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VIA ELECTRONIC FILING

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

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 Control, Approval of the Agreement and Plan of Merger and for the Issuance of a Certificate of Convenience and Necessity*, Docket No. 25-00040**

Dear Chairman Jones:

Attached for filing please find *Tennessee-American Water Company's Rebuttal Testimonies of Robert C. Lane, Grady Stout, and Linda Schlessman* in the above-captioned matter.

As required, copies will be mailed to your office. Should you have any questions concerning this filing or require additional information, please do not hesitate to contact me.

Very truly yours,

BUTLER SNOW LLP

Melvin J. Malone

clw
Attachments
cc: Bob Lane, TAWC
Ryan Freeman, Baker Donelson
Shilina B. Brown, Consumer Advocate Division
Victoria B. Glover, Consumer Advocate Division

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 25-00040

REBUTTAL TESTIMONY

OF

ROBERT C. LANE

ON

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 CONTROL, APPROVAL OF AGREEMENT AND PLAN OF MERGER AND FOR ISSUANCE OF A CERTIFICATE OF CONVENIENCE AND NECESSITY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Robert ("Bob") C. Lane, and my business address is 109 Wiehl Street, Chattanooga, Tennessee 37403.

Q. BY WHOM ARE YOU EMPLOYED, AND IN WHAT CAPACITY?

A. I am employed by American Water Works Service Company, Inc. ("Service Company"). Service Company is a wholly owned subsidiary of American Water Works Company, Inc. ("American Water" or "AWWC") that provides services to American Water's subsidiaries, including Tennessee-American Water Company ("TAWC" or the "Company"). My current role is Sr. Manager, Rates and Regulatory for TAWC.

Q. DID YOU PREVIOUSLY SUBMIT PRE-FILED DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF THE COMPANY?

A. No.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received both a Bachelor of Arts in Economics and Master of Arts in Economics from New Mexico State University. Prior to my current position at TAWC, I was the Director of Rates and Regulatory Affairs for New Mexico Gas Company from 2020 to 2022, where I led the Rates and Analysis and Regulatory Affairs Group and was responsible for all filings made before the Public Regulation Commission. Prior to joining New Mexico Gas Company, I served in various capacities for Sempra Energy, San Diego Gas and Electric ("SDG&E") and SoCal Gas. From 2015 to 2018, I served as the Manager – Compliance in the Enterprise Risk Management and Compliance Department leading SDG&E's and SoCal Gas's enterprise compliance program and as liaison with Sempra Energy Corporate

Compliance. From 2010 to 2014, I served as the Director, FERC, CAISO and Regulatory Compliance for SDG&E and SoCal Gas, where I managed regulatory affairs with the Federal Energy Regulatory Commission ("FERC"), coordinated policy interactions with the California Independent System Operator ("CAISO"), and oversaw SDG&E's federal electric reliability standards compliance assurance program. In 2010, I was the Director of Regulatory Strategy for SDG&E and SoCal Gas, where I developed and implemented regulatory strategies to advance SDG&E's and SoCal Gas's regulatory agenda before state and federal regulators. From 2007 to 2010, I was the Manager of Corporate Regulatory Strategy for Sempra Energy and provided regulatory and policy analysis and advice for the Sempra Energy family of Companies, including regulated electric and gas utilities, renewable businesses and natural gas infrastructure business units.

Prior to 2007 I was staff at the California Public Utilities Commission ("CPUC") where I served in the following positions (1) as the Chief Staff to CPUC Commissioner John Bohn from 2005 to 2007; (2) as the Advisor for Policy and Planning for Governor Schwarzenegger from 2004 to 2005; and (3) as Senior Policy Advisor to CPUC Commissioner Jessie J. Knight from 1993 to 2000. In addition, from 1988 to 1993, I held several positions as a Regulatory Analyst in the CPUC's Division of Ratepayer Advocates, Advisory and Compliance Division, as well as in the Division of Strategic Planning.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My rebuttal testimony addresses the Pre-filed Testimony of Mr. Kaml and Mr. Dittemore filed on September 19, 2025, on behalf of the Consumer Advocate Division in the Office of the Tennessee Attorney General ("Consumer Advocate" or "CAD"). The fact that I may not have responded to any particular position, argument or statement made by or on behalf of the CAD should not be interpreted as my agreement with any such position, argument or statement.

Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?

