

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION**

**NASHVILLE, TENNESSEE**

**June 5, 2026**

<b>IN RE:</b>	)	
	)	
<b>PETITION OF TENNESSEE-AMERICAN WATER</b>	)	<b>DOCKET NO.</b>
<b>COMPANY TO ADOPT ANNUAL REVIEW</b>	)	<b>25-00089</b>
<b>MECHANISM AND ARM TARIFF PURSUANT TO</b>	)	
<b>TENN. CODE ANN. § 65-5-103(d)(6)</b>	)	

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**ORDER DENYING PETITION OF TENNESSEE-AMERICAN WATER COMPANY TO  
ADOPT ANNUAL REVIEW MECHANISM AND ARR M TARIFF PURSUANT TO  
TENN. CODE ANN. § 65-5-103(d)(6)**

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This matter came before Chairman David F. Jones, Commissioner Herbert H. Hilliard, Commissioner Robin L. Morrison, Commissioner Clay R. Good, and Commissioner David Crowell of the Tennessee Public Utility Commission (the “Commission” or “TPUC”), the voting panel assigned to this docket, during a Commission Conference held on March 16, 2026. The panel convened to consider the *Petition of Tennessee-American Water Company to Adopt Annual Review Mechanism and ARM Tariff Pursuant to Tenn. Code Ann. § 65-5-103(d)(6)* (“*Petition*”) filed on November 18, 2025.

**I. BACKGROUND**

Tennessee-American Water Company (“TAWC” or the “Company”) is a Tennessee corporation authorized to operate as a public utility under the jurisdiction of the Commission. TAWC provides residential, commercial, industrial, and municipal water service, including public and private fire protection service, to the City of Chattanooga, Tennessee, and surrounding areas.

TAWC also provides water services to areas in Marion County, Tennessee, and parts of Georgia. TAWC provides water services to approximately 88,000 customers.<sup>1</sup>

In 2012, the Company filed a rate case, which concluded with the approval of a settlement agreement reached by the Company, the Consumer Advocate Division of the Office of the Tennessee Attorney General (“Consumer Advocate”), the City of Chattanooga (“City”), the Chattanooga Regional Manufacturers Association (“CRMA”), the Town of Signal Mountain, and Walden’s Ridge Utility District.<sup>2</sup> In 2013, TAWC was granted approval of a Qualified Infrastructure Investment Program (“QIIP”) Rider; Economic Development Investment (“EDI”) Rider; Safety and Environmental Compliance (“SEC”) Rider (collectively “Capital Riders”); and a Pass-Through Mechanism for purchased power, chemicals, purchased water, and wheeling water called the Production Costs and Other Pass-throughs Rider (“PCOP”) in TPUC Docket No. 13-00130. In Docket No. 19-00103, the Capital Riders were revised from a two-filing process per year to one annual filing and renamed the Incremental Capital Recovery Rider (“ICRR”).<sup>3</sup> Between 2013 and the rate case in 2024, the Capital Riders, which became the ICRR, and PCOP mechanisms allowed the Company to recover certain capital investments, including a return on equity (“ROE”), and certain expenses outside of a rate case.<sup>4</sup>

On May 1, 2024, TAWC filed the *Petition of Tennessee-American Water Company to Modify Tariff, Change and Increase Charges, Fees, and Rates, and for Approval of a General Rate Increase and Revised Tariff* in Commission Docket No. 24-00032, which was decided in 2025

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<sup>1</sup> *Petition*, p. 1 (November 18, 2025).

<sup>2</sup> See *In Re: Petition of Tennessee-American Water Company to Modify Tariff, Change and Increase Charges, Fees, and Rates, and for Approval of a General Rate Increase*, Docket No. 24-00032, *Order Setting Utility Rate*, p. 4 (April 21, 2025) (“2025 Rate Case Order”).

<sup>3</sup> See *In Re: Docket to Investigate and Consider Potential Issues and Modifications to the Collective Capital Riders of Tennessee-American Water Company*, Docket No. 19-00103, *Order Approving Stipulation and Settlement Agreement* (January 31, 2024).

<sup>4</sup> *2025 Rate Case Order*, p. 5 (April 21, 2025).

(“2025 Rate Case”). In that proceeding, the Company sought to increase customer rates by \$14.1 million, which resulted in an increase in residential rates of approximately \$4.24 per month based on an average residential monthly usage of 3,800 gallons.<sup>5</sup> On April 21, 2025, the Commission issued its *Order Setting Utility Rates* (“2025 Rate Case Order”) finding a revenue deficiency of \$1,007,930 to be reasonable, and granted a 1.45% across-the-board increase to base rates.<sup>6</sup>

On November 18, 2025, the Petitioner filed its *Petition* under Tenn. Code Ann. § 65-5-103(d)(6) requesting a single-filing process that would be filed annually by March 31 with rates effective August 1. This filing would be based on historical records to determine whether the Company earned its authorized ROE adopted in the *2025 Rate Case*. Under the proposal, an annual “true-up” adjustment would be determined to correct any under- or over-recovery during the period, with no forecasted or normalized adjustments of costs included in the methodologies.<sup>7</sup> The Petitioner asserts that it has met the statutory requirements necessary to adopt an alternative regulatory mechanism under Tenn. Code Ann. § 65-5-103(d)(6).<sup>8</sup> In support of its *Petition*, TAWC pre-filed the direct and rebuttal testimonies of Robert C. Lane and Philip J. Drennan, as well as the pre-filed rebuttal testimony of Jared Deason.<sup>9</sup>

The Consumer Advocate and the City were granted intervention in this matter by separate orders dated December 23, 2025.<sup>10</sup> In support of its position, the Consumer Advocate filed the pre-

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<sup>5</sup> *Id.*

<sup>6</sup> *Id.* at pp. 87-88.

<sup>7</sup> *Petition*, p. 4 (November 18, 2025).

<sup>8</sup> *Id.* at 3.

<sup>9</sup> Robert C. Lane, Pre-Filed Direct Testimony (November 18, 2025); Philip J. Drennan, Pre-Filed Direct Testimony (November 18, 2025); Robert C. Lane, Pre-Filed Rebuttal Testimony (February 19, 2026); Philip J. Drennan, Pre-Filed Rebuttal Testimony (February 19, 2026); Jared Deason, Pre-Filed Rebuttal Testimony (February 19, 2026).

