

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

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|---------------------------------------|---|----------------------------|
| IN RE: |) | |
| |) | |
| JOINT PETITION OF TENNESSEE- |) | |
| AMERICAN WATER COMPANY, |) | |
| AMERICAN WATER WORKS |) | |
| COMPANY, INC., NEXUS REGULATED |) | |
| UTILITIES, LLC, AND TENNESSEE |) | |
| WATER SERVICE, INC. FOR |) | |
| AUTHORIZATION OF CHANGE OF |) | DOCKET NO. 25-00040 |
| CONTROL, APPROVAL OF THE |) | |
| AGREEMENT AND PLAN OF |) | |
| MERGER AND FOR THE ISSUANCE |) | |
| OF A CERTIFICATE OF |) | |
| CONVENIENCE AND NECESSITY |) | |

**CONSUMER ADVOCATE’S FIRST SET OF DISCOVERY REQUESTS
TO TENNESSEE AMERICAN WATER COMPANY**

This First Set of Discovery Requests is hereby served upon Tennessee-American Water Company (“TAWC” or the “Company”), pursuant to Rules 26, 33, 34, and 36 of the Tennessee Rules of Civil Procedure and Tenn. Comp. R. & Regs. 1220-01-02-.11. The Consumer Advocate Division of the Office of the Attorney General (“Consumer Advocate”) requests that full and complete responses be provided pursuant to the Tennessee Rules of Civil Procedure. The responses are to be produced at the Office of the Tennessee Attorney General and Reporter, Consumer Advocate Division, John Sevier Building, 500 Dr. Martin L. King Jr. Blvd., Nashville, Tennessee 37243, c/o Shilina B. Brown, on or before August 8, 2025, at 2:00 p.m. Central.

PRELIMINARY MATTERS AND DEFINITIONS

1. **Continuing Request.** These discovery requests are to be considered continuing in nature and are to be supplemented from time to time as information is received by the Company and any of its affiliates which would make a prior response inaccurate, incomplete, or incorrect.

2. **Clear References.** To the extent that the data or information requested is incorporated or contained in a document, identify the document including page/line number if applicable.

3. **Format of Responses.** Provide all responses in the format in which they were created or maintained, for example, Microsoft Word or Microsoft Excel format with all cells and formulas intact and in working order. If a document (including without limitation a financial or other spreadsheet or work paper) is not created or maintained in Microsoft Excel format, convert the document to Microsoft Excel format or provide the document in a format that enables or permits functionality like or similar to Microsoft Excel (including without limitation the functionality of working cells and formulas), or provide the software program(s) that will enable the Consumer Advocate to audit and analyze the data and information in the same manner as would be enabled or permitted if the document were provided in Microsoft Excel format.

4. **Objections.** If any objections to this discovery are raised on the basis of privilege or immunity, include in your response a complete explanation concerning the privilege or immunity asserted. If you claim a document is privileged, identify the document and state the basis for the privilege or immunity asserted. If you contend that you are entitled to refuse to fully answer any of this discovery, state the exact legal basis for each such refusal.

5. **Singular/Plural.** The singular shall include the plural, and vice-versa, where appropriate.

6. **Definitions.** As used in this Request:

(a) “You,” “Your,” “Company,” “Tennessee American,” or “TAWC” shall mean Tennessee American Water Company and all employees, agents, attorneys, representatives or any other person acting or purporting to act on its behalf.

(b) “Affiliate” shall mean any entity who, directly or indirectly, is in control of, is controlled by, or is under common control with the Company. For greater clarification, “control” is the ownership of 20% or more of the shares of stock entitled to vote for the election of directors in the case of a corporation, or 20% or more of the equity interest in the case of any other type of entity, or status as a director or officer of a corporation or limited liability company, or status as a partner of a partnership, or status as an owner of a sole proprietorship, or any other arrangement whereby a person has the power to choose, direct, or manage the board of directors or equivalent governing body, officers, managers, employees, proxies, or agents of another person. In addition, the term “Affiliate” shall mean any entity that directly or indirectly provides management or operational services to the Company or any affiliate (as defined in the preceding sentence) of the Company, or to which the Company provides management or operational services. Further, the payment of money to the Company or receipt by the Company of money from an entity with which the Company has any relationship, other than such payment or receipt, shall include the payor or recipient of such money as an “Affiliate”.