A. No.

Q. WHAT DOES CAD WITNESS MR. KAML RECOMMEND IN HIS PRE-FILED TESTIMONY?

A. Mr. Kaml makes the following recommendations in his Pre-filed Testimony:

1. Order that any approval be conditioned on the prohibition of recovery of goodwill or an acquisition adjustment related to this transaction in this or any future proceeding (this is consistent with TAWC's assurances). The condition should include AWWC and any subsidiary operations in Tennessee.
2. Reject any proposal to recover due diligence expenses in rates.
3. Reject the Petitioner's proposal to report and seek recovery of transaction costs at some time in the future. In the alternative, limit recovery of transaction and transition costs to demonstrated customer savings.
4. Order that TAWC should maintain the existing rates for current Tennessee Water Service, Inc. ("TWS") customers until all rates are reviewed and reject TAWC's proposal to subject TWS customers to the Incremental Capital 1 Recovery Rider ("ICRR"). In addition, customers should be notified of proposed rate changes at the time the proposed rate changes are filed with the Tennessee Public Utility Commission ("Commission").

5. Approve TAWC's proposal to end TWS's Annual Rate Review Mechanism ("ARRM") at the close of the acquisition.[1]
6. Maintain different fees and charges for TWS from those of TAWC's fees and charges. [2]

Q. HOW DO YOU RESPOND TO MR. KAML'S FIRST RECOMMENDATION TO PROHIBIT RECOVERY OF GOODWILL OR AN ACQUISITION ADJUSTMENT RELATED TO THIS TRANSACTION IN THIS OR ANY FUTURE PROCEEDING?

A. Mr. Kaml's recommendation is misplaced and unnecessary. TAWC has not suggested at any point or phase of this proceeding that it is seeking or will seek cost recovery of goodwill or an acquisition adjustment related to this transaction and reaffirms here, as it has repeatedly in this proceeding, that neither the Company nor American Water or another operating subsidiary in Tennessee (which does not exist) is or will seek cost recovery of goodwill or an acquisition adjustment related to this transaction in this or any future proceeding. The Joint Petition makes clear that "TAWC proposes no acquisition adjustment with this transaction"[3] Further, TAWC stated in the Pre-filed Direct Testimony of TAWC Witness Mr. Stout "the Company is not requesting an acquisition adjustment as allowed under Section 1220-04-14-.04."[4] Mr. Stout testifies that "TAWC is not asking for

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[1] *Pre-filed Testimony of CAD Witness Clark D. Kaml*, pp. 3-4, TPUC Docket No. 25-00040 (Sept. 19, 2025) (hereinafter "*Kaml*").
[2] *Id*. at pp.20-21.
[3] *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 Control, Approval of the Agreement and Plan of Merger and for the Issuance of a Certificate of Convenience and Necessity*, ¶ 28c, TPUC Docket No. 25-00040 (hereinafter "*Joint Petition*").
[4] Pre-filed *Direct Testimony of TAWC Witness Grady Stout* at 9:22-23, TPUC Docket No. 25-00044 (May 30, 2025) (hereinafter "*Stout Direct*").

any adjustment to rate base in this proceeding".[5] In response to discovery requests served by the Consumer Advocate, the Company again reiterated this point that TAWC is not seeking, and will not seek, recovery of goodwill or an acquisition adjustment related to this transaction in this, or any future, proceeding. More specifically, the Company responded: "TAWC is not seeking and will not seek recovery of goodwill or an acquisition adjustment related to this transaction in this or any future proceeding."[6] Mr. Kaml acknowledged the forgoing in his pre-filed testimony yet continues to suggest that there is some possibility that TAWC is seeking, or may sometime in the future seek, an acquisition adjustment.[7] It is not, and will not, and the Company has plainly stated the same in the record in this proceeding.

Q. BECAUSE TAWC IS NOT SEEKING COST RECOVERY OF GOODWILL OR AN ACQUISITION ADJUSTMENT, DOES THE PURCHASE PRICE ALLOCATED TO TAWC AS A RESULT OF THIS TRANSACTION MATTER FOR RATEMAKING PURPOSES?

A. No. As stated above, neither TAWC nor AWWC are seeking recovery of an acquisition adjustment (difference between the purchase price and value of the TWS assets). Regardless of the purchase price, given the unique and intricate circumstances underlying this transaction, the Company is not requesting an acquisition adjustment as allowed under Section 1220-04-14-.04. Further as TAWC Witness Mr. Stout testified:

> TAWC is seeking to only include in rate base the depreciated original cost of the assets being acquired. Existing rates for TWS customers will continue

[55] *Id.* at 9:12.
[6] *TAWC's Responses to CAD's First Set of Discovery Requests*, DR 1-1(c), TPUC Docket No. 25-00040 (Aug. 8, 2025).
[7] *Kaml* 12:9-21.

