

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

IN RE:

**TENNESSEE-AMERICAN WATER
COMPANY'S 2025 INCREMENTAL
CAPITAL RECOVERY RIDER TARIFF
PETITION**

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DOCKET NO. 25-00016

DIRECT TESTIMONY OF

DAVID N. DITTEMORE

April 28, 2025

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1 **I. BACKGROUND**

2 **Q1. PLEASE STATE YOUR NAME AND OCCUPATION FOR THE RECORD.**

3 **A1.** My name is David N. Dittmore. I am a self-employed consultant working in the utility
4 regulatory sector, representing clients in various jurisdictions.

5 **Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND**
6 **PROFESSIONAL EXPERIENCE.**

7 **A2.** I received a Bachelor of Science Degree in Business Administration from the University
8 of Central Missouri in 1982. I am a Certified Public Accountant licensed in Oklahoma
9 (#7562). I was previously employed by the Kansas Corporation Commission (“KCC”) in
10 various capacities, including Managing Auditor, Chief Auditor, and Director of the
11 Utilities Division. I was self-employed as a utility regulatory consultant for approximately
12 four years, primarily representing the KCC staff in regulatory issues. I also participated in
13 proceedings in Georgia and Vermont, evaluating issues involving electricity and
14 telecommunications regulatory matters.

15 Additionally, during this time frame, I performed a consulting engagement for Kansas Gas
16 Service (“KGS”), my subsequent employer. For eleven years, I served as Manager and
17 subsequently Director of Regulatory Affairs for KGS, the largest natural gas utility in
18 Kansas, serving approximately 625,000 customers. KGS is a division of One Gas, a natural
19 gas utility serving about two million customers in Kansas, Oklahoma, and Texas. I joined
20 the Tennessee Attorney General's Office in September 2017 as a Financial Analyst. In July
21 2021, I began my consulting practice.

22 I have been a Board Member of the Financial Research Institute (University of Missouri),
23 a member of the NARUC Subcommittee on Accounting, the Vice-Chair of the Accounting

1 Committee of the National Association of State of Utility Consumer Advocates
2 (“NASUCA”), and an active participant in NASUCAs’ Natural Gas and Water
3 Committees.

4 Overall, I have thirty-five years of experience in public utility regulation and have
5 presented testimony as an expert witness on many occasions. A detailed background
6 overview is attached to my testimony as Exhibit DND-1. A listing of cases I’ve provided
7 testimony since 2014 is provided within Exhibit DND-2.

8 **Q3. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

9 **A3.** I am testifying on behalf of the Consumer Advocate Division (“Consumer Advocate”) of
10 the Office of the Tennessee Attorney General.

11 **Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

12 **A4.** The purpose of my testimony is to present the position of the Consumer Advocate within
13 the present Docket. I have analyzed the Company’s Testimony and Exhibits to prepare for
14 this testimony. I have also drafted and reviewed discovery responses associated with the
15 filing.

16 **II. EXECUTIVE SUMMARY AND RECOMMENDATIONS**

17 **Q5. PLEASE STATE YOUR RECOMMENDATIONS.**

18 **A5.** My recommendations and findings regarding the Company’s Incremental Capital Rider
19 Revenue Requirement (“ICRRR”) filing include the following:

- 20 • The Commission should find that the ICRRR calculation in this proceeding
21 is (\$597,200).
- 22 • The Commission should find that the Company earned a regulated return
23 on equity in 2024 of 10.83%, incorporating the impact of a regulatory
24 adjustment to remove excess costs associated with non-revenue water. This

1 translates to an excess Net Income of \$1,321,134, and an excess revenue
2 requirement of \$1,788,580.

- 3 • The existing tariff provisions are irrelevant in 2025 and must be modified
4 or suspended. The Commission should consider the legal implications of
5 applying tariff provisions retroactively.
- 6 • The Commission should suspend the ICRRR Tariff for one year, and its
7 provisions should apply to ICRRR qualifying investments made after
8 December 31, 2025. This recommendation is consistent with the
9 Commission's order in TPUC Docket No. 24-00032.
- 10 • In the event the Commission rejects the proposal to suspend the application
11 of the ICRRR tariff for one year, the Commission should rule that the
12 ICRRR tariff provisions are no longer applicable and require the parties to
13 meet to adopt new ICRRR tariff language within 90 days of the
14 Commission's order in this proceeding, permitting a negative ICRRR credit
15 if supported by the facts of the case.
- 16 • If the Commission affirms that the current tariff shall remain in place, it
17 should also require the Company to establish a deferred liability for
18 \$597,200 to offset future ICRRR surcharges.
- 19 • The Commission should take note of specific TAWC operating results when
20 considering whether continuation of the ICRRR surcharge is in the public
21 interest.

22 **III. TAWC ICRRR PROPOSAL AND ROE RESULTS**

23 **Q6. WHAT WAS THE COMPANY'S ICRRR CALCULATION INCLUDED IN THIS**
24 **FILING?**

25 **A6.** The Company's filing supported a negative ICRRR of (\$1,174,067).¹

26 **Q7. WHAT CAUSED THE NEGATIVE ICRRR FACTOR?**

27 **A7.** The negative ICRRR was driven by property tax adjustments made in 2024 to correct over-
28 accrued property taxes in 2023 and 2024. The Company is recovering \$3.1 million in base
29 rates, plus \$2 million through the legacy capital rider surcharge for a total collection of

¹ *Petition*, File <Petitioner Exhibit TAWC 2025 ICRRR & ROE Test Calculation.xlsx>, Tab "2025 ICRR Calc."

over \$5.1 million. This compares with the Company's total actual property tax recording in 2024 of \$1.9 million.²

Q8. SUMMARIZE THE COMPANY'S ICRR PROPOSAL IN THIS PROCEEDING.

A8. The Company is proposing an ICRRR surcharge rate of zero based upon its ICRRR calculation, coupled with the results of its ROE calculation.

Q9. DOES THE TARIFF SPECIFICALLY PROVIDE FOR A NEGATIVE ICRRR FACTOR?

A9. In my opinion, the tariff does not provide that a negative ICRRR would result in a credit back to the Company's customers.

Q10. HOW DOES THE ROE TEST FACTOR INTO THE ICRRR CALCULATION?

A10. An ICRRR positive surcharge may only be collected if the Company's test period earnings are less than its authorized return on equity. To the extent that the ROE deficiency is less than the calculated ICRRR, the ICRRR would be limited by the ROE deficiency.

Q11. WHAT IS THE COMPANY'S SUPPORTED RETURN ON EQUITY RESULT?

A11. The Company reports an actual return on equity of 10.56%.³

² All property tax amounts may be found in the Petition, File <Petitioner Exhibit TAWC 2025 ICRRR & ROE Test Calculation.xlsx>, Tab "2025 ICRRR Calc."

³ *Id.* at Tab "2024 ROE Test Calc."

1 **IV. CA SPONSORED ADJUSTMENTS TO ICRRR**

2 **Q12. ARE YOU SPONSORING ADJUSTMENTS TO THE COMPANY'S ICRRR**
3 **CALCULATION?**

4 **A12.** Yes. I am sponsoring two adjustments to the Company's ICRRR, both reducing the
5 negative ICRRR. These revisions were set out in the Company's response to Consumer
6 Advocate DR No. 1-22. I have incorporated that response as Exhibit DND-3.