(c) “Communication” shall mean any transmission of information by oral, graphic, written, pictorial or otherwise perceptible means, including but not limited to personal conversations, telephone conversations, letters, memoranda, telegrams, electronic mail, newsletters, recorded or handwritten messages, meetings and personal conversations, or otherwise.

(d) “Document” shall have the broadest possible meaning under applicable law. “Document” shall mean any medium upon which intelligence or information can be recorded or retrieved, such as any written, printed, typed, drawn, filmed, taped, or recorded medium in any manner, however produced or reproduced, including but not limited to any writing, drawing, graph, chart, form, letter, note, report, electronic mail, memorandum (including memoranda, electronic mail, report, or note of a meeting or communication), work paper, spreadsheet, photograph, videotape, audio tape, computer disk or record, or any other data compilation in any form without limitation, which is in your possession, custody or control. If any such document was, but no longer is, in your possession, custody or control, state what disposition was made of the document and when it was made?

(e) “Person” shall mean any natural person, corporation, firm, company, proprietorship, partnership, business, unincorporated association, or other business or legal entity of any sort whatsoever.

(f) “Identify” with respect to:

- i. Any natural person, means to state the full name, telephone number, email address and the current or last known business address of the

person (if no business address or email address is available provide any address known to you) and that person's relationship, whether business, commercial, professional, or personal with you;

- ii. Any legal person, business entity or association, means to state the full name, the name of your contact person with the entity, all trade name(s), doing business as name(s), telephone number(s), email address(es), and current or last known business address of such person or entity (if no business address is available provide any address known to you);
- iii. Any document, means to state the type of document (e.g., letter), the title, identify the author, the subject matter, the date the document bears and the date it was written; and
- iv. Any oral communication, means to state the date when and the place where it was made, identify the person who made it, identify the person or persons who were present or who heard it, and the substance of it.

(g) "And" and "or" shall be construed conjunctively or disjunctively as necessary to make the discovery request inclusive rather than exclusive.

(h) "Including" shall be construed to mean including but not limited to.

FIRST SET OF DISCOVERY REQUESTS

1-1. Acquisition Price and Allocation. For this discover request, refer to the *Joint Petition*, File <Exhibit C - SEC report of acquisition.pdf>, and *Direct Testimony of Grady Stout*.

Respond to the following:

- a. For File <Exhibit C - SEC report of acquisition.pdf>:
 - i. Specifically, refer to page 2 of the Form 8-K. Confirm that the purchase price is approximately \$315 million for all equity interests acquired by AWWC from Nexus, that the aggregate rate base at closing is estimated to be \$200 million, for an acquisition premium of approximately \$115 million;
 - ii. Explain how the acquisition price for the entire transaction was determined;
 - iii. Provide a copy of all studies, reports, or related analyses of appraisals or valuations of TWS system as a going concern;
 - iv. Provide a list of entities offering to purchase the TWS system;
 - v. Confirm that the acquisition price allocated to the TWS system is a function of TWS's rate base;

- vi. What process was used to determine that existing rate base should be used to allocate the acquisition premium? Provide the formula used to allocate the acquisition price to each system being acquired by AWWC; and
 - vii. What other methods for allocating the acquisition were considered.
- b. For the *Direct Testimony of Grady Stout* at 8-9:
- i. Confirm the current rate base of the TWS system is \$2,010,732;
 - i. Confirm the allocated purchase price to TWS is approximately \$3,865,574;
 - ii. Confirm the acquisition premium to be allocated to TWS is \$1,854,842; and
 - iii. If these values directly above, in (i-iii), are not correct, provide the correct values.
- c. For the *Joint Petition*, p. 8, ¶ 28(c). It states that TAWC proposes no acquisition adjustment with this transaction:
- i. Does TAWC anticipate recovering the goodwill, or acquisition premium, from this transaction, or any other transaction, from Tennessee customers now or in future proceedings?
 - ii. If yes, identify those future proceedings and the expenses for which TAWC will be seeking recovery.

RESPONSE:

1-2. Plant Age. Refer to the *Joint Petition* and respond to the following:

- a. For each system being acquired by AWWC, what is the average age of the plant-in-service?
- b. What is the average age of TWS's plant-in-service?

RESPONSE:

1-3. Transaction Costs. Refer to the *Joint Petition*, p. 8 and respond to the following:

- a. Confirm that TAWC is proposing to recover expenses associated with the acquisition.
- b. Identify the total amount of these transaction costs. If they are not known, provide an estimate of the transaction costs.
- c. Do these transaction costs include costs for the entire process or only costs that are directly attributable to regulation and transaction costs for TWS in Tennessee? Will there be allocated transaction costs?