> to be based on the current rate base; original cost of the investments less accumulated depreciation.[8]

Consistent with Mr. Stout's testimony, the purchase price is not a part of this calculation and thus plays no role in determining the rate base on which future rates will be set. Therefore, the rates to be paid by customers of TAWC and TWS will be unaffected by the purchase price paid by AWWC and then allocated to TAWC.

Q. DOES THE PURCHASE PRICE AFFECT IN ANY WAY THE RATE BASE TAWC WILL PLACE IN ITS REGULATED BOOKS WITH REGARD TO THIS TRANSACTION?

A. No. Consistent with Mr. Stout's testimony, TAWC will book the depreciated original cost of the TWS assets at the date of closing and is not requesting an acquisition adjustment as allowed under Section 1220-04-14-.04.

Q. HAVE THE PARTIES RESOLVED MR. KAML'S RECOMMENDATION WITH RESPECT TO GOODWILL OR AN ACQUISITION ADJUSTMENT RELATED TO THIS TRANSACTION?

A. Cooperative discussions following the discovery phase of this proceeding have led to the resolution of the issue between the CAD and TAWC. As I stated earlier, neither the Company nor American Water nor another operating subsidiary in Tennessee is or will seek cost recovery of goodwill or an acquisition adjustment related to this transaction in this, or any future, proceeding. This continued affirmation in my rebuttal testimony reflects the resolution of this issue by agreement of the CAD and TAWC, and I am authorized by the CAD to make this statement.

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[8] *Id.* at 10:6-9.

Q. WHAT IS YOUR POSITION REGARDINGMR. KAML'S RECOMMENDATIONS THAT THE COMMISSION DISALLOW OR LIMIT TAWC FROM RECOVERING ITS DUE DILIGENCE AND TRANSACTION COSTS?

A. I generally disagree with Mr. Kaml's position that TAWC should be prohibited from recovering its reasonable due diligence and transaction expenses, including legal fees.

Q. IS TAWC SEEKING RECOVERY OF DUE DILIGENCE COSTS ASSOCIATED WITH THIS TRANSACTION?

A. No, it is not. The Company has determined that given the unique and specific circumstances of this transaction, and the fact TAWC has not incurred material due diligence costs associated with this transaction, it will not seek cost recovery of due diligence costs associated with this transaction. The circumstances of future transactions may drive a different decision when approval is sought for recovery of due diligence costs related to any future acquisitions.

Q. HAS TAWC INCURRED TRANSACTION COSTS ASSOCIATED WITH THIS TRANSACTION?

A. Yes, TAWC has incurred and will continue to incur transaction costs associated with this transaction. At this time, TAWC does not know and cannot know the total cost of its legal representation before the Commission until after the Commission issues its final order in this proceeding.[9] As set forth in Mr. Stout's Pre-filed Direct Testimony, TAWC intends to seek recovery of any deferred cost in the first appropriate rate proceeding after closing this transaction. At that time, the costs will be known, and TAWC can present a detailed list of

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[9] The Company has estimated its legal fees in response to Commission DR 1-3, but that amount is subject to adjustment based on the scope of this proceeding. **Revised Exhibit F** to the Joint Petition, which is the journal entry that includes the estimated transaction costs that TAWC expects to incur. The journal entry contains approximately $60,000 in estimated legal costs associated with securing Commission approval of this Joint Application.

the costs, and the Commission can review these deferred costs prior to determining recoverability.

Although this transaction involves under 500 customers, these are valued customers and review and approval by the Commission remain essential to serve the public interest. So, whether an acquisition is large or small, the regulatory review, and the associated regulatory process and procedure applied, are either the same or substantially similar, including interventions and the discovery phase. Thus, like interventions and discovery, transactions and regulatory costs are inextricably intertwined with the Commission's statutory charge to balance the interests of customers and utilities while serving the public interest. If these transaction costs are approved in a future rate proceeding, this would only increase TAWC's rate base by less than 1%. As proposed by the Company, the level and reasonableness of these costs would be subject to Commission review and approval in a future rate proceeding.

Q. DO YOU THINK THE RECOVERABILITY OF TRANSACTION COSTS SHOULD BE LIMITED TO ADVANCED DEMONSTRATION OF CUSTOMER SAVINGS?

A. No, I do not. The transaction costs are appropriate and reasonably incurred to effectuate the completion of the transaction, and therefore, should not be limited to only demonstrated customer savings, as many of the benefits of this transaction cannot be quantified. Nevertheless, the Commission need not make a decision on this particular point at this time, as the Company is proposing to defer the determination of recoverability of transaction costs to a future proceeding. Contrary to Mr. Kaml's testimony, the degree of uncertainty created by transaction costs is not significant because the amount of transaction costs at issue in this future review are limited in nature. This is particularly the case when compared to the rate base of TWS, and TWS's annual revenues.[10]

Q. IS TAWC SEEKING RECOVERY OF LEGAL COSTS ASSOCIATED WITH THIS TRANSCTION THAT WERE INCURRED BY AWWC AND ALLOCATED TO TAWC FOR RECOVERY?