7 **Q13. PLEASE DESCRIBE THE ICRRR ADJUSTMENTS YOU ARE SPONSORING.**

8 **A13.** The first adjustment I am sponsoring inserts the Acquisition Adjustment rate base
9 component of (\$935,260) as identified in the Company's response to Consumer Advocate
10 DR No. 1-1. The Company mistakenly omitted this adjustment within the established
11 ICRRR calculation.

12 The second adjustment corrects the depreciation rates used by the Company within the
13 ICRRR calculation. The original depreciation rates omitted the removal cost component.
14 The company provided support for this adjustment in response to Consumer Advocate DR
15 No. 1-22 (informal) which I have included as Exhibit DND-3.

16 **Q14. WHAT IS THE ADJUSTED ICRRR BASED ON THESE TWO ADJUSTMENTS?**

17 **A14.** The revised ICRRR is (\$597,200).

18 **V. CA SPONSORED ADJUSTMENTS TO THE ROE TEST**

19 **Q15. ARE YOU SPONSORING ANY ADJUSTMENTS TO THE COMPANY'S ROE**
20 **CALCULATION?**

21 **A15.** Yes.

1 **Q16. PLEASE DESCRIBE THAT ADJUSTMENT.**

2 **A16.** The one adjustment to the ROE calculation that I am sponsoring eliminates excess
3 purchased power and chemical costs identified by Mr. William H. Novak in TPUC Docket
4 No. 25-00002. This adjustment is necessary to conform to the methodology consistently
5 used in prior PCOP filings. Perhaps more importantly, this methodology was confirmed
6 by the Commission in its recent order in TPUC Docket No. 24-00032.⁴

7 TAWC argued that the 15% NRW standard proposed by the Consumer
8 Advocate is punitive, and attempted to distinguish the term NRW from the 15%
9 “lost and unaccounted for water” standard set in the Company’s 2008 rate case.
10 However, these terms have been used interchangeably at the Commission by
11 the Consumer Advocate and the Company.⁵⁸ The Company previously has
12 defined “unaccounted for water” as an all-encompassing umbrella term before
13 the Tennessee Court of Appeals without a distinction for NRW.⁵⁹ To be clear,
14 the Commission is not implementing a new standard, but rather is continuing to
15 apply the 15% standard for lost and unaccounted for water first adopted in the
16 2008 rate case, affirmed by the Tennessee Court of Appeals, and adopted again
17 in the Company’s 2010 rate case.

18 While the Company strongly opposes the NRW methodology within the PCOP filing, it
19 has not challenged Mr. Novak’s calculation of the NRW% Mr. Lane addressed this issue
20 in his Rebuttal Testimony in TPUC Docket No. 25-00002:⁵

21 DO YOU ACCEPT MR. NOVAK’S CALCULATION OF THE NRW %
22 PRESENTED IN HIS PRE-FILED TESTIMONY?

23 I accept Mr. Novak’s calculation of 25.67% NRW% but not for use in this
24 proceeding. TAWC continues to disagree that the Commission established a
25 15% NRW standard in TPUC Docket No. 08-00039. Hence, I do not support a
26 15% NRW% limitation as a reasonable or supportable interpretation or
27 application of the Commission’s establishment of a 15% unaccounted-for water
28 standard in TPUC Docket No. 08-00039.

29 **Q17. WHAT IS THE IMPACT OF THE NRW ADJUSTMENT ON THE COMPANY’S**
30 **ADJUSTED ROE?**

⁴ *Order Setting Utility Rates*, pp. 20-23, TPUC Docket No. 24-00032 (April 21, 2025).

⁵ *Rebuttal Testimony of Robert Lane* at 4:5-11, TPUC Docket No. 25-00002 (April 22, 2025).

1 **A17.** The adjustment to reduce purchased power and chemical costs by \$573,517 produces an
2 increase in net income of \$423,628. The underlying calculations are provided in Exhibit
3 DND-4.

4 **Q18. WHAT IS THE AMOUNT OF EXCESS EARNINGS IN 2024?**

5 **A18.** The resulting Excess Net Income is \$1,321,134, translating to an excess revenue
6 requirement of \$1,788,580. These amounts are identified in Exhibit DND-5.

7 **VI. IMPLICATIONS OF EXCESS EARNINGS ON PIPELINE REPLACEMENTS**

8 **Q19. WHAT IS THE IMPLICATION OF THE EXCESS EARNINGS ON THE**
9 **COMPANY'S ICRRR?**

10 **A19.** First, the excess earnings prohibit the collection of an ICRRR. In this instance, since the
11 ICRRR was negative, the fact that the Company has excess earnings is a moot point from
12 the standpoint of defining the ICRRR. However, I think it is important for the Commission
13 to understand the earnings position of the Company.

14 **Q20. HAVE YOU DETERMINED WHAT ADDITIONAL LEVEL OF CAPITAL**
15 **EXPENDITURES COULD HAVE BEEN MADE THAT EQUATES TO THE**
16 **LEVEL OF EXCESS EARNINGS?**

17 **A20.** Yes. The revenue requirement associated with excess earnings translates to an equivalent
18 level of capital expenditures of approximately \$15 million, as calculated on Exhibit DND-
19 5. By this, I mean, the Company could have incurred an additional \$15 million in capital
20 expenditures and still earned its authorized return on equity.

1 **Q21. CAN YOU EXPAND ON YOUR CONCLUSION THAT THE COMPANY COULD**
2 **HAVE SPENT ADDITIONAL CAPITAL EXPENDITURES IN 2024 TO THE**
3 **BENEFIT OF TAWC CUSTOMERS?**

4 **A21.** I computed this level of capital expenditures by first identifying the excess Net Income by
5 comparing the Company's pro-forma adjusted Net Income of \$17,328,906 with the Net
6 Income that would have been earned if the Company had earned no more than its 10%
7 authorized return on equity. Next, I grossed up the excess Net Income for Taxes,
8 translating to an excess Revenue Requirement of \$1,788,580. Then, I developed an
9 estimated Revenue Requirement Equivalent Ratio by summing the required pre-tax rate of
10 return, depreciation (using the rate associated with Mains) and an estimated Property Tax
11 factor. Dividing the Excess Revenue Requirement by the Revenue Requirement
12 Equivalent Ratio yields the equivalent level of capital expenditures that could have been
13 closed to match the Excess Revenue Requirement. The result is an approximate \$15
14 million in capital expenditure.

15 **Q22. WHAT IS THE COMPANY'S PUBLIC POSITION ON THE NEED FOR**
16 **ADDITIONAL CAPITAL EXPENDITURES ACROSS THE STATE OF**
17 **TENNESSEE?**

18 **A22.** The Company recently issued a press release calling for more investment in water
19 infrastructure across the state of Tennessee, included here as Exhibit DND-6. The
20 Company clearly had earnings headroom in 2024 to follow its own advice to make inroads
21 to addressing its own aging infrastructure. Instead, the Company made minimal progress
22 in replacing its galvanized steel and cast iron mains as discussed below, while retaining
23 these excess earnings for its shareholders.

1 **VII. APPLICABILITY OF THE EXISTING ICRRR TARIFF**

2 **Q23. DO YOU BELIEVE THE CURRENT TAWC ICRR TARIFF IS APPLICABLE FOR**
3 **2025 OPERATIONS?**

4 **A23.** No.