<sup>10</sup> *Order Granting Petition to Intervene Filed by the Consumer Advocate* (December 23, 2025); *Order Granting the Petition to Intervene Filed by the City of Chattanooga* (December 23, 2025).

filed direct testimony of Clark Kaml.<sup>11</sup> The City of Chattanooga filed the pre-filed direct testimony of Mark E. Garrett.<sup>12</sup>

## **II. PRE-FILED DIRECT TESTIMONY FROM TAWC**

### **A. ROBERT C. LANE**

The proposed Annual Rate Review Mechanism (“ARRM”) is an alternative regulatory method that allows more frequent review of the Company’s earnings than would typically occur between a traditional rate cases, and avoids the significant time and expense inherent in such cases. The proposed mechanism would allow an adjustment to increase rates if the Company fell short of its authorized return or an adjustment to decrease rates if the Company earned in excess of its authorized return.<sup>13</sup>

In his pre-filed testimony, Mr. Lane stated that since 2014, TAWC has been operating under the Capital Riders, which became the ICRR, and the PCOP. The Company proposes to replace these riders with an ARRM.<sup>14</sup> Mr. Lane asserted that the Company’s proposed ARRM would: 1) be made once a year and based on historical data without normalization adjustments; 2) maintain the Commission’s oversight and authority over ratemaking; 3) allow the Company to recover its costs in lieu of administratively burdensome and more costly rate cases; and 4) retain the methodologies adopted in the Company’s last rate case.<sup>15</sup> Further, he explained that annual ARRM filings would be made each year by March 31 after the closing of the Company’s books and records. Each annual filing would allow the Commission to determine whether TAWC earned its authorized ROE and, subsequently, to compute any associated revenue deficiency or excess,

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<sup>11</sup> Clark Kaml, Pre-Filed Direct Testimony (February 3, 2026).

<sup>12</sup> Mark E. Garrett, Pre-Filed Direct Testimony (February 3, 2026).

<sup>13</sup> Robert C. Lane, Pre-Filed Direct Testimony, pp. 5-6 (November 18, 2025).

<sup>14</sup> *Id.* at pp. 5-6.

<sup>15</sup> *Id.* at 7-8.

with corresponding adjustments to monthly fixed and volumetric charges collected from customers over a 12-month period, effective August 1 of each year.<sup>16</sup>

Mr. Lane stated that the following methodologies approved in the *2025 Rate Case Order* would be followed when calculating the Company's earnings deficiency or excess:

- The Company's ROE will be based on the capital structure approved in the *2025 Rate Case*, which was 44.19% equity, 55.00% long-term debt, and 0.81% short-term debt, with approved adjustments.
- Removal of 50% of the direct and allocated short-term Annual Performance Plan ("APP") expenses.
- Removal of 5% of the direct and allocated short-term APP that is related to Inclusion, Diversity and Equity ("ID&E") metrics.
- Removal of direct and allocated Long-Term Performance Plan ("LTPP").
- Removal of the expenses associated with ID&E, business development, lobbying, and charitable donations.
- Adjustment to fuel and power expense and chemicals expenses for excess water loss.<sup>17</sup>

Also, Mr. Lane provided the following details regarding how the Company's actual net operating income ("NOI") will be adjusted for these methodologies:

1. TAWC will begin with unadjusted net income by component as reported in its annual report of the reconciliation calendar year.
2. The average rate base for the 13-month period will be calculated at the end of December of the reconciliation calendar year.

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<sup>16</sup> *Id.* at 11.

<sup>17</sup> *Id.* at 12.

3. Rate base will be calculated consistently with the approved methodologies used in the *2025 Rate Case*.
4. Adjustments will be made to the actual/unadjusted net income as detailed in each schedule in order to determine the adjusted NOI for the Historic Base Period (“HBP”), which will align with the company’s fiscal year.
5. The average rate base and the adjusted NOI for the HBP will be used to calculate the Company’s actual return earned for the calendar year.<sup>18</sup>

Mr. Lane stated that the Company’s authorized NOI for the HBP will be calculated by using the average rate base for the reconciliation calendar year multiplied by the authorized rate of return (“ROR”) of 6.8455%. The NOI will be compared to the adjusted NOI for the HBP, and any variance will represent an earnings deficiency or surplus for the HBP. The deficiency or surplus would be grossed up by the *2025 Rate Case* conversion factor, and carrying charges would be applied. These calculations would provide the revenue shortfall or surplus associated with the period. Mr. Lane attested that this calculation ensures that TAWC earns no more and no less than the 9.70% ROE as authorized in the *2025 Rate Case*. Mr. Lane also testified that the Company is synchronizing the interest expense with the rate base by multiplying the authorized weighted-average cost of debt (both short- and long-term debt) by the average rate base for the calendar year.<sup>19</sup> Mr. Lane testified that the Company is proposing that the annual ARRM surcharge or surcredit be applied to all customers through an equal percentage applied to all rates (fixed and volumetric). It will also be collected from the Company’s “Sale-for-Resale” customers with special contracts.<sup>20</sup>

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<sup>18</sup> *Id.* at 8, 13-14.

<sup>19</sup> *Id.* at 14-15.

<sup>20</sup> *Id.* at 16.

According to Mr. Lane, the Company proposes that separate proceedings be established to determine what should be considered excessive water loss. The Company will apply the new water loss standard determined in that proceeding to the Company's fuel and power costs and chemicals costs under the ARRM going forward. Until the new water loss standard is determined, the Company proposes to apply its existing water loss standard as adopted in the *2025 Rate Case*.<sup>21</sup>

Mr. Lane explained that the Company and the Consumer Advocate agreed in Commission Docket No. 25-00016 that there would be no ICRR in 2026, and that if the Commission were to approve this ARRM, there would be no future filings regarding the ICRR. However, if the Commission were to deny this ARRM, the Company would file the ICRR in 2027. Mr. Lane then clarified that a PCOP filing would be made in January 2026, given that the PCOP is based on historical costs. If the Commission were to approve this ARRM, the January 2026 PCOP filing would represent the Company's last PCOP filing.<sup>22</sup> In conclusion, Mr. Lane testified that the proposed ARRM is in the public interest for the reasons stated above.<sup>23</sup>

#### **B. PHILIP J. DRENNAN**

Mr. Drennan sponsored 11 schedules as well as the proposed ARRM tariff. He stated that most of the schedules begin with the amount approved from the *2025 Rate Case* and provide support for the calculations of the proposed ARRM. He briefly described each schedule as follows:

1. Schedule 1 – compares the earned NOI and return to the authorized NOI and return.
2. Schedules 2, 2.1, and 2.2 – summarize the rate base components, show the ratemaking adjustments inclusive of the adjustment that removes construction work in process (“CWIP”), and present the components of the rate base for the unadjusted HBP.

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<sup>21</sup> *Id.* at 17.