A. No.[11] The legal costs associated with this transaction for which TAWC is seeking recovery are only those incurred directly by TAWC for legal counsel to represent the Company before the Commission and provide needed legal advice and counsel during the preparation and filing of the Joint Application and supporting testimony and exhibits, in responding to discovery, and all steps in this proceeding until a final order is issued, including the hearing on the merits.

Q. DOES MR. KAML OPPOSE TAWC'S PROPOSAL TO END TWS'S ANNUAL RATE REVIEW MECHANISM AT THE CLOSE OF TRANSACTION?

A. No. Mr. Kaml does not oppose TAWC's ending TWS's ARRM at the close of this transaction and appears to be aware that TWS's ARRM cannot be transferred. However, as described below, this coupled with Mr. Kaml's recommendation to not apply the ICRR to TWS, leaves the Company without an opportunity to recover eligible infrastructure investment in a timely manner and is counter to the intent of Tenn. Code Ann. § 65-5-103, which was established to support the implementation of alternative regulatory methods,

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[10] *See* **Revised Exhibit F** for an estimate of the legal costs associated with this proceeding. The actual cost will be determined by the scope of this proceeding.

[11] At this time, TAWC does anticipate negligible costs associated with AWWC's SEC filings to be allocated. Transaction related costs will be allocated on the same basis as the purchase price is allocated among the entities subject to the stock purchase agreement.

such as the ICRR, to allow for public utility rate reviews and cost recovery of investments in lieu of a general rate case proceeding.

Q. HOW DOES MR. KAML'S RECOMMENDATION TO NOT APPLY THE ICRR TO TWS CUSTOMERS IN CONJUNCTION WITH THE END OF THE ARRM FOR TWS LEAVE TAWC WITHOUT A MEANS OF RECOVERING RIDER ELIGIBLE INCREMENTAL INVESTMENT IN A TIMELY MATTER?

A. Currently all capital investments made by TWS are recovered in a timely fashion via an annual rate review filing. Because TWS's ARRM cannot be transferred, it will cease upon the close of the transaction and this timely cost recovery will cease at the cclose of this transaction as TWS's ARM will cease upon the close of this transaction as it cannot be transferred. Yet, infrastructure investment will continue to be made to continue to provide safe and reliable service to TWS customers. Applying the ICRR to TWS customers allows for that portion of incremental capital investment made in the TWS area to be recovered by the ICRR until a new mechanism to recover these types of investment is filed with and approved by the Commission.

Allowing the ICRR to include eligible incremental capital investments made in TWS area and applying the ICRR percentage to TWS customers provides TAWC with an opportunity to timely recover its costs associated with these infrastructure investments consistent with the intent of Tenn. Code Ann. § 65-5-103.

Q. DO YOU AGREE WITH MR. KAML'S POSITION THAT THE COMMISSION SHOULD REJECT THE COMPANY'S PROPOSAL TO APPLY THE ICRR TO TWS CUSTOMERS?

A. No. I do not. Mr. Kaml's recommendation is contrary to the Commission's previous treatment of incremental capital riders to newly acquired service areas. For example, with TAWC's Jasper Highlands acquisition in TPUC Docket No 20-00011, the Commission "agreed that the planned improvements outlined by TAWC in Mr. Stout's testimony are likely allowable for inclusion in the existing Capital Riders and therefore, it is reasonable to apply the Capital Riders to the JHWS customers."[12] Further, the Commission applied the ICRR to TAWC's Whitwell acquisition in TPUC Docket No. 14-00121.[13] Exhibit E to the Joint Petition provided an overview of the infrastructure improvements planned by TAWC. Like the Jasper Highlands and Whitwell acquisitions, many of TAWC's planned capital investments qualify for recovery via the ICRR and therefore, following the Commission's reasoning in its prior orders, the Commission should apply the ICRR to TWS as well.