5 **Q24. PLEASE EXPLAIN WHY YOU DO NOT BELIEVE THE EXISTING ICRRR**
6 **TARIFF LANGUAGE CAN BE APPLIED TO 2025 OPERATIONS.**

7 **A24.** The existing ICRRR tariff indicates that a qualifying investment is eligible for recovery
8 within the ICRRR surcharge, subject to certain limitations, including the ROE test. The
9 forecasted level of investments is already being recovered from TAWC customers within
10 its base rates adopted by the Commission in TPUC Docket No. 24-00032.

11 **Q25. WHY IS 2025 UNIQUE AS IT RELATES TO THE ICRRR?**

12 **A25.** The company's 2024 rate case had implications on the ICRRR tariff that were not
13 envisioned or addressed within the tariff. The Company did not address the implications
14 of the rate case on its ICRR tariff within the rate case. Forecasted 2025 investments,
15 inclusive of ICRRR eligible capital projects are already being recovered from ratepayers.

16 **Q26. DOES THE CURRENT TARIFF RECOGNIZE THE LEVEL OF 2025 ICRRR**
17 **QUALIFYING CAPITAL EXPENDITURES CURRENTLY INCLUDED IN THE**
18 **RATE BASE UPON WHICH EXISTING RATES WERE DETERMINED?**

19 **A26.** No.

20 **Q27. WHAT HAS BEEN THE COMPANY'S STANCE TOWARDS MODIFYING THE**
21 **TARIFF?**

1 **A27.** The Consumer Advocate questioned the Company’s view on the need to modify its tariff
2 in Consumer Advocate DR Nos. 2-5 through 2-9. In its response, the Company referenced
3 Mr. Lane’s Supplemental Rebuttal testimony in TPUC Docket No. 24-00011.⁶ Mr. Lane
4 stated that it is not the Company’s intent to recover an ICRRR surcharge for investments
5 already recovered in base rates.⁷ He supported the notion that to the extent that the actual
6 ICRRR expenditures exceed forecasted ICRRR included in Rate Base, it should be eligible
7 for surcharge recovery.⁸ It appears that the Company believes the tariff does not provide
8 for a negative ICRRR.⁹ Thus, for 2025 investment levels the Company believes it has the
9 potential upside of collecting a positive surcharge if actual ICRRR investments exceed the
10 forecasted ICRRR investments, while having none of the downside risk if actual ICRRR
11 investments are less than the forecasted ICRRR included in Rate Base. In other words, the
12 Company supports an asymmetrical approach in reconciling 2025 ICRRR qualifying
13 investment.

14 Importantly, Mr. Lane stated that; “[t]he parties do not have a crystal ball and while Mr.
15 Dittemore’s desire to address future issues is admirable, how the tariff works for a filing
16 made in 2026, looking back at 2025 historic year is best dealt with in an ICRR filing to be
17 made in 2026.”¹⁰

⁶ The Company’s Response to Consumer Advocate DR Nos. 2-5, 2-7, 2-8 and 2-9.

⁷ *Supplemental Rebuttal Testimony of Robert Lane* at 11:7-9 and 12:22-23, TPUC Docket No. 24-00011 (June 4, 2024).

⁸ *Supplemental Rebuttal Testimony of Robert Lane* at 12:14-16 and 12:21-22, TPUC Docket No. 24-00011 (June 4, 2024).

⁹ The Company’s Responses to Consumer Advocate DR Nos. 2-5 through 2-9 and *Supplemental Rebuttal Testimony of Robert Lane* at 12:9 – 13:1, TPUC Docket No. 24-00011 (June 4, 2024).

¹⁰ *Supplemental Rebuttal Testimony of Robert Lane* at 15:11-14, TPUC Docket No. 24-00011 (June 4, 2024).

1 **Q28. DO YOU AGREE WITH THE COMPANY THAT IT IS APPROPRIATE TO**
2 **IMPLEMENT A TARIFF CHANGE IN 2026 THAT APPLIES TO 2025 RESULTS?**

3 **A28.** No. This proposal to modify the terms of a tariff and apply such modifications to a historic
4 period is an example of retroactive rate making and is prohibited by law, as discussed
5 below.

6 **Q29. DOES THE COMPANY HAVE ANY MOTIVATION TO MODIFY THE TARIFF**
7 **TO PERMIT A NEGATIVE ICRR IN NEXT YEAR'S FILING?**

8 **A29.** No, it does not.

9 **Q30. DO YOU BELIEVE THE PARTIES COULD RESOLVE HOW THE ONE-OFF**
10 **ICRRR CALCULATION APPLICABLE TO INVESTMENT IN 2025 SHOULD BE**
11 **CALCULATED?**

12 **A30.** No. The Company has no reason to move off the current tariff provisions that do not
13 provide for a negative ICRRR. The Consumer Advocate would object to any provision
14 that would allow for any actual 2025 ICRRR qualifying investments greater than those
15 included in base rates to be recovered, while simultaneously preventing any customer
16 credits if actual ICRRR investments were less than those included in base rates.

17 **VIII. IMPLICATIONS OF TARIFF PROVISIONS**

18 **Q31. CAN YOU PROVIDE ANY CITATIONS TO CASES SUPPORTING YOUR**
19 **CONTENTION THAT A CHANGE IN THE TAWC ICRRR TARIFF IN 2026**
20 **COULD CONSTITUTE RETROACTIVE RATEMAKING?**

21 **A31.** Yes. I will cite two cases that I believe are on point in this regard. The first involves a
22 case involving Oklahoma Gas and Electric Company in a proceeding before the Federal

1 Energy Regulatory Commission (“FERC”).¹¹ In this case, the D.C. Circuit upheld the
2 FERC decision denying the Southwest Power Pool (“SPP”) a retroactive waiver of its
3 tariff’s one-year billing adjustment limit.¹² The court emphasized that even non-rate terms,
4 such as billing limitations, are integral to the filed rate and cannot be altered retroactively.¹³
5 The court stated that the filed rate doctrine “binds parties to the terms in the filed tariff”¹⁴
6 regardless of whether those terms pertain directly to rates or to other provisions like billing
7 timelines.

8 The next case involves a U.S. Supreme Court decision involving American Telephone and
9 Telegraph Company.¹⁵ The U.S. Supreme Court held that the filed rate doctrine bars state
10 law claims seeking to enforce terms that differ from those in the filed tariff.¹⁶ In this case,
11 a customer alleged that AT&T had promised services not specified in the tariff. The Court
12 ruled that such claims, whether framed in contract or tort, are precluded because they
13 effectively seek a rate or service different from the filed tariff.¹⁷

14 **Q32. HAS THE TPUC ADDRESSED THE ISSUE OF RETROACTIVE RATEMAKING?**

15 **A32.** Yes. The Commission effectively prohibited the retroactive application of a special
16 contract rate and instead adopted the rate commensurate with the approval date of the
17 order.¹⁸

18 Finally, the Consumer Advocate recommends the Contract
19 be modified by deleting Paragraph 33, which would make the contract
20 rates effective upon the filing of the Petition in this docket through a

11 *Oklahoma Gas and Electric Co. v FERC*, 11F.4th 821 (D.C. Cir. 2021).

12 *Id.* at pp. 824-825; 833.

13 *Id.* at p. 830.

14 *Id.*

15 *American Telephone & Telegraph Co. v. Central Office Telephone, Inc.*, 524 U.S. 214 (1998).

16 *Id.* at p. 228.