<sup>22</sup> *Id.* at 18.

<sup>23</sup> *Id.* at 19.

3. Schedule 3 – summarizes the lead-lag results for the described comparison periods.
4. Schedules 4 and 4.1 – provide the daily working capital requirement calculation approved in the *2025 Rate Case* and calculate the daily working capital requirement for the current period based on the current period expense levels using the same lag days approved in the *2025 Rate Case*.
5. Schedules 5, 5.1, and 5.2 – provide the approved NOI for the described comparison periods, demonstrate the calculation from unadjusted NOI for the HBP to the adjusted NOI for the HBP, present the Utility Operating Income for the *2025 Rate Case*, and present the ratemaking adjustments applied to the current year results for consistency.
6. Schedule 6 – provides calculations of federal income and state excise taxes.
7. Schedule 7 – summarizes the capital structure and calculates the imputed interest expense and adjustment to synchronize the unadjusted interest expense for the HBP to the imputed interest expense.
8. Schedule 8 – includes the approved revenue conversion factor from the *2025 Rate Case*.
9. Schedule 9 – calculates the earned ROE and earnings deficiency/surplus for the review period.
10. Schedule 10 – proves the requested annual revenue deficiency/surplus provides the authorized ROE of 9.70%.
11. Schedule 11 – provides a forecast of TAWC’s capital investments for next year and is provided for information purposes only.<sup>24</sup>

Mr. Drennan asserted that the Company identified omissions in Schedule 6 of the final approved tax amounts in the *2025 Rate Case*. The approved federal income taxes omitted the

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<sup>24</sup> Philip J. Drennan, Pre-Filed Direct Testimony, pp. 4-5, 10-15 (November 18, 2025).

impact of permanent book-to-tax differences, amortization of excess deferred income taxes (“EDIT”), amortization of investment tax credits (“ITC”), and amortization of other flow-through differences. He stated that these omissions resulted in roughly \$255,000 higher tax expenses. Mr. Drennan testified that the Company proposes to include these impacts in its tax expense calculations for future ARRM filings, which will correct the omissions, ensure that TAWC recovers the proper tax expense, and that customers will receive the benefits of the favorable tax items.<sup>25</sup>

Mr. Drennan stated that TAWC’s proposed ARRM differs from other approved ARRMs because it does not include forward-looking adjustments. The Company proposes to simplify the process by leveraging standard formulaic accounting practices and using a historic period to calculate any earnings discrepancies. Using the proposed historic period will result in a 19-month lag, requiring carrying charges. Mr. Drennan proposed using the rate of return of 6.846% approved in the *2025 Rate Case* to calculate the carrying charges.<sup>26</sup> To avoid double-counting surplus or deficient revenue amounts over multiple periods, the Company will align the amortization of the deferral balance with the rate effective period, resulting in a match with the monthly amortization amounts collected or credited in each period.<sup>27</sup>

As for calculating the surcharge or sur-credit percentage, Mr. Drennan asserted that the Company will use current billing determinants and normalized usage to forecast the base revenue it expects to collect, which will be its base revenue forecast. The base revenue forecast will be the denominator, with the total ARRM revenue deficiency/surplus used as the numerator. This will be used to calculate the percentage increase or decrease in the ARRM surcharge rates. He asserted

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<sup>25</sup> *Id.* at 13-14.

<sup>26</sup> *Id.* at 6.

<sup>27</sup> *Id.* at 7.

that this method will ensure there is no over- or under-collection of revenue during the rate-effective period and he highlighted that this methodology would decrease volatility.<sup>28</sup>

Mr. Drennan further explained that TAWC's rate case expense surcharges will not be reflected in the Company's income statement because they are posted directly to the regulatory asset, so no associated adjustment for the ARRM earnings test would be needed. He noted, however, that the Company expects a small difference between the final amount of rate case expense approved by the Commission and the amount collected. Once the difference is known, any remaining balance will be included in the ARRM revenue adjustment calculation.<sup>29</sup> Mr. Drennan testified that the Company is requesting to defer the costs of this filing to a regulatory account, which will be amortized over three years and recovered in the normal course of the ARRM process.<sup>30</sup>

Also, Mr. Drennan averred that the proposed ARRM would allow new activities or matters that were not previously considered when setting rates, such as a change in accounting principles, and that this is similar to other ARRM proposals previously approved by the Commission.<sup>31</sup> In closing, Mr. Drennan concluded that the proposed ARRM is in the public interest because it creates a symmetrical annual earnings test that allows deficient or surplus revenues to be collected from or credited to customers in a timely manner.<sup>32</sup>

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<sup>28</sup> *Id.* at 7-8.

<sup>29</sup> *Id.* at 8-9.

<sup>30</sup> *Id.* at 9.

<sup>31</sup> *Id.* at 16.

<sup>32</sup> *Id.*

### **III. PRE-FILED DIRECT TESTIMONY FROM THE CONSUMER ADVOCATE**

#### **A. CLARK KAML**

Mr. Kaml testified that the effect of an ARRM on public interest depends on design, implementation, and oversight. Further, he insisted that the Commission should not accept or reject any proposed ARRM based on the assertion that it is similar to another utility's ARRM.<sup>33</sup> Though Mr. Kaml believes that alternative regulatory methods may reduce regulatory costs and increase efficiency in the short term, he argued that the rapid investments occurring under an ARRM may be inefficient and take years to remedy.<sup>34</sup>

Mr. Kaml asserted that TAWC does not need an ARRM without a showing that the existing ICRR and PCOP no longer meet the financial needs of TAWC. He stated that he's not aware of any other water company in Tennessee with an ARRM.<sup>35</sup>

Mr. Kaml summarized TAWC's proposed ARRM and asserted that it is unique because it does not use a forward-looking period for setting rates.<sup>36</sup> Mr. Kaml argued that TAWC's proposal consolidates and replaces existing riders while altering rate design and recovery methods.<sup>37</sup> Mr. Kaml stated that reviewing TAWC's proposal requires an understanding of TAWC's goals, whether those goals are being met under current conditions, whether those goals would be met with the proposal, and whether the proposal is necessary to achieve those goals.<sup>38</sup>

Mr. Kaml stated that the Company's arguments supporting the proposed ARRM rely extensively on generic arguments, opinions, and facts that do not apply in this situation.<sup>39</sup> He believed that the Company had not demonstrated how its proposal would lessen the frequency of

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<sup>33</sup> Clark Kaml, Pre-Filed Direct Testimony, p. 7 (February 3, 2026).

<sup>34</sup> *Id.* at 9.

<sup>35</sup> *Id.* at 10-11.