Q. DO YOU HAVE OTHER CONCERNS WITH MR. KAML'S PROPOSED REJECTION OF APPLYING THE ICRR TO TWS?

A. Yes. Mr. Kaml's proposal to reject the application of the ICRR to TWS, in conjunction with this recognition that TWS's ARRM will terminate upon close, leaves TAWC without a mechanism to recover incremental investment in improvements that are eligible for recovery via a rider. As noted above and in Exhibit E attached to the Joint Application, TAWC plans on making needed infrastructure improvements and replacements. Not providing TAWC a means to recover these investments is contrary to Commission

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[12] *Order Approving Asset Purchase Agreement and Granting Certificate of Convenience and Necessity, p. 19,* TPUC Docket No. 21-00011 (Feb. 26, 2021).
[13] *Transcript of Proceedings, In Re: Petition of Tennessee-American Water Company Regarding the 2015 Investment and Related Expenses Under Qualified Infrastructure Investment Program Rider, the Economic Development Investment Rider, and the Safety and Environmental Compliance Rider*, p. 162,11 14- 16, TPUC Docket No. 14-00121 (April 20,2015) (TAWC Witness Bridwell confirming that the CRRs and the PCOP Rider were applied to Whitwell customers pursuant to the tariffs.)`

precedent establishing rider and other alternative regulatory frameworks, like an ARRM, for regulated utilities under its jurisdiction. [14] Allowing TAWC to apply the ICRR to TWS is in the public interest, consistent with the Commission's policy and state law as set forth in Tenn. Code Ann. § 65-5-103.

The Commission has found that Capital Riders are in the public interest and should find that its application to TWS, in the absence of any other mechanism to recover eligible infrastructure investment, continues to be in the public interest and should apply to TWS customers going forward. Of course, if the Company were to propose and the Commission to adopt an annual review mechanism like that employed by other investor-owned utilities, the continued use of the ICRR to recover incremental capital investment might not be needed.

Q. IN THE NORMAL COURSE OF BUSINESS, WHEN WOULD TAWC FILE ITS NEXT ICRR?

A. TAWC is currently able to file its next ICRR in March of 2027, looking back at investments made in 2026. Based on the adjudication of the most recent ICRR, the Company would expect a new ICRR percentage to be reviewed and approved by the Commission in 2027. At that time, TAWC would include the eligible capital improvement and replacements associated with TWS customers in 2026. Mr. Kaml's recommendation to deny application of the ICRR to TWS, recognizing that TWS's ARRM will terminate, is inappropriate and denies TAWC an appropriate opportunity for cost recovery in the future.

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[14] *See, e.g.,* In Re: Chattanooga Gas Company Petition for Approval of its 2024 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6), *Order Approving Settlement Agreement Revising Chattanooga Gas Company's 2024 Annual Rate Review Filing Under Tenn. Code Ann. § 65-5-103(d)(6)*, TPUC Docket No. 25-00028 (Sept. 29, 2025).

Q. REGARDING MR. DITTEMORE'S PRE-FILED TESTIMONY, WHAT DOES MR. DITTEMORE RECOMMEND THAT YOU PLAN TO ADDRESS IN YOUR REBUTTAL TESTIMONY?

A. Mr. Dittemore makes the following recommendations in his Pre-filed Testimony that I intend to address:

- It is necessary to create a Regulatory Liability in this proceeding, to address the elimination of the existing ADIT balance.
- A one-year rate moratorium for TWS's customers. To ensure that TWS's rates would not increase any earlier than October 1, 2027, one year beyond the time such rates could have increased under the former TWS ARRM.
- That the Commission reject TAWC's request to increase the TWS's depreciation rates to match those of TAWC.[15]

Q. WHAT IS YOUR RESPONSE TO MR. DITTEMORE'S RECOMMENDATION TO ESTABLISH A REGULATORY LIABILITY TO ADDRESS THE ADIT BALANCE OF TWS IN THIS PROCEEDING?[16]

A. Ms. Schlessman in her rebuttal testimony provides details on why establishing a regulatory liability in this instance is unreasonable, inappropriate and could raise issues related to tax normalization**.** In my rebuttal testimony, I want to explain that, even though the Company does not believe it is appropriate to establish a regulatory liability under these facts and circumstances, the Commission does need not determine the reasonableness or

[15] *Pre-filed Testimony of CAD Witness David N. Dittemore*, 3:1-20, TPUC Docket No. 25-00040 (Sept. 19, 2025) (hereinafter "*Dittemore*").
[16] *Id*. at p. 6:5-6

appropriateness of establishing a regulatory liability equal to an ADIT balance in this proceeding.

