revenues:			
1	Sewer Revenues	\$ 1,263,575	\$ 929,573	\$ 2,193,148
2	Other Revenues	206,958		206,958
3	Total Sewer Revenue	\$ 1,470,533	\$ 929,573	\$ 2,400,106
	Operating & Maintenance Expenses:			
4	Gain/Loss of Utility Property	\$ 0	\$ 0	\$ 0
5	Customer Record Collect (Billing)	55,163	0	55,163
6	Customer Collection Expenses	236	0	236
7	Customer Record Collect (Bank Fees)	15,407	0	15,407
8	Uncollectibles	4,966	9,296	14,262
9	Meals & Travel	0	0	0
10	Communication	3,553	0	3,553
11	Support Services (Admin Expenses Transferred)	291,728	0	291,728
12	Bank Fees	19,531	0	19,531
13	Legal	1,312	0	1,312
14	Audit And Accounting	2,941	0	2,941
15	MGMT Consult	4,851	0	4,851
16	IT	417	0	417
17	Property Insurance-Commercial	45,061	0	45,061
18	Regulatory Expense	28,158	0	28,158
19	Purchased Treatment	352	0	352
20	Sludge Removal	-80	0	-80
21	Purchased Power	175,420	0	175,420
22	Fuel for Power Production	38	0	38
23	Chemicals	18,508	0	18,508
24	Materials and Supplies	7,906	0	7,906
25	Mowing and Lawn Maintenance	141,876	0	141,876
26	Contract Services	498,149	0	498,149
27	Contract Services-Collections	31,578	0	31,578
28	Maintenance Expense	87,295	0	87,295
29	Contract Operations - Pumping Ops	480	0	480
30	Pumping Maintenance	100	0	100
31	Treatment & Disposal	33,333	0	33,333
32	Contract Services-Testing	42,914	0	42,914
33	Bad Debt	6,749	0	6,749
34	Misc, Exepense	20,003	0	20,003
35	Total Operating & Maintenance Expenses	\$ 1,537,944	\$ 9,296	\$ 1,547,240
36	Depreciation Expense	443,445	0	443,445
37	CIAC Amortization Expense	-25,441	0	-25,441
38	Amortization of Regulatory Asset Expense	88,401	0	88,401
39	General Taxes	2,073	0	2,073
40	Property Taxes	25,379	0	25,379
41	State Income Taxes	-45,020	59,818	14,798
42	Federal Income Taxes	-135,996	180,696	44,700
43	Total Operating Expenses	\$ 1,890,784	\$ 249,810	\$ 2,140,594
44	Utility Operating Income	\$ -420,251	\$ 679,763	\$ 259,512

A/ Exhibit, Schedule 7.

Limestone Water Operating Company, LLC - Wastewater
Rate of Return Summary
For the 12 Months Ending April 30, 2024

Line No.	Class of Capital	Percent of Total	Commission		A/
			Cost Rate	Weighted Cost Rate	
1	Short-Term Debt	0.00%	0.00%	0.0000%	
2	Long-Term Debt	45.00%	6.64%	2.9880%	
4	Parent Long Term Debt	0.00%	0.00%	0.0000%	
5	Preferred Equity	0.00%	0.00%	0.0000%	
6	Common Equity	55.00%	10.00%	5.5000%	
7	Total	<u>100.00%</u>		<u>8.4880%</u>	
Interest Expense Short-Term Debt					
8	Rate Base			\$ 3,057,402	B/
9	Short-Term Weighted Debt Cost			0.0000%	
10	Short-Term Debt Interest Expense			<u>\$ 0</u>	
Interest Expense Long-Term Debt					
11	Rate Base			\$ 3,057,402	B/
12	Long-Term Weighted Debt Cost			2.9880%	
13	Long-Term Debt Interest Expense			<u>\$ 91,355</u>	
14	Total Interest Expense			<u>\$ 91,355</u>	

A/ Commission Staff Cost of Capital Workpaper
B/ Exhibit, Schedule 2.

Limestone Water Operating Company, LLC - Wastewater
Revenue Conversion Factor
For the 12 Months Ending April 30, 2024

<u>Line No.</u>		<u>Amount</u>	<u>Balance</u>
1	Operating Revenues		1.000000
2	Uncollectible Ratio	0.010000 A/	<u>0.010000</u>
3	Balance		0.990000
4	State Excise Tax	0.065000 B/	<u>0.064350</u>
5	Balance		0.925650
6	Federal Income Tax	0.210000 B/	<u>0.194387</u>
7	Balance		0.731264
8	Revenue Conversion Factor (Line 1 / Line 7)		<u><u>1.367496</u></u>

A/ Limestone UOC Exhibits BT-7
B/ Statutory Rates

Limestone Water Operating Company, LLC
Transaction Cost Analysis
Balances Approved for Rate Determination

