

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 25- 00089

DIRECT TESTIMONY

OF

ROBERT (“BOB”) C. LANE

ON

Annual Review of Rates Mechanism

DIRECT TESTIMONY
ROBERT C. LANE
TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 25-_____

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DIRECT TESTIMONY

ROBERT C. LANE

I. INTRODUCTION

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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 (“Service Company”). Service Company is a wholly owned subsidiary of American Water Works Company, Inc. (“American Water”) 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. PLEASE STATE YOUR PROFESSIONAL AND EDUCATIONAL 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

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

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

19 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**
20 **TENNESSEE PUBLIC UTILITY COMMISSION?**

21 A. Yes, I have submitted testimony before the Tennessee Public Utility Commission ("TPUC"
22 or the "Commission") in several matters, including Docket Nos. 22-00021 (2022 CRRs
23 Recon), 22-00072 (2022 Annual CRRs), 23-00007 (2023 PCOP), 23-00018 (2023 CRRs

1 Recon), 19-00103 (Capital Riders Investigation), 24-00001 (2024 Financing Authority),
2 24-00002 (2024 PCOP), 24-00011 (2024 ICR Petition), 24-00032 (2025 Rate Case), 25-
3 00002 (2025 PCOP), 25-00016 (2025 ICR Petition), and 25-00040 (Petition for TAWC to
4 acquire TWS).

5 **Q. WHAT ARE YOUR DUTIES AS SENIOR MANAGER RATES AND**
6 **REGULATORY FOR TAWC?**

7 A. As Senior Manager, Rates and Regulatory for TAWC, my duties generally consist of
8 management and execution of the rates and regulatory function of TAWC. This includes
9 coordinating all reports and filings, working with regulatory staff to ensure that all
10 information produced addresses the requirements or requests, and overseeing the
11 preparation of rate case applications, other regulatory filings, and tariff changes. I am
12 responsible for remaining abreast of changes in regulations and trends in public utility
13 regulations that may impact TAWC.

14 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

15 A. No, I am not.

16 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
17 **PROCEEDING?**

18 A. The purpose of my testimony is to provide the Commission with an overview of the Annual
19 Review Mechanism that TAWC is requesting pursuant to the alternative regulatory
20 methods set forth in Tenn. Code Ann. § 65-5-103(d) (“Alternative Regulatory Methods
21 Statute” or the “Statute”). TAWC’s proposed annual review of rates process is being
22 referred to as the Annual Review Mechanism or “ARM.”

1 My testimony identifies and discusses: (1) the relief sought by TAWC in this
2 proceeding, why it is being sought, and why TAWC's request is in the public interest and
3 is consistent with both statutory requirements and prior Commission precedent; (2) the
4 structure and operation of TAWC's proposed ARM tariff and the methodologies used to
5 establish and calculate the ARM; (3) how the ARM will be collected from or credited to
6 customers; and (4) other related matters, such as the application of a reasonable water loss
7 standard and our conditional request to suspend TAWC's Incremental Capital Recovery
8 Rider ("ICR") (Sheet No. 12-ICR) and Production Cost and Other Pass-Throughs
9 ("PCOP") Rider (Sheet No. 12-PCOP) mechanisms upon the effective date of the
10 Commission's approval of the Company's requested ARM.

11 **II. REQUESTED RELIEF**

12 **Q. PLEASE EXPLAIN WHAT RELIEF IS BEING SOUGHT IN THIS PROCEEDING.**

13 A. TAWC is seeking approval to implement an alternative method of rate regulation in the
14 form of an ARM set forth in its Proposed ARM Tariff (Appendix C to the Petition), as
15 permitted by the Alternative Regulatory Methods Statute.

16 **Q. WHAT DOES THE ALTERNATIVE REGULATORY METHODS STATUTE**
17 **AUTHORIZE?**

18 A. Among other things, the Alternative Regulatory Methods Statute authorizes a regulated
19 utility, with approval by the Commission, to opt into alternative regulatory methods that
20 would provide a more flexible and efficient ratemaking process to more adequately ensure
21 the provision of safe and reliable public utility service at just and reasonable rates. Since
22 2014, TAWC has availed itself of one of the statutory tools authorized by the Alternative
23 Regulatory Methods Statute with the Commission-approved riders to recover certain costs

1 between base rate cases, namely its Capital Recovery Riders, now the ICR, and its PCOP
2 Rider. In this proceeding, the Company is seeking approval for an ARM, which if approved
3 by the Commission, will replace the use of these riders, and efficiently manage its
4 regulatory recovery in lieu of filing frequent base rate cases.