In his testimony, Mr. Dittemore misrepresents the position of TAWC, asserting that the Company indicated "TWS customers will continue to benefit from the legacy ADIT balance in effect." TAWC stated no such thing. TAWC stated that:

> In the next rate proceeding after this transaction, rates will be established based on the rate base (or projected rate base depending on the nature of the rate proceeding) for the relevant time period."
>
> Until that next rate proceeding, the water rates to TWS's customers, which are based on TWS's current levels of rate base and expenses, will remain in effect until the Commission approves new rates as a result of TAWC's next rate proceeding. The issue as to what the appropriate rates base upon which to base these future rates on is best determined by the Commission at that time and not in this proceeding. The level of plant in service and the relevant additions and deduction to rate base, including ADIT, will be determined by the Commission at that time for the relevant time period for that rate proceeding.[17]

Because rates for water service will not be changed in this proceeding, but rather in the Company's next rate proceeding, Mr. Dittemore's concerns regarding the impact of the ADIT is better addressed at that time. As such, it is not necessary for the Commission to rule on the reasonableness and appropriateness of establishing a regulatory liability equal to an ADIT balance at this time.

Q. DO YOU AGREE WITH MR. DITTEMORE'S RECOMMENDATION TO IMPLEMENT A ONE-YEAR RATE MORATORIUM?

A. No, I do not. Mr. Dittemore makes this recommendation while "recognizing that TWS is currently in a revenue-deficiency position and that is likely to be the case throughout the

[17] TAWC Response to Consumer Advocate DR No. 2-2

moratorium period."[18] This revenue deficiency, as identified in TPUC Docket No, 25-00041, is $56,713.65.[19] This revenue deficiency can be expected to grow with the passage of time and TWS's next ARRM, if it were not exiting Tennessee, would likely result in higher rates, that are increased sufficiently to cover the revenue deficiency found in TPUC Docket No, 25-00041, plus any further deficiency resulting in 2025. The Company has already explained that it is adopting TWS rates at closing. Therefore, TWS customers will not experience an increase in rates until a new rate proceeding is filed by TAWC and considered by the Commission. A variety of factors contribute to the need and timing of a rate proceeding and it is not appropriate to use this transaction as a basis to deny recovery of reasonable and prudent costs incurred to continue to provide safe and reliable service to customers, especially when we know TWS is operating with a revenue deficiency and needs continued infrastructure investment.[20] As noted in my testimony above, the next petition to increase TAWC's ICRR rates would not be filed until March of 2027, and likely not implemented until sometime thereafter.

In addition, Mr. Dittemore cites the fact that customers are not involved in negotiating the purchase price of the transaction as a reason why their interests need to be protected here.[21] I agree that customers and the public interest should be considered by the Commission in this proceeding but, as I explain above, the purchase price itself does not contribute to the Commission's evaluation of the public interest because TAWC is not seeking an acquisition adjustment. The Company is only seeking cost recovery of the

[18] *Dittemore*, p. 11, ll. 17-19.
[19] *See Tennessee Water Service, Inc. Updated Exhibits with Schedules A Through F And Schedules B-1 And B-2.*, Schedule D, Line 21, TPUC Docket No. 25-00031 (Aug. 1, 2025).
[20] *See* Exhibit F. of the Petition .
[21] *Dittemore*, 10-11.

depreciated original cost of the TWS assets. As discussed by Mr. Stout in his direct and rebuttal testimony, there are substantial benefits associated with this transaction, and it is in the public interest. As such, there is no need to impose a rate moratorium on a system already operating with a revenue deficiency.

Q. HOW DO YOU RESPOND TO MR. DITTEMORE'S TESTIMONY CONCERNING MR. STOUT'S TESTIMONY THAT TAWC IS NOT ASKING FOR A CHANGE IN RATE BASE IN THIS PROCEEDING AND THAT "GOING FORWARD, CUSTOMERS RATES WILL BE BASED ON THE CURRENT REGULATED RATE BASE OF TWS"?[22]

A. First, the Company is not asking for any adjustment to rates in this proceeding. Rates for water service will remain the same after the close of this proceeding until the Commission considers any new proposed rates for TAWC in the Company's next rate proceeding. Until that future rate proceeding, the rates for water service for TAWC customers will remain based on the rate base used in TWS's last rate proceeding, TPUC Docket No. 25-00031. Thus, Mr. Stout's statement is true and accurate. Of course, as a result of the next rate proceeding, rates will be different due to changes in rate base, expenses, number of customers, usage, and other things that will drive the revenue requirement and revenue deficiency for the utility at that time. However, until that time, they will remain unchanged.

Q. MR. STOUT TESTIFIED THAT THERE ARE SIGNIFICANT BENEFITS ASSOCIATED WITH THE ECONOMIES OF SCALE ASSOCIATED WITH FINANCING AND AWWC'S STRONG FINANCIAL FOOTING. CAN YOU PLEASE ELABORATE ON THIS POINT?