<sup>36</sup> *Id.* at 12.

<sup>37</sup> *Id.* at 13.

<sup>38</sup> *Id.* at 14.

<sup>39</sup> *Id.* at 15.

rate case proceedings and noted that TAWC's argument that rate cases were made frequently prior to implementation of the existing riders and in other jurisdictions is irrelevant.<sup>40</sup> Mr. Kaml argued that the Company's last rate case, wherein it requested a \$13.9 million revenue increase and was awarded a little over \$1 million, demonstrates that the existing riders meet the financial needs of the Company. Further, he argued that the Company has not demonstrated how replacing the existing riders with another annual mechanism will result in administrative efficiency or reduce costs. Mr. Kaml noted that the Commission found in the *2025 Rate Case* that the existing riders were functioning as intended and served the public interest.<sup>41</sup> He pointed out that the Company submitted an estimated \$1.554 million for rate case expenses in the *2025 Rate Case* but was awarded only a \$1 million revenue increase.<sup>42</sup>

Mr. Kaml referenced the Company's tariff, which explained that the Company will apply an equal percentage adjustment to customer bills in the form of a surcharge or sur-credit, with the percentage increase calculated by dividing the revenue adjustment by the base revenue forecast for the rate effective period. He asserted the tariff language indicated that the surcharge or sur-credit would be determined on a per-bill basis to the total water charge as a defined percent increase, while Mr. Lane suggested in his testimony on behalf of TAWC that it would be applied to the individual rate components. Mr. Kaml averred that there should be an understanding of whether TAWC intends to change rates or assess a surcharge or sur-credit. Nevertheless, Mr. Kaml stated that either approach is inconsistent with the revenue requirement in the *2025 Rate Case*, where the rate increase was applied across the board to the monthly fixed bill. Additionally, Mr. Kaml stated that the proposal will apply to customers with special contracts, which is consistent

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<sup>40</sup> *Id.*

<sup>41</sup> *Id.* at 16.

<sup>42</sup> *Id.* at 17.

with the ICRR and PCOP, but inconsistent with the *2025 Rate Case* revenue requirement allocations.<sup>43</sup>

Mr. Kaml also opposed the proposed tariff because it does not include existing rates or an explanation of the adjustment to the rates. According to Mr. Kaml, the tariff merely explains the ARRM under the classification of service, without a formula in algebraic form, and includes a sheet with notification regarding the surcharge.<sup>44</sup>

Mr. Kaml referenced Mr. Lane's testimony in which Mr. Lane stated the Company is proposing a surcharge or sur-credit in order to eliminate the administrative burdens of adjusting each rate component annually. Mr. Kaml asserted that although a surcharge or sur-credit may appear to be reasonable, it results in rates being "charged to captive customers who have a right to know the rates that are being assessed by TAWC."<sup>45</sup> To correct this error, Mr. Kaml suggested that TAWC provide a formula for calculating the rate change and modify its tariffs each year to reflect the actual rate charged.<sup>46</sup>

Mr. Kaml testified that the Company is proposing to recover changes in fundamental long-term rate components, such as rate base and depreciation, through an annual surcharge that should be reflected in base rates. He argued that surcharges are normally related to a specific one-time fee, but the one proposed by the Company obscures the fact that the rate increases include capital costs, are related to fundamental base prices covering core costs, and are likely to be permanent rate changes, rather than an added cost for an additional service. He further argued that this proposal is to recover a historic variance prospectively, which requires accurate cost and revenue

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<sup>43</sup> *Id.* at 20-21.

<sup>44</sup> *Id.* at 21.

<sup>45</sup> *Id.* at 23.

<sup>46</sup> *Id.*

forecasting.<sup>47</sup> Without accurate projections, he asserted that the revenue variance would result in prices that are inaccurate, and as proposed, the incentive for an accurate forecast is removed if the Company is able to recover any under-earnings. Mr. Kaml stated that this proposed adjustment shifts the risk to ratepayers and, therefore, should reduce TAWC's cost of equity. He does not, however, propose an adjustment to the cost of equity in this proceeding; rather, he suggests the Commission address this issue in a generic proceeding.<sup>48</sup>

Mr. Kaml asserted that this proposal does not provide the fundamental cost information necessary for a full review or quantify the benefits to customers. He also disagreed with the Company's assertion that the Commission established a methodology that could serve as a basis for an ARRM. He countered this argument by stating the *2025 Rate Case Order* did not provide formulas or methods for designing rates or allocating any revenue changes to rates.<sup>49</sup>

Mr. Kaml further asserted that the Company has not identified any problems resolved by this proposal. Rather, the Company's witnesses have relied on the general arguments regarding mitigation of regulatory lag; facilitation of investment; that the Commission has approved ARRM's in various sectors; reduction in the frequency of rate cases; elimination of the PCOP and ICRR; and the streamlined regulatory construction of the proposal balances the interests of all parties.<sup>50</sup> To counter these assertions, Mr. Kaml asserted that the supporting testimony is conclusory, lacks specific application to this proceeding, and that the issues raised are addressed by the current ICRR and PCOP. Mr. Kaml argued that the proposal will reduce scrutiny, oversight, and analysis. It will not increase transparency.<sup>51</sup>

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<sup>47</sup> *Id.* at 23-24.

<sup>48</sup> *Id.* at 25-27.

<sup>49</sup> *Id.* at 28.

<sup>50</sup> *Id.* at 28-29.

<sup>51</sup> *Id.* at 30-31.

Mr. Kaml testified that some of the adjustments proposed by the Company conflict with the *2025 Rate Case Order*. Specifically, the Company proposes to remove 50% of the short-term APP associated with the Company's market-based employee compensation for American Water's financial operations and 55% for ID&E. However, Mr. Kaml asserted that these conflict with the *2025 Rate Case Order* because the Commission ordered the removal of 55% of the short-term APP that is part of the Company's market-based employee compensation, the removal of 100% of allocations of the direct and allocated short-term APP related to ID&E, and the exclusion of 25% of lobbying expenses.<sup>52</sup>

Mr. Kaml stated that the 11 schedules with subparts filed in support of TAWC's annual proposal do not provide sufficient information to review the changes in costs or to perform an audit. In his pre-filed testimony, he listed the 52 schedules that Piedmont filed as part of its ARRM and asserted that TAWC should provide the same level of information in its filing.<sup>53</sup>

In summary, Mr. Kaml recommended that the Commission deny TAWC's request for approval of an ARRM because it is not necessary, not in the public interest, lacks supporting detail, fails to resolve fundamental rate design and policy issues, does not include sufficient reporting requirements, and is not an improvement over the Company's existing regulatory mechanisms.<sup>54</sup> In the alternative, if the Commission were to approve the proposal, Mr. Kaml made numerous recommendations, including that the proposed ARRM should include:

- Detailed formulas and explanations of rates explicitly included in the tariffs.
- Comprehensive reporting schedules with supporting information as part of the annual filing.