5 The Company believes the ARM will be a more efficient method of achieving the
6 objective of safe, clean, and reliable water service at just and reasonable rates, while also
7 providing the Commission, stakeholders, and our customers with greater transparency
8 regarding our operations and how it translates into the rates we charge our customers. The
9 annual process will also provide a more timely review of TAWC's cost of providing service
10 and allow the Company to recover its costs without frequent, administratively burdensome,
11 time-consuming, and expensive base rate cases. Additionally, this mechanism provides a
12 symmetrical review of the costs of providing service such that a reduction, or sur-credit in
13 this instance, would be made in the event that the ARM reflects results higher than
14 authorized.

15 **Q. WHY HAS TAWC NOT PREVIOUSLY ASKED FOR APPROVAL OF AN ARM**
16 **UNTIL THIS PROCEEDING?**

17 A. Since 2014, TAWC's has been operating under its Capital Recovery and PCOP Riders. In
18 this Petition, TAWC seeks to implement "an annual review of its rates" under Tenn. Code
19 Ann. § 65-5-103(d)(6). This statute, however, provides that:

20 "[i]n order for a public utility to be eligible to make an election to
21 opt into an annual rate review, the public utility must have engaged
22 in a general rate case pursuant to § 65-5-101 and subsection (a)
23 within the last five (5) years; provided, however, that the
24 commission may waive such requirement or increase the eligibility
25 period upon a finding that doing such would be in the public
26 interest."

1 On January 21, 2025, the Commission rendered its decision in Docket No. 24-00032 (the
2 “2025 Rate Case”), and this decision was memorialized in its April 21, 2025, *Order Setting*
3 *Rates* (the “2025 Order”). Prior to the 2025 Rate Case, TAWC’s most recent rate case was
4 approximately thirteen (13) years ago in TPUC Docket No. 12-00049. The filing and
5 conclusion of the 2025 Rate Case provided TAWC with the necessary precondition to
6 move forward with this Petition without the need to seek a waiver by the Commission
7 pursuant to Tenn. Code Ann. § 65-5-103(d)(6).

8 **Q. WHY IS TAWC SEEKING THIS RELIEF?**

9 A. TAWC’s primary focus and commitment remains providing safe and reliable water service
10 at affordable and reasonable rates. Through the streamlined regulatory construct of the
11 ARM, which balances the interests of all parties, TAWC will be able to make the necessary
12 investments to continue to deliver on its commitment to its customers. For several years,
13 the Commission has approved annual rate reviews and utilities in various sectors (e.g.
14 natural gas and water) have operated within this regulatory framework. The Commission
15 is familiar with the framework of these types of regulatory mechanisms, and stakeholders
16 have articulated a preference for and understanding of this type of regulatory framework.¹
17 Now, with the conclusion of the 2025 Rate Case, the Company is seeking approval for an
18 ARM.

19 In addition, and as I discussed previously, the Company’s proposed ARM will help
20 to reduce the need to file costly, time-consuming, and administratively burdensome general
21 rate cases. The proposed ARM will be an all-encompassing mechanism, eliminating the
22 need for other alternative regulatory mechanisms, such as the PCOP and ICR, which

¹ *Pre-filed Direct Testimony of Consumer Advocate Witness David N. Dittmore*, p. 44, TPUC Docket No. 24-00032 (Sept. 17, 2024).

1 creates administrative efficiency. The ARM the Company is proposing provides a more
2 efficient way for the Company to seek recovery of its incremental investments and ongoing
3 costs to operate its business, while providing transparency and timely review by the
4 Commission.