Line No.		Limestone Sewer Operations	Limestone Water Operations	Limestone Total
1	Transaction Costs, as Proposed by Company	\$ 426,354 A/	\$ 118,100 A/	\$ 544,454 A/
2	Commission's Reclassification of Land and Land Rights Debits to Transaction Costs	543,901 B/	133,458 B/	677,359 B/
3	Total Company Transaction Costs and Commission-Reclassified Land and Land Rights Debits	\$ 970,255 C/	\$ 251,558 C/	\$ 1,221,813 C/
4	Commission's Identified Closing Transaction Costs	\$ 717,572 D/	\$ 223,512 D/	\$ 941,084 D/
5	Commission's Recommended 75% for Recovery from Customers	538,179	167,634	705,813
6	Commission's Recommended 25% Assigned to Company	179,393	55,878	235,271
7	Commission's Identified Due Diligence Costs	127,491 D/	3,837 D/	131,328 D/
8	Commission's Recommended 25% for Recovery from Customers	31,873	959	32,832
9	Commission's Recommended 75% Assigned to Company	95,618	2,878	98,496
10	Commission's Identified Out-of-Period O&M Costs and Other Reclassification Adjustments	125,192 E/	24,209 E/	149,401 E/
11	Commission's Transaction Costs Recommended for Recovery from Customers	\$ 570,052 F/	\$ 168,593 F/	\$ 738,645 F/
12	Commission's Transaction Costs Assigned to Company	400,203 G/	82,965 G/	483,168 G/
13	Total Transaction Costs Approved by Commission	\$ 970,255 H/	\$ 251,558 H/	\$ 1,221,813 H/
14	Commission's Approved Transaction Cost Impacts on Rate Base and Cost of Service:			
15	Impact to Company Rate Base for Transaction Cost Regulatory Asset	\$ 541,549 I/	\$ 160,164 I/	\$ 701,713 I/
16	Impact to Company's Annual Amortization Expenses	28,503 J/	8,430 J/	36,932 J/
17	Total Transaction Cost Impact to Company's Required Revenue	\$ 570,052	\$ 168,593	\$ 738,645

A/ Limestone's Response to Consumer Advocate DR 1-67, Excel file <DR 67 Transaction Costs.xlsx> (November 1, 2024).

B/ Company Response to Staff DR 2-7, Excel File DR 2-7 Land - CONFIDENTIAL.xlsx (February 11, 2025). These costs represent transaction and closing costs per Commission Rule 1220-04-14-.06.

C/ Line 1 + Line 2.

D/ Per Staff WP 1-Sewer TC. These costs represent the Company's transactional costs associated with closing each of the acquisitions included in this case, Docket No. 24-00044 Per Commission Rule 1220-04-14-.06, maximum amortization period is 20 years. To minimize impact on customers, the Commission authorizes a 20-year amortization period.

E/ Line 3 minus Line 4 minus Line 7.

F/ Line 5 + Line 8.

G/ Line 6 + Line 9 + Line 10.

H/ Line 11 + Line 12.

I/ Rate base impact consists of 19/20 of recommended amount for recovery. One year's amortization expense (1/20) is included in Company's cost of service.

J/ Represents first year of annual amortization expense of the Commission's approved transaction cost amount.

ACQUISITION ADJUSTMENT ANALYSIS

24-00044
Commission Wastewater Exhibit
Schedule 13

Commission Rule Footnote Reference		Factors Applicable to This Case								Approved per Commission	
		1220-04-14-.04(2)(a)	1220-04-14-.04(2)(b)	1220-04-14-.04(2)(c)	1220-04-14-.04(2)(d)						
		1/ Cost Savings or increases resulting from consolidation of the selling utility's system into the acquiring utility's operations	2/ Improvements in services resulting from the acquisition	3/ Remediation of public health, safety and welfare concerns of the selling utility's system resulting from the acquisition	4/ Incentives for acquisition of a financially or operationally troubled system, which may be demonstrated by bankruptcy, receivership, financial distress, notice of violation, order of abatement, or inability to continue as a going concern of the selling utility						
Line	System					Total Allocation	Company's Requested Acquisition Costs for Deferral/Recovery	Approved Acquisition Adjustment for Deferral/Recovery	Approved % Acquisition Adjustment for Deferral/Recovery		
1	Aqua (water)	X	√	√	√	75.00%	\$ 386,816	\$ 290,112			
2	Candlewood (water)	X	√	√	√	75.00%	\$ 59,322	\$ 44,492			
3	Total Water-related						\$ 446,138	\$ 334,604	75.00%		
4						Approved Amortization Expense - Water		\$ 16,730			
5						Approved Rate Base Impact - Water		\$ 317,873			
6	Aqua (wastewater)	X	√	√	√	75.00%	\$ 323,487	\$ 242,615			
7	CC - Arrington Retreat (WW)	X	√	√	√						
8	CC - Grasslands (WW)	X	√	√	√						
9	CC - Hardeman Springs (WW)	X	√	-	√						
10	CC - Hideaway (WW)	X	√	-	√						
11	Cartwright Creek Systems (WW)	X	√	mix	√	68.75%	\$ 1,240,278	\$ 852,691			
12	Chapel Woods (wastewater)**	X	√	-	X	62.50%	\$ (41,290)	\$ (25,806)			
13	Shiloh Falls (wastewater)	X	√	√	√	75.00%	\$ 150,519	\$ 112,889			
14	DSH (wastewater)	X	√	√	X	50.00%	\$ 31,147	\$ 15,574			
15	Total Sewer-related						\$ 1,704,141	\$ 1,197,963	70.30%		
16						Approved Amortization Expense - Sewer		\$ 59,898			
17						Approved Rate Base Impact - Sewer		\$ 1,138,065			
18	Total Acquisition Adjustment Costs - Water and Sewer Operations						\$ 2,150,279	\$ 1,532,566	71.27%		
19						Approved Amortization Expense - Overall		\$ 76,628			
20						Approved Rate Base Impact - Overall		\$ 1,455,938			