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[22] *Dittemore* at 12:5-12

A. Yes.

Q. DOES TAWC'S ACCESS TO CAPITAL RESULT IN DIRECT, QUANTIFIABLE BENEFITS FOR THE CUSTOMERS OF TWS?

A. Yes, TAWC's cost of debt is lower than that of TWS. In TAWC's 2024 rate case decided earlier this year, the Commission adopted a long-term debt cost for TAWC of 4.59%.[23] In 19-00028, the Commission found that a cost of debt for TWS was 5.04%[24]. This indicates that TAWC is able to access long-term debt at lower cost than TWS of 0.45% or 45 basis points. This lower cost of debt is a long-term and structural cost advantage to TAWC in accessing debt capital. After TWS is merged into TAWC, it will be a direct, on-going and long-term benefit to TWS customers reflected in a lower cost of borrowing, which results in a lower weighted average cost of capital, to help finance future infrastructure needs of the TWS area.

Q. HOW DO YOU RESPOND TO MR. DITTEMORE'S RECOMMENDATION TO REJECT TAWC'S PROPOSAL TO MATCH TWS AND TAWC DEPRECIATION RATES UPON CLOSING?

A. In TAWC's Rate Case, TPUC Docket No. 24-00032, the Commission determined that the Company's proposed depreciation rates are reasonable and authorized the Company to update them based on a newly completed Depreciation Study presented by TAWC's expert witness Mr. Kennedy. The Consumer Advocate did not object to this depreciation study nor its application to TAWC plant in service.

Since depreciation rates are set asset class by asset class based on current useful lives of each asset type, it is wholly appropriate to apply them to TWS as well. Considerable

[23] *Order Setting Rates*, p. 71, TPUC Docket No. 24-00032 (April 21, 2025).
[24] TPUC Docket No. 19-00028. p. 41 (March 9, 2020).

time and effort was expended in developing revised and current depreciation rates in conjunction with TPUC Docket No. 24-00032.[25] Mr. Dittemore gives no justification for having differing useful lives among assets currently owned by TAWC and those of TWS acquired in the Transaction. It appears the Consumer Advocate is only supporting lower depreciation rates simply to strive to keep future rates low in the next rate proceeding without addressing the real issue of what the up-to-date depreciation study performed by TAWC in 2024 found to be the expected useful life of the assets and therefore the reasonable depreciation rates. Mr. Dittemore's proposal to not apply TAWC's up-to-date depreciation rates to TWS assets is not appropriate under these circumstances. I recommend the Commission reject it.

Q. HAS THE COMMISSION ADDRESSED THIS ISSUE IN A PREVIOUS ACQUISITION CONCERNING TAWC AND, IF SO, WHAT WAS THE OUTCOME ?

A. Yes. In approving the Company's request to acquire to acquire Jasper Highlands, the Commission in TPUC Docket No. 21-00011 ruled that "Tennessee-American Water Company is authorized to apply its current depreciation rates to the purchased assets of the Thunder Air, Inc. d/b/a Jasper Highlands Development, Inc. water system."[26] TAWC is seeking the same treatment of depreciation rates in this *Joint Petition*.

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[25] 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, *Order Setting Rates*, p. 57, TPUC Docket No. 24-00032 (April 21, 2025)("[T]he panel approved the Company's newly proposed depreciation rates in its initial filing as incorporated within the depreciation study submitted with the Company's *Petition*.").

[26] *See also Order Approving Asset Purchase Agreement and Granting Certificate of Convenience and Necessity*, p. 20, TPUC Docket No. 20-00011 (Feb. 26, 2021).

Q. DO YOU AGREE WITH MR. KAML'S RECOMMENDATION THAT THE CHALET VILLAGE NORTH CUSTOMERS NOT BE SUBJECT TO THE SAME FEES AND CHARGES AS ALL OTHER CUSTOMERS OF TAWC?

A. No, I do not. I recommend that the Commission reject Mr. Kaml's recommendation. The Commission recently reviewed and approved these fees in TPUC Docket No. 24-00032. In that proceeding, the Commission found that these charges were reasonable for the entirety of TAWC's customers, regardless of the rate area they received service in. TAWC is simply seeking the same treatment here as was applied to the Chattanooga, Suck Creek, Whitwell (inside and Outside the City) and Jasper Highlands.[27]

At TAWC's request, TWS ran the numbers on the full calendar year 2024 Miscellaneous Revenues that show the impact of the change in fees that TAWC is proposing to apply to TWS customers. Under TAWC's revised fees proposal, the 2024 numbers would have been $3,570.34, while under existing TWS fee that total was $4,730.67 – a saving to TWS customers of $1,160.