- d. If transaction costs are allocated, what method will be utilized to allocate those transaction costs?
- e. Confirm that if TAWC is allowed to recover these costs from Tennessee customers, recovery of the transaction costs will result in an increase in rates.

RESPONSE:

1-4. Allocation. Refer to the *Joint Petition*, p. 6, ¶ 15. It states that the expenses and revenues of the system will be kept separate and distinct from the operation of TAWC's existing system. Respond to the following:

- a. Does TAWC intend to allocate expenses and costs from TAWC to TWS?
- b. If so, identify the procedures TAWC will use to make such cost allocations.

RESPONSE:

1-5. Depreciation. Refer to the *Joint Petition*, p. 11, ¶ 7. What impact will the application of TAWC's depreciation accrual rates have on annual depreciation and revenue requirement for TWS' system? Provide the underlying calculation supporting the impact the TAWC depreciation rates will have on the TWS depreciation expense calculation.

RESPONSE:

1-6. Rates. Refer to the *Direct Testimony of Grady Stout* at p. 10:1-2, 8-9. "Going forward, customers' rates will be based on the current regulated rate base of TWS, the depreciated original cost of the assets. . . Existing rates for TWS customers will continue to be based on the current rate base; original cost of the investments less accumulated depreciation."

Respond to the following:

- a. Is the Petitioners' position that the proposed transaction will not increase rates, now, or in the future?
- b. Confirm that the segments above are reflective of one component of rates and not "total rates."

- c. Reconcile the statements from the testimony above with the claim that the company is “proposing to recover its due diligence, transition, transaction and closing costs associated with this transaction.”
 - i. Do the Petitioners expect to recover these costs through rates?
 - ii. If yes, will recovery of these costs increase rates?
 - iii. If no, explain how the Petitioners propose to recover these costs.
- d. Does TAWC plan to maintain a separate base rate structure for TWS after the next TAWC base rate proceeding? Or will TAWC seek to consolidate TWS rates in its next base rate proceeding?

RESPONSE:

- 1-7. Corporate Structure.** Refer to the *Direct Testimony of Grady Stout*, at 8:16-20. Respond to the following questions in regard to the statement from Mr. Stout’s testimony below:

The System will be kept separate and apart from TAWC’s existing system for purposes of accounting and ratemaking. Further, the System will be operated by TAWC as a separate business unit in the TAWC accounting system. All labor utilized to operate and maintain the System will be charged accordingly, as will all maintenance and other operational expenses. TAWC is proposing to create a separate cost center for the System.

- a. Confirm that there will not be any legal differentiation between the “System” and TAWC.
- b. Will the “System” be considered as an operating division?
- c. Will cost allocations to the “System” be following the TAWC allocation manual?
- d. Under current operations, what is the annual dollar value of costs and expenses that will be allocated to the “System” from TAWC and/or AWWC?

RESPONSE:

- 1-8. Benefits.** Refer to the *Joint Petition*, p. 8, ¶ 28 (d). The *Joint Petition* states “[u]pon closing, the System’s customers will benefit substantially from the transactions.” Respond to the following and provide documentation to support your responses:

- a. Identify with specificity, the benefits that TAWC will be able to provide that Nexus is not currently able to provide.

- b. Identify the specific consumer benefits to be addressed as part of the decision to sell/acquire the TWS system, and how both TAWC and TWS' existing customers would benefit from the transaction.
- c. Provide the customer-centric cost/benefit analysis that was conducted as part of the transaction decision process.
- d. List and quantify any efficiencies the merger creates that will benefit the current TWS system.
- e. Given the acquisition premium, transaction costs, and the expectation that service for TWS customers will not substantially change, explain how the sale of the TWS System is in the public interest.

RESPONSE:

1-9. Benefits. Refer to the *Direct Testimony of Grady Stout* at 5:15-16; 8:12-13. Mr. Stout states that there are “no major plans to implement significant changes to the existing TWS operation.” Also, he states that TAWC intends “to continue to operate the TWS System with the use of a contractor.” Does TAWC intend to retain the same contractor(s)?