17 *Id.*

18 *Joint Request of Chattanooga Gas Company and Kordsa, Inc. for Approval of Special Contract*, p. 14, TPUC Docket No. 21-00094 (May 13, 2022).

one-time credit to Kordsa. CGC and Kordsa characterize the application of the one-time credit as a “true-up” of the contract rate. However, the calculation in the Contract is differentiated from the type of “true-up” occurring in an ARM, capital recovery rider, or other various alternative regulatory and deferred accounting programs, in that these true-ups are calculated according to methodologies established by rule or tariff approved by the Commission for prospective application, whereas the one-time credit contemplates a retroactive application. Notwithstanding the retroactive ratemaking concern, the special contract rule requires a regulated utility to charge a customer the tariffed rate until a special agreement has been filed and approved upon review by the Commission. The application of the one-time credit seeks to circumvent this sound ratemaking policy by establishing a non-tariff rate applicable to a period of time occurring prior to the Commission's approval of a special contract rate. Therefore, the panel voted unanimously that the approval of the Contract should be made contingent upon removal of the one-time credit provision contained in Paragraph 33, making Contract rates effective concurrent with the Commission's approval.

IX. 2025 ICRRR TARIFF RECOMMENDATION

Q33. DO YOU HAVE A RECOMMENDATION THAT WOULD RESOLVE THE CURRENT TARIFF DILEMMA?

A33. Yes. I recommend that the Commission determine that the ICRRR tariff be suspended for one year, covering the 2025 period. The subsequent ICRRR filing would be made in 2027, covering the 2026 ICRRR investment, pursuant to the terms of the existing ICRRR tariff.

Q34. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A34. The ICRRR qualifying investment has been forecasted and included in Rate Base. Suspending the tariff for one year would essentially remove the asymmetrical aspect of the current tariff, as it relates to the unique situation in 2025. Suspension of the tariff for one year would place the Company and its customers on equal footing regarding the extent to which its forecasted 2025 ICRRR capital expenditures in base rates are either under-/or overstated. Suspending the tariff for one year would also eliminate the need to address the

1 problematic aspects of the current tariff related to 2025, thereby saving administrative costs
2 for all parties that would otherwise occur in both modifying the tariff as well as the
3 preparation, review and litigation aspects of the Company's 2026 ICRRR filing.

4 **Q35. IS YOUR PROPOSAL PUNITIVE TO THE COMPANY IN ANY WAY?**

5 **A35.** No. It's essential to consider the context of this recommendation to suspend provisions of
6 the tariff for one year. First, the Company is clearly in an over-earning situation as
7 discussed above. Second, in addition to its over-earning status in 2024, the Company was
8 authorized to increase its base rates, effective January 1, 2025, by just over \$1 million in
9 TPUC Docket No. 24-00032. Third, the Company is already recovering costs associated
10 with its forecasted ICRRR investment in base rates. The only scenario where the Company
11 would be harmed in this situation is if its actual 2025 ICRRR qualifying investments were
12 significantly greater than the forecasted ICRRR contained in base rates, coupled with a
13 determination that the Company failed to meet its authorized return on equity in 2025.

14 **Q36. IS YOUR PROPOSAL PUNITIVE TO TAWC'S CUSTOMERS?**

15 **A36.** No. In theory, there would be an equal chance that the Company's actual ICRRR
16 expenditures would be greater than those forecasted and included in base rates, versus that
17 the Company's actual ICRRR expenditures would be less than those forecasted (in which
18 case a customer credit should be owing).¹⁹ Forgoing a 2026 ICRRR filing covering 2025
19 capital expenditures does not disadvantage current customers.

¹⁹ I recognize that an ICRRR credit is not included in the current tariff. However, as a matter of equity as it relates to the unique 2025 situation a credit should otherwise be owed to customers if the ICRRR forecasted investment is greater than actual 2025 investment.

1 **Q37. IS YOUR RECOMMENDATION TO SUSPEND THE COMPANY'S ICRRR**
2 **TARIFF FOR ONE YEAR CONSISTENT WITH THE COMMISSIONS' ORDER**
3 **IN TPUC DOCKET NO. 24-00032?**

4 **A37.** Yes. the Commission states:²⁰

5 In addition, the capital investments recovered through the Capital Riders
6 have been included in the rate base authorized in this proceeding, with
7 related costs being recovered through base rates. Accordingly, the Capital
8 Riders, which are designed to recover certain costs of capital investments
9 made between general rate cases, will be reset and may be used to recover
10 the costs of eligible investments made after the Attrition Year.

11 In this passage, the Commission makes no reference to the need to allow for a 2025 ICRRR
12 surcharge. The Commission's phrasing that limits cost recovery to eligible investments
13 made after the attrition period is critical. My recommendation to suspend the tariff
14 provisions for one year are entirely consistent with the Commission's statement contained
15 in the order, meeting the Commission's stated objective. The Commission does not foresee
16 additional revenue recovery associated with the 2025 ICRRR investment.

17 **Q38. IF THE COMMISSION REJECTS YOUR POSITION THAT THE ICRRR**
18 **SHOULD BE SUSPENDED FOR ONE YEAR, WHAT ARE THE IMPLICATIONS**
19 **OF SUCH A DETERMINATION ON THE CURRENT FILING?**

20 **A38.** If the Commission continues to accept the existing version of the TAWC ICRRR tariff and
21 concludes that it is acceptable to modify the tariff within the subsequent ICRRR proceeding
22 in 2026, applying such provisions to 2025 operations, it then stands to reason that the
23 current TAWC provisions may be modified in this proceeding and applied to 2024
24 operations, as appropriate. Both examples would constitute retroactive ratemaking, clearly

²⁰ *Order Setting Utility Rates*, p. 86, TPUC Docket No. 24-00032 (April 21, 2025).

1 prohibited by existing case law, as discussed above. However, if retroactive ratemaking is
2 permitted in this situation, I would have a contingent recommendation as a result of the as-
3 adjusted ICRRR calculation.

4 **Q39. IF THE COMMISSION FINDS IT ACCEPTABLE TO MODIFY TARIFF**
5 **PROVISIONS AND APPLY SUCH A CHANGE TO THE PRIOR PERIOD, HOW**
6 **WOULD THAT MODIFY YOUR RECOMMENDATION IN THIS**
7 **PROCEEDING?**

8 **A39.** If the Commission rejects my proposal to suspend the tariff for one year, I recommend
9 establishing a regulatory liability of \$597,200 to offset future positive surcharges, given
10 the results of the current ICRRR.

11 **X. THE ICRRR AND THE PUBLIC INTEREST**

12 **Q40. HAS THE COMMISSION CONSISTENTLY DETERMINED THAT THE ICRRR**
13 **IS IN THE PUBLIC INTEREST?**

14 **A40.** Yes. In its most recent ICRRR order in TPUC Docket No. 24-00011, it states: ²¹

15 The panel further found the Capital Recovery Rider programs continue
16 to serve the public interest by benefitting both consumers and the
17 Company.

18 **Q41. DO YOU BELIEVE THE ICRRR CONTINUES TO BE IN THE PUBLIC**
19 **INTEREST?**

20 **A41.** I do. However, there are several aspects of the Company's operations that warrant
21 monitoring.

²¹ TPUC Order, Docket 24-00011, dated November 8, 2024, page 12.

1 First, as discussed above, the Company was in an overearning situation in 2024. This is
2 not an unusual occurrence as it over-earned in 2023.²² These financial results prove that
3 the Company is extracting monopoly rents from customers.

4 Second, the Company's replacement rate of Cast Iron and Galvanized Steel Mains remains
5 quite low. The Company indicated that it replaced 2.65 miles of Cast Iron and Galvanized
6 Mains²³ out of a total inventory of 688.1 miles.