Furthermore, requiring different fees for the under 500 customers of TWS would require the Company to incur additional costs because the Company will need to create specific computer programming and coding to handle just this subset of only a few customers, rather than simply adding these customers to the existing billing template, unnecessarily adding costs to this transaction once approved.

With regard to the new Meter Tampering Penalty, this is not a fee for service, but rather a penalty for maliciously tampering with a meter in order to reestablish service despite it being turned off or to hinder the ability of the meter to accurately measure water

[27] *See, e.g., Order Approving Asset Purchase Agreement and Granting Certificate of Convenience and Necessity*, p. 19, TPUC Docket No. 20-00011 (Feb. 26, 2021) ("The uniform application of these fees is reasonable.").

use by the customers. It is a penalty to design to be a deterrent of water theft. Water theft harms all other customers and is an activity that should be discouraged and punished. For this reason I urge the Commission to reject this recommendation of CAD as it is counter to the public interest and would unnecessarily increase costs to TWS customers.

Q. AS A RESULT OF ONGOING DISCUSSIONS, AND DISCOVERY WITH THE CONSUMER ADVOCATE HAS AN AGREEMENT BEEN REACHED ON THE ISSUE OF APPLYING TAWC's AUTHORIZED FEES AND CHARGES TO TWS CUSTOMERS?

A. Yes. TAWC, TWS and the Consumer Advocate have met and exchanged information regarding this issue. In addition to discussing the cost and benefits of applying the same fees and charges to TWS customers as all other TAWC customers, TWS has agreed to provide additional notice to its customers, both via its website and via a direct mailer. As a result, the Consumer Advocate has agreed to not oppose application of TAWC's authorized fees and charges to TWS customers. I am authorized by the CAD and TWS to represent and provide the foregoing resolutions by the parties in my rebuttal testimony.

Q. HOW DO YOU RESPOND TO MR. DITTEMORE'S CONCERNS REGARDING LIMITING POTENTIAL FUTURE RATE DESIGN DECISIONS THAT THE COMMISSION MIGHT MAKE IN SOME FUTURE PROCEEDING.[28]

A. Mr. Dittemore's concerns are purely speculative and seek to predict potential TPUC decisions in future proceedings. What we do know with certainly is TAWC is not proposing to address changes to TWS's rate design as part of this proceeding. Thus, the Commission need not address that issue as part of approving this acquisition. Another thing that we

[28] *Dittemore*, p. 12:1-12

know with certainty is that the Commission in the Company's last rate case spread the rate increase across equally regardless of customer class or rate area. TAWC is not challenging that determination in this proceeding. Further, nothing in this proceeding that TAWC has proposed in any way limits the Commission with regard to rate design.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does. However, I reserve the right to update or amend this testimony upon receipt of additional data or other information that may become available.

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE

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 CONTROL, APPROVAL OF THE AGREEMENT AND PLAN OF MERGER AND FOR THE ISSUANCE OF A CERTIFICATE OF CONVENIENCE AND NECESSITY	))))))	**DOCKET NO. 25-00040**

VERIFICATION

STATE OF Tennessee)
)
COUNTY OF Hamilton)

I, ROBERT C. LANE, being duly sworn, state that I am authorized to testify on behalf of Tennessee-American Water Company in the above-reference d docket, that if present before the Commission and duly sworn, my testimony would be as set forth in my pre-filed testimony in this matter, and that my testimony herein is true and correct to the best of my knowledge, information, and belief.

ROBERT C. LANE

Sworn to and subscribed before me
this 10th day of October, 2025.

Notary Public
My Commission Expires: 2-28-28

TARA WATSON STATE OF TENNESSEE NOTARY PUBLIC HAMILTON COUNTY MY COMMISSION EXPIRES FEBRUARY 28, 2028

CERTIFICATE OF SERVICE

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

Karen H. Stachowski, Esq.
Deputy Attorney General
Office of the Tennessee Attorney General
Consumer Advocate Division
P.O. Box 20207
Nashville, TN 37202-0207
Karen.Stachowski@ag.tn.gov

Shilina B. Brown, Esq.
Senior Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Advocate Division
P.O. Box 20207
Nashville, TN 37202-0207
Shilina.Brown@ag.tn.gov

Victoria B. Glover, Esq.
Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Advocate Division
P.O. Box 20207
Nashville, TN 37202-0207
Victoria.Glover@ag.tn.gov

Ryan A. Freeman, Esq.
Baker, Donelson, Bearman, Caldwell & Berkowitz, PC
1900 Republic Centre
633 Chestnut Street
Chattanooga, TN 37450
rfreeman@bakerdonelson.com
Attorneys for Tennessee Water Service, Inc.
and Nexus Regulated Utilities, LLC

This the 10th day of October 2025.

Melvin Malone