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<sup>52</sup> *Id.* at 34-35.

<sup>53</sup> *Id.* at 36-40.

<sup>54</sup> *Id.* at 45-46.

- Any revenue requirement deficiencies resulting from the annual filing be adopted only upon achievement of specific metrics.
- Safeguards consistent with Commission precedent and statutory requirements.<sup>55</sup>

#### **IV. PRE-FILED DIRECT TESTIMONY FROM THE CITY OF CHATTANOOGA**

##### **A. MARK E. GARRETT**

Mr. Garrett explained that the proposed ARRM would allow TAWC to compare its actual historic-year earnings to its authorized ROE, with any earnings deficiency or sufficiency deferred to a regulatory asset or liability account and recovered from or refunded to customers through a surcharge or sur-credit in the following year. He noted that normalizations of abnormal costs, caps on annual increases, and prudence reviews for capital expenditures are not proposed.<sup>56</sup>

Mr. Garrett argued that the Commission should reject the ARRM asserting that it eliminates regulatory lag, removes essential cost-control incentives, shifts virtually all business risk from the shareholders to ratepayers, and allows the company to retain a 9.7% ROE, which is inappropriately high considering the reduced risk from the ARRM.<sup>57</sup> He further argued that reducing regulatory lag benefits only the Company and that regulatory lag incentivizes the utility to control its costs between rate cases.<sup>58</sup> Mr. Garrett also stated that regulatory lag is one of the main reasons utilities are awarded an ROE above the level of “risk-free” capital. Mr. Garrett contended that regulatory lag promotes prudent investment because the Company can keep higher than authorized returns realized between rate cases, but it must bear any cost increases during the

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<sup>55</sup> *Id.* at 46.

<sup>56</sup> Mark E. Garrett, Pre-Filed Direct Testimony, pp. 7-8 (February 3, 2026).

<sup>57</sup> *Id.* at 8.

<sup>58</sup> *Id.* at 9-10.

same period.<sup>59</sup> Mr. Garrett averred that the proposed ARRМ doesn't provide a mechanism for controlling capital and operating costs.<sup>60</sup>

Mr. Garrett testified that the proposed ARRМ represents retroactive ratemaking because it will essentially adjust historic earnings discrepancies through future rates. It will allow the company to recover revenues it failed to earn in a prior year through future rates.<sup>61</sup> Mr. Garrett further attested that the proposed ARRМ ensures that the Company is made whole for its historical deficiencies, which conflicts with the principle that shareholders, not customers, bear the risk of under-earnings and the reward of over-earnings.<sup>62</sup>

Mr. Garrett testified that Tenn. Code Ann. § 65-5-103 should be interpreted to require prospective rate changes and not retroactive changes.<sup>63</sup> According to Mr. Garrett, if the Commission were to interpret the statute as the Company contends, the shareholder's risk would effectively be eliminated.<sup>64</sup> In summary, Mr. Garrett contended that allowing the ARRМ as proposed by the Company would "transform approved rates into provisional rates, subject to annual true-ups based on hindsight. This would eliminate regulatory lag, eliminate business risk, and undermine the incentive structure inherent in traditional ratemaking."<sup>65</sup>

Mr. Garrett stated that the 9.7% ROE awarded to TAWC in its *2025 Rate Case* was based upon risks associated with traditional regulation, such as regulatory lag between individual rate cases, cost variability, and operational uncertainty. He opined that eliminating the risks with an ARRМ does not support the risk premiums included in the 9.7% ROE with carrying charges.<sup>66</sup>

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<sup>59</sup> *Id.* at 10-11.

<sup>60</sup> *Id.* at 12.

<sup>61</sup> *Id.* at 13-14.

<sup>62</sup> *Id.* at 16.

<sup>63</sup> *Id.* at 17.

<sup>64</sup> *Id.* at 18.

<sup>65</sup> *Id.* at 19.

<sup>66</sup> *Id.* at 20.

Mr. Garrett stated that the proposed ARRM would guarantee the Company earns its authorized ROE, thereby removing any incentive to prudently manage costs. He believes periodic rate cases with attendant regulatory lag remain the most effective way to ensure cost discipline, sensible investment, and balancing risk between the ratepayer and the Company.<sup>67</sup>

Mr. Garrett recognized that rate cases require time and resources, but he stated that this must be evaluated in relation to the savings that result from this scrutiny.<sup>68</sup> Mr. Garrett testified that when a utility is allowed to adjust rates to a certain amount each year, it will find justification to increase rates to the cap. He further testified that when there is no cap, the utility will seek significant, unpredictable increases.<sup>69</sup> Mr. Garrett asserted that administrative efficiency should never come at the expense of just and reasonable rates.<sup>70</sup>

Mr. Garrett recommended that TAWC be ordered to track rate base and operating expenses for each of the seven rate areas it serves. He stated that the proposed ARRM does not include a mechanism to track expenditures by rate areas, which will result in inaccurate price signals and the subsidization of the rural systems' costs by the urban systems' customers.<sup>71</sup>

Mr. Garrett argued that the Company's current ICRR and PCOP allow it to timely recover costs, thus reducing company and shareholder risk. He stated that with these mechanisms, the Company avoids the scrutiny of a general rate case. Mr. Garrett points out that the current mechanisms have been utilized for 12 years without the administrative burden of a rate case.<sup>72</sup> Mr. Garrett argued that the ICRR and PCOP have allowed TAWC to earn sufficient returns; and therefore, the Company cannot demonstrate a financial need for the ARRM at this time.<sup>73</sup> Mr.

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<sup>67</sup> *Id.* at 22.

<sup>68</sup> *Id.* at 23.

<sup>69</sup> *Id.* at 25-26.

<sup>70</sup> *Id.* at 28.

<sup>71</sup> *Id.* at 29-31.

<sup>72</sup> *Id.* at 32-33.

<sup>73</sup> *Id.* at 34.