5 **Q. WHAT ARE TAWC’S GUIDING PRINCIPLES IN ITS PROPOSED ARM?**

6 A. As will be discussed throughout my testimony, the Company’s guiding principles for
7 opting into and designing an ARM are as follows:

- 8 • One ARM filing per year based on a historic base period that is aligned with the
9 Company’s fiscal year;
- 10 • Maintaining the Commission’s authority over ratemaking;
- 11 • Providing more transparency to the ongoing costs required to provide safe, clean, and
12 reliable water service to TAWC customers;
- 13 • Maintaining the Commission’s long-standing precedent of minimizing regulatory lag;
- 14 • Reconciling the Company's actual Return on Equity (“ROE”) to its authorized ROE;
15 and
- 16 • Maintaining the ratemaking methodologies adopted in the 2025 Rate Case, in
17 accordance with the Alternative Regulatory Methods Statute.

18 **Q. IS TAWC’S PROPOSED ARM SIMILAR WITH THE FRAMEWORK**
19 **ESTABLISHED IN OTHER APPROVED ARM PROCEEDINGS?**

20 A. Yes, with the acknowledgement that each utility is unique and has different characteristics
21 and thus each ARM is also in some ways unique to the business and operations of each
22 utility. Still, our guiding principles approach aligns with the Alternative Regulatory
23 Methods Statute and other Commission-approved ARMs, and any TAWC-specific
24 components to the Company’s proposed ARM are explained and supported within our
25 testimony.

1 **Q. WILL THESE GUIDING PRINCIPLES SERVE THE INTERESTS OF**
2 **CUSTOMERS?**

3 A. Yes. The ARM proposed herein will benefit our customers, as well as the Company. It will
4 ensure that rates charged to TAWC's customers remain just and reasonable and take into
5 account both increases and decreases in plant expense and revenue. The ARM will reduce
6 the need for frequent general rate cases, thereby decreasing the substantial effort and
7 administrative burden required of the Commission, intervenors, and the Company and
8 lowering the cost to customers resulting from rate case proceedings. It will also provide
9 more gradual adjustments to customer rates arising from ongoing capital investment and
10 changes in operating expenses, as compared to larger rate increases that can result from
11 periodic general rate cases.

12 **III. PROPOSED ARM PROCESS AND METHODOLOGIES**

13 **Q. PLEASE SUMMARIZE TAWC'S PROPOSED ARM PROCESS.**

14 A. After the end of each calendar year and the closing of the Company's books, TAWC will
15 make a filing that will allow the Commission to review TAWC's revenues, expenses and
16 investment (rate base) for the prior calendar year and determine if the Company earned the
17 authorized ROE that was adopted in the 2025 Rate Case. If the Company earned more than
18 the authorized ROE, the surplus will be captured and returned to customers via a sur-credit
19 in the following year. If the Company earns less than its authorized ROE, the Company
20 will recover the deficiency via a surcharge in the following year. Mr. Philip Drennan will
21 provide specific details of how the ongoing annual mechanism and the underlying
22 accounting will work.

1 **Q. WHAT SCHEDULES WILL BE INCLUDED IN EACH ANNUAL FILING?**

2 A. The Schedules that will be included in the annual filing are described in Mr. Drennen's
3 testimony. These Schedules are outlined in Table 1 below:

Table 1 Annual Rate Review Mechanism Schedules	
Schedule	Description
Schedule 1	Annual Reconciliation Revenue Deficiency/ (Surplus)
Schedule 2	Rate Base
Schedule 2.1	Average Rate Base - Rate Case Adopted Docket
Schedule 2.2	Rate Base-13 Month Average Workpaper
Schedule 3	Lead Lag Results Approved
Schedule 4	Calculation of Operating Expense - Lead Lag (Rate Case)
Schedule 4.1	Calculation of Operating Expense - Lead Lag (Historic Base Period)
Schedule 5	Income Statement (Historic Base Period)
Schedule 5.1	Income Statement (Rate Case Adopted, Historic Base Period Without Rate Making Adjustments)
Schedule 5.2	Income Statement (Historic Base Period Schedule of Rate Making Adjustments)
Schedule 6	Income Tax Calculation
Schedule 7	Rate Case Capital Structure
Schedule 8	Gross Revenue Conversion Factor
Schedule 9	Carrying Charges and ARM Asset/(Liability)
Schedule 10	Return on Equity Proof before and after ARM Deficiency/(Surplus)
Schedule 11	TAWC Strategic Capital Expenditure Plan (SCEP) for the Upcoming Calendar Year