Co met burden of proof; approved for customer recovery	√
Co not met burden of proof; disallowed from customer recovery	X
Co partially met burden of proof; partial recovery approved	- / mix

Notes

1/ The Company expressed its expectation that costs would not decrease; the Commission sees no evidence any system has or will offer cost savings for customers.

2/ Given the work made by the Company and its 24-hr live emergency answering service and 12-hour daily customer service line, the Commission views the Company has improved its customers' level of service.

3/ The Company has documented efforts to bring its systems into compliance with TDEC regulations. In addition, it provides CSWR's EHS team to work with the state to maintain compliance.

An assessment of "-" has been given for the potential future benefits of CSWR's EHS team when no other specific example of remediation was noted.

4/ Aqua, Cartwright Creek, and Shiloh Falls all reported operating losses for at least 3 consecutive years prior to their acquisition by Limestone. In addition, the other systems noted had issues with TDEC, which the Company has addressed or is in the process of addressing.

** Because the Chapel Woods system has a negative acquisition adjustment associated with it, the Commission's allocation percentage is the inverse of the other systems with positive acquisition adjustments.

Attachment No.4

LIMESTONE WATER OPERATING COMPANY
Commission Rate Design Exhibit, Page 1

	Base Year Determinants (Customers)	Current Average Bill Rate	Base Year Revenue	Attrition Determinants (customers)	Proposed Rate	Attrition Period Revenues	Revenue Increase
Water							
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
Usage:							
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
Total Bill Revenue			<u>\$197,053</u>	(1770030*12) D/		<u>\$305,527</u>	<u>\$108,474</u>
Sewer							
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	432	35.00	15,119	12,660
Cartwright - Grassland - Comm 1-2 Bedroom	24	62.88	1,509	0		0	-1,509
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	2,496	168.96	421,712	132,454
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	1,644	55.60	91,406	35,539
Lakeside Estates (DSH) - Commercial	600	52.42	31,452	1,716	55.00	94,384	62,932
Lakeside Estates (DSH) - Residential	60	30.73 F/	1,844	60	55.00	3,300	1,456
Total Bill Revenue	<u>\$22,968</u>		<u>\$1,172,345</u>	<u>27,816</u>		<u>\$1,785,903</u>	<u>\$613,558</u>
Imputed Cartwright - Commercial	10,426	\$8.75	\$91,230 E/	0.00		\$91,230	
Other Revenue: Staff Rate Design Exhibit 1, Page 2			<u>\$231,599</u>			<u>\$231,599</u>	
Totals			<u><u>1,692,227</u></u>			Residential Water Increase	108,474
						Residential Sewer Increase	371,482
						Commercial Sewer Increase	242,076
						Total Increase	<u><u>\$722,032</u></u>
Overall Staff Revenue Deficiency	\$1,362,324						
Phase One Increase of Rate Design	53.00%						
Revenue Needed From Phase One	<u>\$722,032</u>						
Increase Without Commercial Sewer	<u>\$479,956</u>	(108,474 + 371,482)					
Increase Needed From Commercial Sewer	<u>\$242,076</u>	(722,032 - 479,076)					
Current Sewer Revenue	<u>\$622,623</u>						
Percent Increase From Commercial Sewer	<u><u>38.88%</u></u>						

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

	Base Year Determinants (Customers)	Current Average Bill Rate	Base Year Revenue	Attrition Determinants (customers)	Proposed Rate	Attrition Period Revenues	Revenue Increase
Water							
Misc. Revenues			1,841			1,841	0
Tap Fees - Aqua Utilities - Water	16	1,425	22,800	16		22,800	0
Sewer							
Misc. Revenues			\$15,333			15,333	0
Tap Fees - Cartwright - Grassland - Residential	6	10,000	60,000	6		60,000	0
Tap Fees - Cartwright - AHH - Residential	11	10,000	110,000	11		110,000	0
Tap Fees - Cartwright - Commercial		10,000	0			0	
Tap Fees - Aqua Utilities - Sewer	11	1,425	15,675	11		15,675	0
Tap Fees - Shiloh Falls	7	850	5,950	7		5,950	0
Total Other Revenue			\$231,599			\$231,599	0

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