7 Third, the Company has seen an increase in its Galvanized and Cast Iron Main breaks from
8 219 in 2023 to 284 in 2024, a nearly 30% increase.²⁴ The Company indicates it is
9 addressing the main breaks by replacing Cast Iron and Galvanized Main. However, at the
10 rate replacements occurred in 2024, it would take 260 years for such pipe to be replaced.²⁵

11 In summary, the Company could have made significantly more progress in replacing
12 problematic pipe in 2024, but instead, elected a much more conservative approach to main

²² The Company's filing supported an ROE of 10.76%. *Petition*, File <Petitioner Exhibit TAWC 2025 ICRRR & ROE Test Calculation.xlsx>. This aspect was not reviewed by the Consumer Advocate given the excess earnings precluded recovery of an ICRRR surcharge. A review may have revealed the company's stated ROE to be greater than 10.76%.

²³ The Company's Response to Consumer Advocate DR No. 2-14.

²⁴ The Company described the reason for the increase in Main breaks in its response to Consumer Advocate DR No. 2-15:

The increase in main breaks can be partially attributed to non-typical weather events in 2024. In January 2024, an extended period of cold weather was observed during which the daily low temperature averaged 15°, ranging from 11° to 21° between January 16, 2024 and January 22, 2024, with three days where the high temperature did not get above 32° during that time period. Chattanooga's normal coldest temperature range is from a low of 32° low to a high of 51° that are typically found in mid-January. As temperatures drop and stay colder for longer, soil can shift and cause unusual stresses on water pipes, which leads to breaks. Although not as extreme as in January 2024, extended colder weather conditions were observed in early December where low temperatures averaged 23.5°, ranging from 22° to 26°, from December 4, 2024 to December 7, 2024. Another factor affecting main breaks in 2024 was the extreme drought during the summer of 2024. Low rainfall was observed throughout the summer. The drought classification for southeast Tennessee reached a classification level D3 (Extreme Drought) in September 2024. Soil shrinkage in clayey soils typically found in southeast Tennessee can cause unusual stress on pipes and cause main breaks. The steps that TAW is taking to minimize these occurrences is to replace aging galvanized and cast iron water mains.

²⁵ This figure was calculated by dividing 688.1 miles of inventory by 2.65 replacement miles (688.1 ÷ 2.65).

1 replacement, resulting in excess earnings accruing to the benefit of its shareholders. This
2 contradicts the Company's plea for increased spending in statewide water infrastructure.²⁶

3 **Q42. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 **A42.** Yes.

²⁶

Exhibit DND-6.

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:

TENNESSEE-AMERICAN WATER
COMPANY'S 2025 INCREMENTAL
CAPITAL RECOVERY RIDER TARIFF
PETITION

DOCKET NO. 25-00016

AFFIDAVIT

I, David N. Dittmore, on behalf of the Consumer Advocate Division of the Attorney General's Office hereby certify that the attached Supplemental Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.

David N. Dittmore

DAVID N. DITTEMORE

Sworn to and subscribed before me

This 22nd day of April, 2025.

Terra Allen

NOTARY PUBLIC



My Commission Expires:

1/31/2027

David Dittimore

Exhibit DND-1

Utility Regulatory Experience (Listing of Testimony provided from 2015 – current is attached)

Principal – Blue River Consulting – July 2021 – Current

Provide expert witness testimony on behalf of clients in the areas of utility revenue requirement, regulatory policy, tariff provisions, and civil litigation.

Tennessee Attorney General's Office; Financial Analyst 2017 – July 2021

Developed recommendations on behalf of the TN AG's office representing retail customers in matters before the Tennessee Public Utility Commission. Responsible for preparing expert witness testimony and pre-filed exhibit as well as responding to cross-examination questions in contested technical hearings before the Commission. In this position I also spend a significant amount of time explaining technical regulatory issues to attorneys and other AG Staff.

Kansas Gas Service, Division of One Gas (OGS); Director Regulatory Affairs 2014 – 2017; Manager Regulatory Affairs, 2007 - 2014

Responsible for directing the regulatory activity of Kansas Gas Service (KGS), a division of ONE Gas, serving approximately 625,000 customers throughout central and eastern Kansas. In this capacity I formulated strategic regulatory objectives for KGS, formulated strategic legislative options for KGS and led a Kansas inter-utility task force to discuss those options, participated in ONE Gas financial planning meetings, hired and trained new employees and provided recommendations on operational procedures.

Principal Strategic Regulatory Solutions; 2003 -2007

Serving clients regarding revenue requirement and regulatory policy issues in the natural gas, electric and telecommunication sectors.

Kansas Corporation Commission; 1984- 1999

Utilities Division Director - 1997 - 1999; Responsible for managing employees with the goal of providing timely, quality recommendations to the Commission covering all aspects of natural gas, telecommunications and electric regulation; respond to legislative inquiries as requested; sponsor expert witness testimony before the Commission on selected key regulatory issues; provide testimony before the Kansas legislature on behalf of the KCC regarding proposed utility legislation; manage a budget in excess of \$2 Million; recruit professional staff; monitor trends, current issues and new legislation in all three major utility industries; address personnel issues as necessary to ensure that the goals of the agency are being met; negotiate and reach agreement where possible with utility personnel on major issues pending before the Commission including mergers and acquisitions.

Asst. Division Director - 1996 - 1997; Perform duties as assigned by Division Director.

Exhibit DND-1

Chief of Accounting 1990 - 1995; Responsible for the supervision of employees within the accounting section; areas of responsibility included providing expert witness testimony; hired and provided hands-on training for new employees; coordinated and managed consulting contracts on major staff projects such as merger requests and rate increase proposals;

Managing Regulatory Auditor, Senior Auditor, Regulatory Auditor 1984 - 1990; Performed audits and analysis as directed; provided expert witness testimony on numerous occasions before the KCC; trained and directed less experienced auditors on-site during regulatory reviews.

Education

- B.S.B.A. (Accounting) Central Missouri State University
- Passed CPA exam; (Oklahoma certificate # 7562) – Not a license to practice

Other

- Board Member – Financial Research Institute 2007 – 2017
- Vice Chair – NASUCA Accounting Committee, active member NASUCA Natural Gas and Water Committees