4

5 **Q. PLEASE DESCRIBE THE ANNUAL FILING PROCESS TO ADDRESS BOTH**
6 **THE PRIOR YEAR EARNINGS RECONCILIATION AND THE SUBSEQUENT**
7 **ADJUSTMENT TO THE ARM RATE.**

8 A. There will only be one annual filing that will determine the earnings and associated revenue
9 deficiency or surplus and an annual rate adjustment, with both aggregated and reflected in

1 an *equal* percentage surcharge (or sur-credit) applied to both monthly fixed meter charge
2 and volumetric rates, for each customer class and rate area.

3 **Q. WHEN WILL THE COMPANY MAKE THE ANNUAL FILING?**

4 A. Tenn. Code Ann. § 65-5-103(d)(6)(C) states "...the commission shall review the annual
5 filing by the public utility within one hundred twenty (120) days of receipt and order the
6 public utility to make the adjustments to its tariff rates...". Consistently, the Company
7 proposes filing its ARM petition by March 31st of each year, which after one hundred
8 twenty (120) days would make the ARM rate effective on or around August 1st of each
9 year.

10 **Q. WHAT ARE THE COMPONENTS OF THE ANNUAL ARM FILING?**

11 A. Each year's ARM filing has two primary purposes. First, to assess whether the Company
12 earned above or below its authorized ROE in the preceding calendar year, based on the
13 Historic Base Period earnings adjusted for rate making adjustments ("Adjusted Historic
14 Base Period"). Second, to set a surcharge or sur-credit rate to recover or refund any
15 deficiency or surplus realized in the Adjusted Historic Base Period. The deficiency or
16 surplus realized by the Company will be deferred to a regulatory asset or regulatory
17 liability, respectively, and collected or refunded from customers over a 12-month period
18 beginning on the proposed rate effective date of August 1st of each year. This is a
19 symmetrical system that results in a surcharge to recover an earning deficiency or results
20 in a sur-credit if there are earnings in excess of the authorized ROE.

21 **Q. DOES YOUR TESTIMONY INCLUDE A SUMMARY OF THE INFORMATION**
22 **THAT WILL BE PROVIDED WITH EACH ARM FILING?**

1 A. Yes. Table 1, above, outlines the various schedules that will be included in every ARM
2 filing. Each schedule provides the detailed calculations utilized in the ARM process. Mr.
3 Drennen’s testimony provides the methodology and calculation for each line item by
4 category (rate base, revenues, expenses, and the resulting ROE). The Company has laid
5 out the various Schedules that will accompany the ARM filing and has set forth how each
6 item will be determined and/or calculated for the rate recovery in the ARM filing. Mr.
7 Drennan explains each of these schedules within his testimony.

8 **Q. WHAT METHODOLOGIES DO YOU PROPOSE BE INCLUDED IN THE**
9 **CALCULATION OF THE REVENUE REQUIREMENT THAT IS THE BASIS**
10 **FOR CALCULATING AN EARNINGS DEFICIENCY OR EXCESS?**

11 A. The Company proposes to include the methodologies consistent with the Commission’s
12 *2025 Order* to calculate the revenue requirement under the ARM. A complete list of the
13 necessary adjustments to comply with the 2025 Order is listed below:

- 14 • The Calculation of the ROE will be based on the Capital Structure approved in TPUC
15 Docket Number 24-00032, the Company’s General Rate Case order, of 44.19% Equity,
16 55% Long-Term Debt, and 0.81% Short Term Debt with an adjustment of Debt
17 Expense to reflect the interest rate expense being synchronized to reflect the higher
18 amount of debt assumed in the General Rate Case Order compared to the actual level
19 of debt that is reflected in the interest expense.
- 20 • Removal of the 50% of the direct and allocated short-term Annual Performance Plan
21 (“APP”) that is part of the Company’s market-based employee compensation that is
22 related to the financial operations of American Water.
- 23 • Removal of 5% of the direct and allocated short-term APP that is part of the Company’s
24 market-based employee compensation that is related to Inclusion, Diversity and Equity
25 (“ID&E”) metrics.
- 26 • Removal of 100% of the direct and allocated Long Term Performance Plan (“LTPP”).
- 27 • Removal of 100% of the expenses associated with ID&E, Business Development,
28 Lobbying, and Charitable Donations.
- 29 • An adjustment to fuel & power expense and chemicals expense for excess water loss
30 as determined by the Commission establishing a reasonable water loss standard in a
31 separate proceeding.