RESPONSE:

1-10. Benefits. Refer to the *Direct Testimony of Grady Stout* at 11:12-14. Respond to the following:

- a. What are the sizes of Nexus and AWWC by number of customers and total capitalization?
- b. Is Mr. Stout suggesting that Nexus is a small company and that TWS customers will benefit from being served by a larger company?
- c. Is Mr. Stout alleging that Nexus does not have economies of scale that exist for TAWC?
- d. Is Mr. Stout alleging that Nexus does not have “affordable access to capital necessary for infrastructure investments”? If so, provide a list of the capital improvements that have not been made to TWS and quantify that financial savings that would have existed with TAWC's access to capital that did not exist under Nexus' ownership.
- e. Is Mr. Stout alleging that TWS has not been providing “the same level of service and expertise” that will exist with a change in ownership to TAWC?
- f. Is Mr. Stout stating that TWS customers will benefit simply by being served by TAWC rather than Nexus? If so, detail how.

- g. Mr. Stout discusses the benefits to the TWS customers from the proposed acquisition. Identify all the “benefits” (including the annual financial value), that Nexus is unable to provide the same or similar service including:
 - i. Size and scale position.
 - ii. Expertise, purchasing power and financial strength of the larger organization.
 - iii. Exclusive access to highly trained professionals and centralized expertise.
 - iv. Economies of scale.
- h. Explain how TAWC’s centralized expertise is consistent with utilizing a contractor to operate TWS.
- i. Explain how the water testing for TWS’s system may differ under TAWC ownership than what currently exists with Nexus. Also, provide the reason for such changes.
- j. Confirm that “TWS testing in 2024 revealed no contaminants and no violation of drinking water regulations.”¹

RESPONSE:

1-11. Cost Savings. Itemize financial savings to TWS customers from the proposed transaction.

RESPONSE:

1-12. System. Confirm that the TWS system is not interconnected with any other TAWC system, and that it cannot share water sources with any other TAWC system.

RESPONSE:

1-13. ICRR. Refer to the *Direct Testimony of Grady Stout* at 16-17 regarding the applicability of the TAWC Incremental Capital Recovery Rider (“ICRR”). Respond to the following:

- a. Has TAWC assessed the need for capital expenditures on the TWS system, and are these projects ICRR qualifying expenditures?
- b. If part (a) is yes, identify the projects and provide an explanation of the need for the capital expenditure.

¹ *Direct Testimony of Tiffani Van Horn* at 3:14-15

- c. If not, what is the rationale for charging an ICRR surcharge to the TWS system when there is no apparent need for ICRR qualifying investments?

RESPONSE:

1-14. Rate Base. Refer to the Direct Testimony of Grady Stout at 9:9-12. Mr. Stout states that TAWC is not asking for any adjustment to rate base in this proceeding, along with the identification of rate base as \$2,010,732. However, in TPUC Docket No. 25-00031 (“2025 ARM”), TWS states that the Rate Base amount includes an ADIT offset to Rate Base of \$67,545 during the Historic Period and \$126,961 in the “as adjusted” Historic Period.² Thus, it is clear that the existing Rate Base, as per TWS, incorporates an ADIT offset. Provide an explanation of why Mr. Stout does not reference an ADIT entry contained in the current Docket’s File <Exhibit F - Pro-forma Accounting Entry TAWC.xlsx>.

RESPONSE:

1-15. Transaction Costs. Provide a split of the estimated Transaction Costs TAWC expects to incur because of this transaction, split into the following two categories; (a) Direct charges incurred by TAWC in its purchase of TWS, and (b) estimated Transaction Costs allocated to it by AWWC.

RESPONSE:

1-16. Transaction Costs. With respect to the estimated Transaction Costs allocated to TAWC, provide a comprehensive explanation of the allocation methodology TAWC intends to use to allocate such costs to TAWC.

RESPONSE:

² *Petition for Approval of 2025 Rate Review Filing File <ARM Filing Template TWS 2025>, Tab “Rate Base” (Exhibit 1, Schedule A), TPUC Docket No. 25-00031 (May 30, 2025).*

1-17. Transaction Costs. With respect to the Transaction Costs the Company seeks to recover in the future, how does it intend to allocate such costs between the existing TAWC customer base and the acquired TWS customer base?

RESPONSE:

RESPECTFULLY SUBMITTED,



SHILINA B. BROWN (BPR No. 020689)

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via electronic mail,
upon:

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This the 24th day of July, 2025.



SHILINA B. BROWN

Senior Assistant Attorney General