| Jurisdiction - Docket/Case Number | | Employee - E Consultant - C | Client/Employer | Utility |
|--|--|--------------------------------|-------------------------------------|--|
| Tennessee | | | | |
| 1 | 17-00014 Integra Water CCN | E | Tennessee Attorney General | Integra Water Utility |
| 2 | 17-00108 Tennessee Water Service Emergency Rate Relief | E | Tennessee Attorney General | Tennessee Water Service |
| 3 | 17-00138 Piedmont Natural Gas Integrity Management Rider | E | Tennessee Attorney General | Piedmont Natural Gas |
| 4 | 17-00124 Tennessee American Water Company Capital Rider | E | Tennessee Attorney General | Tennessee American Water |
| 5 | 17-00143 Kingsport Power Company Capital Rider Mechanism | E | Tennessee Attorney General | Kingsport Power Company |
| 6 | 18-00022 Tennessee American Water Company Capital Rider | E | Tennessee Attorney General | Tennessee American Water |
| 7 | 18-00067 Atmos Energy Corporation Annual Review Mechanism | E | Tennessee Attorney General | Atmos Energy Company |
| 8 | 18-00097 Atmos Energy Corporation Annual Review Mechanism | E | Tennessee Attorney General | Atmos Energy Company |
| 9 | 18-00017 Chattanooga Natural Gas Company Base Rate Case | E | Tennessee Attorney General | Chattanooga Gas Company |
| 10 | 18-00034 Atmos Energy Corporation - Tax Cuts and Jobs Act | E | Tennessee Attorney General | Atmos Energy Company |
| 11 | 18-00038 Kingsport Power Company Tax Cuts and Jobs Act | E | Tennessee Attorney General | Kingsport Power Company |
| 12 | 18-00039 Tennessee American Water Tax Cuts and Jobs Act | E | Tennessee Attorney General | Tennessee American Water |
| 13 | 18-00040 Piedmont Natural Gas - Tax Cuts and Jobs Act | E | Tennessee Attorney General | Piedmont Natural Gas |
| 14 | 19-00007 Piedmont Natural Gas Integrity Management Rider | E | Tennessee Attorney General | Piedmont Natural Gas |
| 15 | 19-00018 Atmos Energy Company - Annual Review Mechanism | E | Tennessee Attorney General | Atmos Energy Company |
| 16 | 19-00031 Tennessee American Water Capital Rider Reconciliation | E | Tennessee Attorney General | Tennessee American Water |
| 17 | 19-00057 Navitas Natural Gas Company LLC | E | Tennessee Attorney General | Navitas Natural Gas Company |
| 18 | 19-00062 Aqua/Limestone Acquisition | E | Tennessee Attorney General | Aqua Utility/Limestone Water Operating Company |
| 19 | 19-00071 Sontara Old Hickory CCN | E | Tennessee Attorney General | Sontara Old Hickory |
| 20 | 19-00097 Cartwright Creek Capital Surcharge | E | Tennessee Attorney General | Cartwright Creek LLC |
| 21 | 19-00105 Tennessee American Water Capital Rider Reconciliation | E | Tennessee Attorney General | Tennessee American Water Company |
| 22 | 19-00106 Kingsport Power Company Capital Rider Mechanism | E | Tennessee Attorney General | Tennessee American Water Company |
| 23 | 20-00128 Tennessee American Water Capital Rider Reconciliation | E | Tennessee Attorney General | Tennessee American Water Company |
| 24 | 20-00049 Chattanooga Gas Company - Annual Review Mechanism | E | Tennessee Attorney General | Chattanooga Gas Company |
| 25 | 20-00086 Piedmont Natural Gas Base Rate Case | E | Tennessee Attorney General | Chattanooga Gas Company |
| 26 | 20-00126 Tennessee American Water Regulatory Asset | C | Tennessee Attorney General | Tennessee American Water |
| 27 | 20-00139 CGC Performance Based Ratemaking | C | Tennessee Attorney General | Chattanooga Gas Company |
| 28 | 21-00135 Piedmont Annual Review Mechanism | C | Tennessee Attorney General | Piedmont Natural Gas |
| 29 | 21-00107 Kingsport Base Rate Case | C | Tennessee Attorney General | Kingsport Power Company |
| 30 | 21-00048 CGC Annual Review Mechanism | C | Tennessee Attorney General | Chattanooga Gas Company |
| 31 | 21-00053 Limestone and Cartwright Creek Acquisition | C | Tennessee Attorney General | Central States Water Company |
| 32 | 21-00107 Kingsport Base Rate Case | C | Tennessee Attorney General | Kingsport Power Company |
| 33 | 22-00004 CGC Tariff Amendments | C | Tennessee Attorney General | Chattanooga Gas Company |
| 34 | 22-00072 Tennessee American Water Capital Rider Reconciliation | C | Tennessee Attorney General | Tennessee American Water |
| 35 | 22-00087 Superior Base Rate Case | C | Tennessee Attorney General | Superior Wastewater Company |
| 36 | 22-00010 Atmos Annual Review Mechanism | C | Tennessee Attorney General | Atmos Energy Company |
| 37 | 22-00021 Tennessee American Water Capital Rider Reconciliation | C | Tennessee Attorney General | Tennessee American Water |
| 38 | 23-00018 Tennessee American Water Capital Rider Reconciliation | C | Tennessee Attorney General | Tennessee American Water |
| 39 | 23-00035 Piedmont Annual Review Mechanism | C | Tennessee Attorney General | Piedmont Natural Gas |
| 40 | 24-00011 Tennessee American Water Capital Rider Reconciliation | C | Tennessee Attorney General | Tennessee American Water |
| 41 | 24-00032 Tennessee American Water Base Rate Case | C | Tennessee Attorney General | Tennessee American Water |
| 42 | 24-00036 Piedmont Annual Review Mechanism | C | Tennessee Attorney General | Piedmont Natural Gas |
| Iowa | | | | |
| 43 | 24-0002 Iowa American Water Company - Base Rate Case (two additional cases contracted for but did not file testimony) | C | Iowa Office of Consumer Advocate | Iowa American Water Company |
| Kansas | | | | |
| 44 | 23-FRPG-461-RTS-CON - Contract/Base Rate Approval | C | Freedom Pipeline | Freedom Pipeline |
| 45 | 16-KGSG-491-RTS KGS Base Rate Case | E | Kansas Gas Service | Kansas Gas Service, a Division of ONE Gas |
| 46 | 23-KGSG-719-TAR Kansas Gas Service Tariff Proposal | C | Kansas Corporation Commission Staff | Kansas Gas Service, a Division of ONE Gas |
| 47 | 14-ANGG-119-COM Contract Litigation | C | Freedom Pipeline | Freedom Pipeline/Anadarko Petroleum |
| Kentucky | | | | |
| 48 | 22-000432 Bluegrass Water | C | Kentucky Attorney General | Central States Water Company |
| 49 | 2021-00183 Columbia Natural Gas Base Rate Case | C | Kentucky Attorney General | Columbia Natural Gas Company |
| Massachusetts (Testimony not Filed) | | | | |
| DPU 23-08 Aquarion Water Company/Pinehills Water Company | | | | |
| 50 | Acquisition | C | Massachusetts Attorney General | Aquarion Water Company |
| 51 | DPU 23-64 Whittinsville Water Company | C | Massachusetts Attorney General | Whittinsville Water Company |
| Ohio | | | | |
| 52 | 23-549-EL-RDR Duke Energy Distribution Capital Rider | C | Ohio Consumer's Counsel | Duke Energy |
| 53 | 23-895-GA-ALT Dominion Energy Ohio - Alternative Regulatory Plan | C | Ohio Consumer's Counsel | Dominion Energy Ohio |

TENNESSEE-AMERICAN WATER COMPANY
2024 Incremental Capital Rider Revenue Requirement ("ICRRR")
Comparison of Original and Revised Filings
For the Twelve Months Ending December 31, 2024