1 **Q. HOW WERE THE METHODOLOGIES DETERMINED?**

2 A. The methodologies utilized in the ARM calculations are consistent with the *2025 Order*,
3 in accordance with the Alternative Regulatory Methods Statute directives.²

4 **Q. DOES THE COMPANY PROPOSE USING HISTORICAL RESULTS AS THE**
5 **BASIS FOR ITS ARM CALCULATION WITHOUT NORMALIZATION**
6 **ADJUSTMENTS FOR THE RATE EFFECTIVE PERIOD?**

7 A. Yes. The Company has chosen to request an ARM methodology based on a historic base
8 year and is making no adjustments to normalize these costs into a future attrition year. The
9 Company is seeking to keep the ARM as streamlined as possible, measuring the ROE based
10 on the Adjusted Historic Base Period results and recovering or refunding any revenue
11 deficiency or surplus incurred in the Adjusted Historic Base Period.

12 **Q. ARE THERE BENEFITS TO EXCLUSIVELY USING HISTORICAL DATA IN**
13 **THE COMPANY’S ARM FILING?**

14 A. Yes. There are significant advantages in both certainty of the data and simplification of
15 the rate setting exercise. The historical data is easily verifiable. There is no need to forecast
16 or predict future revenues and future costs. This makes the ARM filing formulaic and
17 easier to administer. Thus, the ARM reduces the cost of the filing and reduces the
18 administrative burden on the Commission, intervenors, the Company, and its customers.

19 **Q. PLEASE EXPLAIN GENERALLY HOW TAWC’S ACTUAL NET OPERATING**
20 **INCOME WILL BE ADJUSTED FOR THESE METHODOLOGIES TO**
21 **DETERMINE THE ADJUSTED HISTORIC BASE PERIOD NET OPERATING**
22 **INCOME.**

² Tenn. Code Ann. § 65-5-103(6)(A) (“A public utility may opt to file for an annual review of its rates based upon the methodology adopted in its most recent rate case pursuant to § 65-5-101 and subsection (a), if applicable.”).

1 A. TAWC will start with its unadjusted Net Income, by component (revenues and expenses),
2 as reported within its annual report to the Commission,³ or the reconciliation calendar year.
3 In addition, the Company will calculate its average rate base for the thirteen-month period
4 at the end of December of the reconciliation calendar year. Rate Base will be calculated
5 with all components consistent with the methodology used in the 2025 Rate Case.
6 Adjustments will be made to the Actual Net Income, as detailed in each Schedule, to
7 determine the Adjusted Historic Base Period Net Operating Income. Each adjustment will
8 be properly tax effected as supported by Schedule 6. The average Rate Base and the
9 Adjusted Historic Base Period Net Operating Income will be used to calculate the Earned
10 Return for the calendar year.

11 The Authorized Net Operating Income for the Historic Base Period will be
12 calculated using (1) the average Rate Base for the reconciliation calendar year, multiplied
13 by (2) the Authorized Rate of Return, or 6.8455%. This rate of return will be fixed in each
14 annual ARM proceeding. The resulting Authorized Net Operating Income will be
15 compared to the Adjusted Historic Base Period Net Operating Income with any amount
16 above or below representing the Net Operating Income Deficiency or Surplus for the
17 Historic Period. This amount is then grossed up using the 2025 Rate Case Gross Revenue
18 Conversion Factor (1.35585) to determine the Revenue Deficiency or Surplus. With the
19 calculated carrying charges, as discussed in greater detail by Mr. Drennan, the total amount
20 becomes the basis for the ARM surcharge or sur-credit.

³ Tenn. Code Ann. § 65-4-305.