Garrett stated that the Company's proposal incentivizes increased spending on capital investments and operating expenses, such as corporate allocations, managerial pay, and executive compensation. For these reasons, Mr. Garrett recommended that the Commission continue with the current ICRR and PCOP and reject the proposed ARRM.<sup>74</sup>

If the Commission were to approve the proposed ARRM, Mr. Garrett recommended that the following changes be made to the proposal in order to avoid unjust and unreasonable rates:

1. Normalization adjustments for unusual expenditures should be allowed.
2. No deferral of under-recovered costs or retroactive recovery through the ARRM.
3. A percentage cap on the annual increases should be required.
4. Pre-approval dockets for Commission authorization of planned capital expenditures.
5. Periodic rate cases are required every four to five years.
6. A strict sunset on the ARRM with no automatic continuation.
7. A significant mandatory reduction of the Company's authorized ROE.
8. Maintain separate system records of capital expenditures in order to avoid system cross-subsidization.<sup>75</sup>

## **V. PRE-FILED REBUTTAL TESTIMONY FROM TAWC**

### **A. ROBERT C. LANE**

In his rebuttal testimony, Mr. Lane asserted that Tennessee law authorizes the Commission to implement an alternative rate-making mechanism that allows a rate review and cost recovery by a public utility, in lieu of a general rate case. He asserted that TAWC's proposed ARRM is merely

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<sup>74</sup> *Id.* at 35.

<sup>75</sup> *Id.* at 35-36.

a change in methodology that replaces the existing ICRR and PCOP, both of which the Consumer Advocate and the City support.<sup>76</sup>

Mr. Lane testified that the proposed ARRM does not constitute retroactive ratemaking as asserted by the City. He explained that the ARRM does not re-price previously rendered service but rather uses historical results to compute a balance applied prospectively to future service.<sup>77</sup> Mr. Lane pointed out that the current PCOP rider adjusts rates prospectively based on historical costs in the same fashion as the Company's proposed ARRM. Mr. Lane recommended that the Commission find that TAWC's proposed ARRM is a tariff rate that reconciles historical results to those approved but applies any associated adjustments prospectively.<sup>78</sup>

Mr. Lane next countered the Consumer Advocate's clarifications regarding the Company's proposed methodology. He argued that the *2025 Rate Case* prescribes the removal of 50% of the direct and allocated short-term APP related to the financial Company's market-based employee compensation and 5% of the entire portion of related direct and allocated short-term Company market-based employee compensation that is related to ID&E. According to Mr. Lane, this resulted in 55% of the total being removed and does not conflict with the *2025 Rate Case Order*.<sup>79</sup>

Mr. Lane asserted that the City is seeking to litigate cost allocation and rate design in this matter.<sup>80</sup> Mr. Lane stated that the proposed ARRM mirrors what the City proposed in the *2025 Rate Case*. Mr. Lane also stated that the proposed rate design of the ARRM is the same as that proposed by the Consumer Advocate in the *2025 Rate Case*.<sup>81</sup>

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<sup>76</sup> Robert C. Lane, Pre-Filed Rebuttal Testimony, p. 6 (February 19, 2026).

<sup>77</sup> *Id.* at 8.

<sup>78</sup> *Id.* at 10-11.

<sup>79</sup> *Id.* at 13.

<sup>80</sup> *Id.* at 15.

<sup>81</sup> *Id.* at 16-17.

Mr. Lane further testified that the Commission adopted a settlement in TPUC Docket No. 19-00103 that fundamentally changed the regulatory framework governing the Company's infrastructure capital investment recovery. Due to this change, the Company filed its most recent rate case.<sup>82</sup> Mr. Lane stated that a percentage cap on ARRM increases is inconsistent with the ARRM increases authorized for other utilities and that a sunset provision is inconsistent with Tennessee law.<sup>83</sup>

Mr. Lane explained that the ARRM will be a single percentage surcharge/sur-credit, which is consistent with the current PCOP and ICRR. There will be a one-line, single-dollar amount based on a single percentage applied equally across all rate areas and classes, which is identical to the billing for the ICRR and PCOP. He further argued that this approach is less burdensome than the approach recommended by Mr. Kaml.<sup>84</sup> In summary, Mr. Lane asserted that:

- The proposed ARRM allows the Commission to carry out its statutory duties.
- The proposal allows for a streamlined review of utility costs.
- The proposal is based on the certainty of historical information.
- The proposal's repeated process will provide the Commission, its Staff, intervenors, and the Company a smoother adjudication of issues.
- The proposal will reduce the administrative burden on the Commission.<sup>85</sup>
- The proposal is in the public interest.<sup>86</sup>

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<sup>82</sup> *Id.* at 17.

<sup>83</sup> *Id.* at 18-19.

<sup>84</sup> *Id.* at 19-20.

<sup>85</sup> *Id.* at 21-22.

<sup>86</sup> *Id.* at 24.

## **B. PHILIP J. DRENNAN**

Mr. Drennan asserted in his rebuttal testimony that the proposed ARRM is a performance-based plan that adheres to the cost control methodologies prescribed by the Commission in the *2025 Rate Case*. He stated that the ARRM will focus on differences above and below the authorized ROE by comparing the HBP-adjusted ROE to the authorized ROE, which will incentivize the Company to manage costs.<sup>87</sup>

Mr. Drennan asserted that the Company's proposal applies the cost control methodologies established in the *2025 Rate Case*. He stated that the Company has agreed to provide a Strategic Capital Expenditure Plan ("SCEP") for each upcoming year, which will notify regulators of planned capital investments. The SCEP will be available for review in subsequent ARRM filings. Mr. Drennan testified that following the methodologies established in the last rate case will minimize the number of contested issues and make the review more focused and efficient.<sup>88</sup>

In response to Mr. Garrett's claim of retroactive ratemaking, Mr. Drennan clarified that the Company will use financial results from an HBP for approval of a going forward rate adjustment. Any resulting ARRM surcharges/sur-credits will be applied prospectively as a separate bill item. Additionally, the Company intends to submit capital expenditure forecast schedules with each ARRM filing.<sup>89</sup>

Mr. Drennan next addressed the concerns regarding regulatory lag, as testified to by Mr. Garrett. Mr. Drennan testified that Mr. Garrett provided no explanation as to how a reduction in regulatory lag eliminates business risks and that Mr. Garrett's claim that the ROE was based on an entirely different risk profile is inaccurate and not supported by Tennessee law.<sup>90</sup>

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<sup>87</sup> Philip J. Drennan, Pre-Filed Rebuttal Testimony, pp. 3-4 (February 19, 2026).

<sup>88</sup> *Id.* at 5-6.

<sup>89</sup> *Id.* at 7-8.

<sup>90</sup> *Id.* at 10-11.