Exhibit DND-3

Source: TAWC Response to CA Request 1-22

| Line No. | Description | Source | A As Filed | B DR Response to CAD DR 1-01 | C Response to DR 1-22 Revised | |
|---|---|---------------------------|-------------------|------------------------------------|-------------------------------------|-----|
| Section A Return | | | | | | |
| Determining Capital Rider Rate Base and Rate of Return | | | | | | |
| 1 | TAWC 13-Month Average Rate Base | | \$ 291,704,080 | \$ 291,704,080 | \$ 291,704,080 | [A] |
| 2 | Eligible Capital Rider Rate Base | | 175,045,070 | 175,045,070 | 175,069,224 | |
| 3 | Plus: | | | | | |
| 4 | Authorized Rate Base | Rate Order 12-00049 | 132,015,472 | 132,015,472 | 132,015,472 | |
| 5 | Acquisition Rate Base | | 0 | (935,260) | (935,260) | |
| 6 | Eligible Capital Rider Rate Base Plus | Line 2 + Line 4 + Line 5 | 307,060,542 | 306,125,282 | 306,149,436 | |
| 7 | Lower of the Rate Base Calculation | Lower of Line 1 or Line 6 | \$291,704,080 | \$291,704,080 | \$291,704,080 | |
| 8 | Eligible Rate Base | Line 7 Less Lines 4 and 5 | 159,688,608 | 160,623,868 | 160,623,868 | |
| 9 | Less: Previously Recovered CR Rate Base | | 149,037,001 | 149,037,001 | 149,037,001 | |
| 10 | Incremental CRR Investment | Line 8 Less Line 9 | 10,651,606 | 11,586,867 | 11,586,867 | |
| 11 | Pre-Tax Return | 12-00049 | 8.45% | 8.45% | 8.45% | |
| 12 | Pre-Tax Revenue Deficiency on ICR Investment | Lines 10 * 11 | 900,215 | 979,259 | 979,259 | |
| 13 | Lag Weighted Return Factor - Pre-Tax | Regulatory Lag Factor | 1.1056 | 1.1056 | 1.1056 | |
| 14 | Return on Rate Base Revenue Deficiency w/ Regulatory Lag | Line 12 * Line 13 | \$ 995,317 | \$ 1,082,711 | \$ 1,082,711 | |
| Section B: Depreciation | | | | | | |
| Determining Depreciation Expense | | | | | | |
| 15 | TAWC Depreciation Expense | PSC--3.06 | \$ 12,554,288 | \$ 12,554,288 | \$ 12,554,288 | |
| 16 | Minus: | | | | | |
| 17 | Authorized Depreciation Expense | Rate Order 12-00049 | 6,090,861 | 6,090,861 | 6,090,861 | |
| 18 | Acquisition Depreciation Expense | | - | 24,878 | 24,878 | |

| | | | | | |
|----|---|-------------------------------|-------------------|-------------------|---------------------|
| 19 | Legacy CRR Depreciation Recovery | | 4,264,359 | 4,264,359 | 4,264,359 |
| 20 | Incremental Depreciation Expense Cap (Depreciation Expense Unrecovered in either base rates or Capital Rider) | Line 15 Less Lines 17, 18, 19 | 2,199,068 | 2,174,190 | 2,174,190 |
| 21 | Incremental CR Depreciation Expense | | 767,559 | 767,559 | 1,206,251 |
| 22 | Lower of the Depr Expense on incremental CR expenditures or Unrecovered Depreciation Expense | Lower of Line 20 or 21 | 767,559 | 767,559 | 1,206,251 |
| 23 | Lag Weighted Return Factor - Pre-Tax | Regulatory Lag Factor | 1.1056 | 1.1056 | 1.1056 |
| 24 | ICRRR Depreciation Expense w/ Regulatory Lag | Line 22 * 23 | \$ 848,646 | \$ 848,646 | \$ 1,333,683 |

Section C: Property and Franchise Tax Expense

| | | | | | |
|----|--|---|--------------|--------------|--------------|
| 25 | Determining Property & Franchise Tax Expense | | | | |
| 26 | TAWC Property tax - gross | PSC--3.06 | \$ 1,487,109 | \$ 1,487,109 | \$ 1,487,109 |
| 27 | TAWC Franchise tax | | 479,133 | 479,133 | 479,133 |
| 28 | Minus: | | | | |
| 29 | Authorized Property & Franchise Tax | Rate Order 12-00049 | 3,166,568 | 3,166,568 | 3,166,568 |
| 30 | Acquisition Property tax | | - | 10,298 | 10,298 |
| 31 | Acquisition Franchise Tax | | - | 2,338 | 2,338 |
| 32 | Legacy CR Property Tax Recovery | | 2,025,246 | 2,025,246 | 2,025,246 |
| 33 | Incremental Property & Franchise Tax (Unrecovered in either base rates or capital rider) | Lines 26 + 27 Less Lines 29, 30, 31, 32 | (3,225,573) | (3,238,209) | (3,238,209) |
| 34 | Incremental Property and Franchise Taxes | Property & Franchise Tax Calc | 352,937 | 352,937 | 352,937 |
| 35 | Eligible Capital Rider Franchise Tax | | | | |
| 36 | Lower of unrecovered actual or CR property and franchise tax expense | Lower of Line 33 or 34 | (3,225,573) | (3,238,209) | (3,238,209) |
| 37 | Lag Weighted Return Factor - Pre-Tax | Regulatory Lag Factor | 1.1056 | 1.1056 | 1.1056 |
| 38 | ICRRR Property and Franchise Tax w Regulatory Lag | Line 36 * 37 | (3,566,332) | (3,580,303) | (3,580,303) |

| | | | | | |
|----|---|--------------------|-----------------------|-----------------------|-----------------------|
| 39 | Total ICRRR Revenue Requirement | Lines 14 + 24 + 38 | \$ (1,722,369) | \$ (1,648,947) | \$ (1,163,910) |
| 40 | CRR Revenue Deficiency | Line 39 | \$ (1,722,369) | \$ (1,648,947) | \$ (1,163,910) |
| 41 | Revenue Taxes Reciprocal Factor | | 103.30% | 103.30% | 103.30% |
| 42 | Revenues with Revenue Taxes | | \$ (1,779,142) | \$ (1,703,299) | \$ (1,202,275) |
| 43 | (Over)/Under Collection from Prior Period | | \$ 605,074 | \$ 605,074 | \$ 605,074 |

44 After Tax ICRRR

\$ (1,174,067)

\$ (1,098,225)

\$ (597,200)

[A] Response to CAD DR 1-22 is inclusive of the inclusion of Acquisition adjustments revised in CAD DR 1-01 and the revision to depreciation expense revised in CAD DR 1-22

Tennessee Attorney General - Consumer Advocate
Calculation of Return on Equity Test
Tennessee American Water Company
For the Twelve Months Ending December 31, 2024
Docket No. 25-00016

Exhibit DND-4

| Line No. | Line No. | | Per TAWC | To Recognize Non-Revenue Water | Consumer Advocate Pro-Forma |
|----------|----------|--|---------------|--------------------------------------|-----------------------------------|
| 1 | | 2024 ICRRR | | | |
| 2 | | Calculation of Adjusted Net Income | | | |
| 3 | 1 | Book Net Income | \$ 15,324,475 | | \$ 15,324,475 |
| 4 | 2 | Adjustments to Book Income | | | |
| 5 | 3 | Deferred Depreciation, Property Tax and Debt Carrying Cost | 0 | | \$ - |
| 6 | 4 | New ICRRR Revenue | 0 | | \$ - |
| 7 | 5 | Allowance for Funds Used During Construction | 0 | | \$ - |
| 8 | 6 | Adjustment to reflect effective Federal Rate | 0 | | \$ - |
| 9 | 7 | Income Tax Rate (debt assigned to parent) | 451,115 | | \$ 451,115 |
| 10 | 8 | Interest on Customer Deposits | 0 | | \$ - |
| 11 | 9 | Incentive Compensation | 1,045,614 | | \$ 1,045,614 |
| 12 | 10 | Lobbying Expenses | 57,075 | | \$ 57,075 |
| 13 | 11 | Lobbying - Salary | 26,998 | | \$ 26,998 |
| 14 | 12 | Deferral of Operating Costs - Main Break | 0 | | \$ - |
| 15 | 13 | Excess Production Costs > 15% Adjustment | 0 | | \$ - |
| 16 | 14 | Reversal of Revenue Adjustment | 0 | | \$ - |
| | 15 | Non-Revenue Water | | \$ 423,628 | \$ 423,628 |
| 17 | 16 | Adjustments to Net Income (Lines 5-16) | \$ 1,580,802 | \$ 423,628 | \$ 2,004,431 |
| 18 | 17 | Adjusted Net Income (Line 3+17) | \$ 16,905,278 | \$ 423,628 | \$ 17,328,906 |