1 **Q. WILL THIS CALCULATION PROVIDE THAT TAWC WILL EARN NO MORE**
2 **AND NO LESS THAN THE 9.70% ROE AUTHORIZED BY COMMISSION IN**
3 **THE 2025 RATE CASE?**

4 A. Yes. The resulting Revenue Deficiency/Surplus amount, when included with the Adjusted
5 Historic Base Period operating results, will produce a net income amount that, when
6 divided by the Rate Base Equity (Average Rate Base multiplied by the 44.19% Common
7 Equity percentage authorized by the Commission in the 2025 Rate Case), will produce a
8 ROE of 9.70%. Schedule 10 presents this calculation and proof.

9 **Q. PLEASE EXPLAIN FURTHER HOW TAWC IS SYNCHRONIZING THE**
10 **INTEREST EXPENSE WITH RATE BASE AND THE AUTHORIZED COST OF**
11 **DEBT IN THE ARM.**

12 A. Consistent with standard ratemaking practice, and consistent with how TAWC's interest
13 expense was determined in the 2025 Rate Case, the ARM will synchronize interest to rate
14 base, using the Authorized Weighted Average Cost of Debt (both Short-Term and Long-
15 Term Debt) multiplied by the average rate base for the calendar year, to determine the level
16 of interest expense included in the calculation of the Adjusted Historic Base Period Net
17 Operating Income and Net Income. The Authorized Weighted Average Cost of Debt will
18 be fixed for the ARM period and not updated based on current cost rates or changes to
19 TAWC's capital structure.

20 **IV. RATE DESIGN**

21 **Q. ONCE A REVENUE DEFICIENCY OR SURPLUS IS IDENTIFIED, HOW WILL**
22 **TAWC APPLY THE ARM SURCHARGE/SUR-CREDIT GOING FORWARD?**

1 A. TAWC has a very complex rate structure. It has seven (7) different rate areas: (1)
2 Chattanooga (which includes areas outside of the city limits); (2) Lookout Mountain; (3)
3 Lakeside; (4) Whitwell (inside city limits); (5) Whitwell (outside of city limits); (6) Suck
4 Creek; and (7) Jasper Highlands. Upon the approval of the acquisition of Tennessee Water
5 Service, Inc., TAWC would add an eighth rate area. Each of these rate areas have different
6 customer classes with their own rates. Each area and customer class have multiple meter
7 size rates and volumetric rates. The intent of the ARM surcharge/sur-credit is to recover a
8 historical variance as opposed to a projected, going level revenue requirement the way the
9 Company's base rates are determined. To minimize the administrative burden of adjusting
10 each of these rate elements annually, the Company proposes that the annual ARM
11 surcharge or sur-credit be applied to all customers via an equal percentage (as they were in
12 the *2025 Order*, though applied to all rates not just the fixed meter service charge). Thus,
13 the Company's base tariff rates remain unchanged each year, and the surcharge or sur-
14 credit becomes the only means of adjusting customer rates as a result of the historic ARM
15 calculation.

16 **Q. WILL THE ARM BE APPLIED TO CUSTOMERS UNDER SPECIAL**
17 **CONTRACTS?**

18 A. Yes. The ARM surcharge percentage would also apply to the Company's Sale-for-Resale
19 customers who have a Special Contract. This is the same way that the surcharges resulting
20 from the ICR and the PCOP Riders were applied to the contracts previously. Thus, all
21 customers would see the same percentage change in rates.

1 **V. OTHER MATTERS**

2 **Q. YOU PREVIOUSLY STATED THAT A METHODOLOGY IN THE ARM WILL**
3 **INCLUDE AN ADJUSTMENT TO CONTEMPLATE A REASONABLE WATER**
4 **LOSS STANDARD AS DEFINED IN A SEPARATE PROCEEDING. CAN YOU**
5 **PLEASE ELABORATE ON THE COMPANY’S POSITION AND**
6 **RECOMMENDATION?**

7 A. Yes. The Company is proposing that the Commission open a proceeding, apart and
8 separate from the ARM Framework filing, to revisit and evaluate what should be
9 considered excessive water loss. In TPUC Docket No. 10-00189, the Commission adopted
10 a water loss standard based on the record in that proceeding. With the passage of time, the
11 Company believes it is appropriate for the Commission, and other interested parties, to
12 revisit the issue of what should be considered excessive water loss for the water utilities
13 under its jurisdiction.⁴