Mr. Drennan countered Mr. Garrett's assertions regarding the cost of rate cases being far less than the cost of formula rates, asserting that this is based on severely flawed logic, which does not acknowledge and normalize fundamental differences between formulaic rate mechanisms and traditional rate cases. Mr. Drennan asserted that traditional rate cases and formula rate plans using the exact same methodology could result in the same cumulative revenue requirement over the same period, with the only difference being the timing of the revenues.<sup>91</sup> Further, revenue requirements requested in a traditional rate case are generally higher due to litigation over methodologies, test period issues, and regulatory policy, whereas formula plans do not include the same complex issues. Finally, Mr. Drennan opined that rate caps on formula plans cause departures from approved methodologies because recovery is limited by the cap.<sup>92</sup>

Mr. Drennan countered the eight adjustments that Mr. Garrett proposed by asserting the following:

1. Normalization adjustments are usually made to historic test periods for known and measurable items, and are not a requirement for formulaic rate adjustment mechanisms.
2. Deferral of deficient or surplus recoveries is appropriate and not considered retroactive ratemaking.
3. Percentage caps are arbitrary and deviate from cost-of-service models.
4. Requiring additional dockets to review future capital expenditures is contrary to efficient regulatory practices.
5. Periodic rate cases are not necessary because the Commission has the authority to discontinue the ARRM should it desire to revisit the methodologies or if it is no longer in the public interest.

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<sup>91</sup> *Id.* at 12.

<sup>92</sup> *Id.* at 13-14.

6. A sunset provision is also not required because the Commission has the authority to evaluate the ARRM and determine if a rate case is necessary.
7. A reduction in the authorized ROE is not warranted as the Company is still exposed to significant business risk.
8. The Commission has already determined that the current rate design is appropriate, and separate system records of capital expenditures are not necessary.<sup>93</sup>

Mr. Drennan testified that the schedules provided by the company are detailed enough for a meaningful review and that the schedules will be supported by the Company's trial balance. He also stated that the Company will provide a rate base schedule showing the monthly test period individual plant account balances, organized by NARUC account, in the same format the Company has previously provided for the ICRR. Contrary to Mr. Kaml's assertions, Mr. Drennan asserted that the schedules being provided are streamlined to focus on the most relevant data needed for an efficient audit and are not intended to diminish regulatory review.<sup>94</sup>

Mr. Drennan further stated that the Company agrees with Mr. Kaml's recommendations that the Company's tariffs continue to contain the public interest language, that the Company will provide a 30-day notice to customers before a proposed filing is made, and that the Company's tariffs will continue to state that the Company will provide the Consumer Advocate with copies of all annually proposed petitions filed with the Commission.<sup>95</sup>

Mr. Drennan testified that the Company is open to using its actual capital structure as recommended by Mr. Kaml, but the Commission chose to adopt the capital structure of TAWC's

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<sup>93</sup> *Id.* at 18-21.

<sup>94</sup> *Id.* at 22-23.

<sup>95</sup> *Id.* at 23.

parent company. He further stated that while TAWC sees issues with using the parent company's capital structure, the Company is not seeking to change current methodologies.<sup>96</sup>

In closing, Mr. Drennan concluded that TAWC's proposed ARRM will eliminate costly rate cases, promote regulatory efficiency, provide for regulatory review of historic costs and capital investments, and incentivize TAWC to control costs. The proposed ARRM will allow the Company to recover expenses and earn a fair and reasonable return on equity while providing safe and reliable services.<sup>97</sup>

### **C. JARED DEASON**

In his rebuttal testimony, Mr. Deason testified that he disagrees with Mr. Garrett's assertion regarding regulatory lag. Mr. Deason stated that extended regulatory lag creates financial uncertainty, which can postpone capital investments necessary to operate an efficient utility. He also asserted that the proposed ARRM is transparent and includes the Commission's review of expenses and investments. He also asserted that the Commission has the authority to disallow imprudent expenditures and approve performance incentives to encourage efficiencies and cost savings.<sup>98</sup>

Mr. Deason stated that the ARRM is an annual reconciliation process that uses historical data to determine prospective rate adjustments, which he argued is not retroactive ratemaking. He further asserted that the ARRM is intended to provide financial stability without preventing the implementation of granular cost allocation studies or rate design adjustments in other proceedings. Mr. Deason averred that the ARRM addresses overall revenue requirements and operating costs beyond capital and specific pass-throughs.<sup>99</sup>

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<sup>96</sup> *Id.* at 25-26.

<sup>97</sup> *Id.* at 26-27.

<sup>98</sup> Jared Deason, Pre-Filed Rebuttal Testimony, pp. 3-4 (February 19, 2026).

<sup>99</sup> *Id.* at 4-5.

Mr. Deason further asserted that the 9.7% ROE established in the *2025 Rate Case* reflects a comprehensive assessment of risks, including market, operational, and financial risks. He agreed that the ARRM may mitigate some regulatory lag but argued that it does not eliminate all business risk. Mr. Deason stated that a reduction in the ROE, as suggested by other parties, would impair the Company's ability to secure capital and attract the necessary investments.<sup>100</sup>

Mr. Deason listed several risks that water utilities face that "have a direct bearing on earnings," including the regulatory environment, mandatory environmental compliance obligations, customer mix, customer concentration, economic growth in the service territory, market demand, operations, capital intensity, and operating leverage.<sup>101</sup> According to Mr. Deason, water production/distribution and water treatment are subject to additional and ever-increasing health and safety regulations.<sup>102</sup> Mr. Deason opined that water utilities require significantly more capital investment in infrastructure than other utilities and that regulatory support is needed to provide rate relief.<sup>103</sup>

Mr. Deason opposed Mr. Kaml's recommendation to open a generic proceeding to address all aspects of an authorized rate of return. He asserted that the return established by the Commission is not guaranteed, but rather an opportunity to earn such level of return.<sup>104</sup>

## **VI. THE HEARING**

The hearing on the *Petition* was noticed by the Commission on March 5, 2026, and held during the regularly scheduled Commission Conference on March 16, 2026. Appearances were made by the following:

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<sup>100</sup> *Id.* at 6-7.

<sup>101</sup> *Id.* at 8.

<sup>102</sup> *Id.* at 9.

<sup>103</sup> *Id.* at 11.

<sup>104</sup> *Id.* at 13.

Tennessee-American Water Company– Melvin J. Malone, Esq., Butler Snow, LLP, 1320 Adams Street, Suite 1400, Nashville, Tennessee 37208.

Consumer Advocate Division– Shilina Brown, Esq., and Vance L. Broemel, Esq., Financial Division of the Office of the Tennessee Attorney General and Reporter, Post Office Box 20207, Nashville, Tennessee 37219.