| | | | | |
|----|----|---|-----------------------|-----------------------|
| 19 | 18 | Calculation of Equity | | |
| 20 | 19 | TAWC 13-Month Avg Rate Base | \$ 291,704,080 | \$ 291,704,080 |
| 21 | 20 | Less: 13-Month Avg Debt: | | |
| 22 | 21 | Short-Term Debt | \$ 5,170,671 | \$ 5,170,671 |
| 23 | 22 | Long-Term Debt | <u>\$ 126,455,692</u> | <u>\$ 126,455,692</u> |
| 24 | 23 | Equity Financed Rate Base * (Line 20-22-23) | \$ 160,077,717 | \$ 160,077,717 |
| 25 | 24 | Earned Return on Equity (Line 18/24) | 10.56% | 10.83% |
| 26 | 25 | Less: Authorized Return | <u>10.00%</u> | <u>10.00%</u> |
| 27 | 26 | Excess Return on Equity (Line 25- 26) | 0.56% | 0.83% |
| 28 | 27 | *Earned Return on Equity above authorized. No Revenue Deficiency. | | |

| | | | | |
|----|----|--|----------------|--|
| 29 | 28 | Capital Structure per TN Statements @ 12/24 | | |
| 29 | | Total Stockholders Equity | \$ 161,749,510 | |
| 30 | | Long-Term Debt | \$ 131,573,061 | |
| 31 | | Short-Term Debt | \$ 9,504,082 | |
| 32 | | Total | \$ 302,826,653 | |

| | | | | |
|----|----|--|----------------|--|
| 30 | 33 | Capital Structure per TN Statements @ 12/23 | | |
| 34 | | Total Stockholders Equity | \$ 147,264,584 | |
| 35 | | Long-Term Debt | \$ 122,674,751 | |
| 36 | | Short-Term Debt | \$ 8,252,789 | |

| | | |
|----|-------|----------------|
| 37 | Total | \$ 278,192,125 |
|----|-------|----------------|

38 NRW Adjustment Calculation

| | | |
|----|---|--------------------------|
| 39 | Adjustment Sponsored by Hal Novak; Docket No. 25-0002 | \$ 573,517 |
| 40 | Less: State Excise Tax on Increased Taxable Income @ 6.5% | <u>\$ (37,279)</u> |
| 41 | Increase in Net Income Subject to Federal Income Tax | \$ 536,238 |
| 42 | Less: Federal Income Tax @ 21% | <u>\$ (112,610)</u> |
| 43 | Increase in Net Income Due to NRW | <u><u>\$ 423,628</u></u> |

Tennessee Attorney General - Consumer Advocate
Calculation of Excess Return on Equity
Tennessee American Water Company
For the Twelve Months Ending December 31, 2024
Docket No. 25-00016

Exhibit DND-5

| Line No. | Item | Amount | | | |
|----------|---|-------------------------------|---------------|---------------|---------------|
| 1 | Book Equity | \$ 160,077,717 | | | |
| 2 | Authorized ROE - 12-00049 | 10% | | | |
| 3 | Net Income at Authorized Rate | <u>\$ 16,007,772</u> | | | |
| 4 | Adjusted Regulated Net Income | \$ 17,328,906 | | | |
| 5 | Excess Net Income - 2024 | <u>\$ (1,321,134)</u> | | | |
| 6 | Divided By Reciprocal Tax Factor | <u>0.73865</u> | | | |
| 7 | Excess Revenue Requirement | \$ (1,788,580) | | | |
| 8 | Divided By Revenue Requirement Equivalent Ratio Factor | <u>11.833%</u> | | | |
| 9 | Equivalent Capital Expenditures Equal to Excess Earnings | <u>\$ (15,115,507)</u> | | | |
| 10 | Revenue Requirement Equivalent Ratio Factor | | | | |
| 11 | Pre-Tax Rate of Return | | 8.362% | | |
| 12 | Depreciation Rate - Mains | | 1.250% | | |
| 13 | Property Taxes - Assume 1% | | 1.000% | | |
| 14 | Forefeited Discounts - Per TPUC Order 24-00032 | | 0.537% | | |
| 15 | Uncollectible Ratio - Per TPUC Order 24-00032 | | <u>0.683%</u> | | |
| 16 | Total Equivalent Revenue Requirement Ratio | | 11.833% | | |
| 17 | Capital Structure Approved Docket 24-00032 | | | | |
| 18 | Short Term Debt | 0.81% | 4.27% | 0.035% | 0.035% |
| 19 | Long Term Debt | 55.00% | 4.59% | 2.525% | 2.525% |
| 20 | Common Equity | 44.19% | 9.70% | <u>4.286%</u> | <u>5.803%</u> |
| 21 | | | | 6.846% | 8.362% |
| 22 | Tax Gross-Up Calculation | | | | |
| 23 | Less: Excise Tax | <u>6.50%</u> | | | |
| 24 | Income Subject to Federal Tax | 0.935 | | | |
| 25 | Federal Tax Rate | <u>21.00%</u> | | | |
| 26 | Effective Federal Tax Rate | 0.19635 | | | |
| 27 | Composite Tax Rate (State + Federal) | 0.26135 | | | |
| 28 | Reciprocol Tax Rate (1/Composite Rate) | 0.73865 | | | |



\$ Pay Bill

↔ Start/Stop Service



NewsRoom

★ / Tennessee American Water President Addresses New ASCE Report Card, Urges More Investment in Critical Water Infrastructure



March 28, 2025 | American Water (NYSE: AWK) |



Tennessee American Water President Addresses New ASCE Report Card, Urges More Investment in Critical Water Infrastructure

CHATTANOOGA, TN. – MARCH 28, 2025 – Grant Evitts, President of Tennessee American Water, issued the following statement in response to the grades of C- for drinking water and D+ for wastewater in the American Society of Civil Engineers' (ASCE) [2025 Report Card for America's Infrastructure](#).

“The ASCE 2025 Report Card reveals no change or improvement over the last four years – America’s drinking water and wastewater infrastructure is stagnant. The Report Card highlights the urgent need for significant investment in water infrastructure, not just across the nation, but also here in Tennessee,” said Grant Evitts. “Our state continues to face challenges when it comes to investing in critical infrastructure, particularly in these sectors.”

With [over \\$11.5 billion dollars](#) in drinking water infrastructure needs across Tennessee over the next two decades, American Water continues to work with local, state and federal leaders to provide expertise and investment in communities across the state that need to strengthen their water systems.

In 2024, Tennessee American Water invested over \$37 million to help ensure safe, clean, reliable, and affordable water service. Over the next ten years, American Water plans to invest \$40-\$42 billion in our systems across the country to help ensure safe, clean, reliable, and affordable water and wastewater service.

Media Contacts

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MyWater



Contact Us



Careers



American Water Sites



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