14 **Q. HOW WILL A REASONABLE WATER LOSS STANDARD BE APPLIED**
15 **WITHIN THE ARM?**

16 A. The Company will apply this new water loss standard adopted by the Commission to the
17 Company’s (Power and Fuel, and Chemical costs) in the ARM on a going forward basis
18 once the Commission has issued an order in a separate proceeding, setting a new water loss
19 standard. Until that occurs, the Company proposes to apply the existing water loss standard
20 adopted in the 2025 Rate Case.

⁴ See *Order Approving the 2024 Production Costs and Other Pass-Throughs Rider*, p. 11, TPUC Docket No. 25-00002 (Aug. 8, 2025) (“The regulated water public utility industry in Tennessee is not prohibited from petitioning the Commission for a re-examination of this policy and its application”).

1 **Q. WHAT IS TAWC’S PROPOSAL REGARDING ITS EXISTING ICR AND PCOP**
2 **RIDER MECHANISMS?**

3 A. Subject to the Commission’s approval of TAWC’s ARM Tariff as proposed herein, TAWC
4 proposes to suspend the annual PCOP and ICR filings.

5 In the Company’s most recent ICR proceeding, TPUC Docket No. 25-00016, the
6 Commission approved a settlement submitted by the Company and the Consumer
7 Advocate, in which TAWC agreed not to file a 2026 ICR (looking back at costs related to
8 2025 qualified incremental investments). Should the Commission approve the Company’s
9 ARM proposal in this proceeding, there will be no future ICR filings expected. However,
10 should the Commission deny the Company’s ARM proposal in this proceeding, the
11 Company would resume filing an annual ICR in 2027, looking back at 2026 costs.

12 Regarding the PCOP, the 2026 Filing in January of 2026 would proceed as
13 scheduled, as it looks back at actual historic production and other passthrough costs
14 incurred in 2025. Should the Commission approve the Company’s ARM proposal in this
15 proceeding, this 2026 PCOP would be the last PCOP filed by the Company and would be
16 supplanted by the ARM going forward.

17 **Q. WILL TAWC RECONCILE THE 2026 PCOP FILING CONSISTENT WITH**
18 **PRIOR PRACTICE?**

19 A. Yes. At the conclusion of the twelve-month PCOP Percentage rate effective period,
20 TAWC will determine the actual PCOP collections and compare that to the amount the
21 Commission authorized TAWC to collect, and any variance will be collected from or
22 credited to customers via the ARM, subject to approval by the Commission. The PCOP
23 Percentage rate would then be suspended and set to zero.

1 Q. **IS THE COMPANY’S PROPOSED ARM IN THE PUBLIC INTEREST?**

2 A. Yes. Consistent with the benefits to our customers, as well as to the Company, outlined in
3 my above testimony, including the transparency, reducing administrative burdens
4 associated with our ICR and PCOP Riders and general rate cases, and the lessening of
5 rate shock and general rate case expenses, the proposed ARM serves the public interest and
6 should be approved. More specifically, the Company believes the ARM will greatly
7 improve our ability to efficiently advance the Company’s objective, and the public’s
8 expectation, of safe, clean, and reliable water service at just and reasonable rates, while
9 also providing the Commission and our customers with greater transparency regarding our
10 operations and how it translates into reasonable rates. The annual process will also provide
11 a more timely review of TAWC’s cost of providing service and allow the Company to
12 recover its costs without frequent, administratively burdensome, time-consuming, and
13 expensive base rate cases.

14 **VI. CONCLUSION**

15 Q. **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

16 A. Yes.

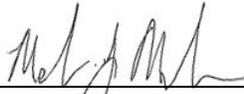
CERTIFICATE OF SERVICE

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

Vance Broemel, Esq.
Managing Attorney
Office of the Tennessee Attorney General
Consumer Advocate Division
P.O. Box 20207
Nashville, TN 37202-0207
Vance.Broemel@ag.tn.gov

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

This the 18th day of November 2025.



Melvin Malone