The City of Chattanooga– Frederick L. Hitchcock, Esq., and Cecilia Y. Garrett, Esq., Chambliss, Bahner, & Stophel, P.C., 605 Chestnut Street, Suite 1700, Chattanooga, Tennessee 37450.

The panel heard testimony on behalf of TAWC from Robert C. Lane, Philip J. Drennan, and Jared Deason. The Consumer Advocate presented witness testimony from Clark D. Kaml. The City presented witness testimony from Mark Garrett. Members of the public were given an opportunity to offer comments, but no one sought recognition to do so.

## **VII. FINDINGS & CONCLUSIONS**

Based on the administrative record in its entirety, the panel found that TAWC’s *Petition* is not in the public interest and voted unanimously to deny the proposed ARRM. In denying the *Petition*, the panel must set forth—with specificity—the reasons for denial to allow for modifications in the event of a refile of the proposal, in accordance with Tenn. Code Ann. § 65-5-103(d)(1)(C). Consistent with Tennessee Code Annotated §§ 65-5-103(d)(1) and (d)(6), should TAWC decide to amend its proposed ARRM tariff, the panel voted unanimously that the following modifications be made as a condition of approval:

1. Consistent with Commission ARRM precedents and to promote administrative efficiency, transparency, and auditability, the schedules listed in the Consumer Advocate’s Exhibit CDK-9 shall be incorporated as appropriate into the required annual filing in addition to the Company’s proposed ARRM schedules. Such other supporting documents and granular data must be submitted with the filing or be made readily available upon request of the Commission staff, the Consumer Advocate, or other intervening parties, as appropriate.

The panel agreed with the Consumer Advocate that the schedules provided in other ARRM filings resulted from numerous contested dockets, whereby concerns of all parties and consumers were addressed to ensure that rates remain just and reasonable under an ARRM. In addition, the panel agreed with the Company that, to facilitate a meaningful review, all documents provided in support of the ARRM should be granular and auditable.

2. Clarifying language shall be added to expressly state that the ratemaking adjustments used to determine the Company's earnings position under the ARRM shall be consistent with such ratemaking adjustments adopted in the Company's *2025 Rate Case*, as set forth in the *2025 Rate Case Order*.

The panel recognized that the Company appropriately incorporated all adjustments adopted in the *2025 Rate Case Order*, including the removal of disallowed cost categories and application of the established water loss standard. However, to resolve any confusion, the panel voted unanimously that the Company should add explicit language to the ARRM tariff clarifying that these expenses will be removed or excluded from the calculation of an earnings deficiency or excess.

3. Consistent with Commission ARRM precedents and the *2025 Rate Case* methodology, and to promote rate transparency and auditability, any approved ARRM rate adjustments, including rate surcharges and sur-credits, shall be calculated and expressed in dollars rather than percentages.

Applying the ARRM adjustment as a percentage of total bills may obscure the underlying revenue requirement and create inconsistent impacts across customer classes. Additionally, this approach does not align with the base rate allocation methodology adopted in the *2025 Rate Case*.

Calculating the ARRM adjustment as a specific rate ensures transparency and maintains consistency with the rate design methodology approved in the Company's last rate case. This approach also helps prevent unintended disparities in customer impacts and provides a clearer and more auditable method for reconciling historical revenue deficiencies or surpluses. For these reasons, the panel voted unanimously that the Company's proposal to calculate the ARRM surcharge as an annual percentage adjustment should be denied, and the ARRM rate adjustment should be calculated as a rate, not as a percentage of customer bills.

4. Consistent with Commission ARRM precedents, the rate adjustment provisions shall provide that the Company may propose any revenue allocation and rate design methodology in each annual ARRM filing; the Consumer Advocate or other intervening parties may object to such revenue allocation and rate design methodology and may propose their own revenue allocation and rate design methodology; and the Commission shall, after hearing, determine the appropriate revenue allocation and rate design methodology based upon the proposals of the parties or such other appropriate revenue allocation and rate design methodology the Commission finds reasonable and in the public interest.

The panel determined that a single annual percentage surcharge or sur-credit applied uniformly across all customer classes and rate areas is inappropriate because ARRM adjustments should not be predetermined or limited to a uniform methodology applied equally to all customer bills. The panel found that the Company may propose any revenue allocation or rate design methodology in each annual ARRM filing, and the Commission will determine the appropriate revenue allocation and rate design based on the parties' proposals or on such other allocation and rate design determinations as the Commission finds to be in the public interest.

5. Consistent with Commission ARRM precedents, carrying charges related to any calculated revenue sufficiency or deficiency shall be computed at the Company's approved rate of return for the period commencing with the midpoint of the Historic Base Period and ending with the effective date of any approved rate adjustments.

The panel determined that TAWC's proposed carrying charge calculation, which applies a 19-month period beginning at the start of the HBP to the rate effective month of the following August, is inconsistent with the methodology approved for other ARRM mechanisms. Therefore, to maintain consistency, the Commission voted unanimously that carrying charges should be calculated from the midpoint of the HBP to the effective date of the ARRM rate adjustment, rather than from the beginning of the HBP.

6. The ARRM filing date shall be no later than March 1<sup>st</sup> each year, with any approved rate adjustments becoming effective the following July 1<sup>st</sup>.

#### **A. ARRM FILING COSTS**

Regarding the recoverability of the filing costs related to this initial ARRM docket, the panel found that TAWC may request recovery of such costs in a separate rate proceeding, wherein such request shall be evaluated for reasonableness, verifiability, and conformity with Commission policy and rules. In addition, any such filing must include complete and auditable documentation, such as cost summaries, invoices, and supporting workpapers, sufficient to demonstrate the necessity and prudence of the expenditures.

In this proceeding, however, no presumption is made regarding the likelihood of recovery of such costs. Accordingly, consistent with sound regulatory accounting principles, the panel voted unanimously that the Company is not authorized to defer such costs to a regulatory asset for ratemaking purposes at this time.

## **B. OTHER ISSUES**

For all remaining issues, the panel found that the *Petition* and ARRM Tariff, as set forth in the November 18, 2025, filing, are reasonable and voted unanimously to adopt them. Such additional issues include tax adjustment corrections from the *2025 Rate Case* and TAWC's Capital structure.

### **1. TAX ADJUSTMENT CORRECTIONS FROM THE 2025 RATE CASE**

TAWC proposes to incorporate several tax adjustments into future ARRM filings to ensure that both customers and the utility are treated consistently with the Commission's intended outcome. According to the Company, the Commission's *2025 Rate Case Order* omitted several tax-related adjustments that should have been reflected in the Company's authorized revenue requirement. The final approved tax amount did not include amortization of Excess Deferred Income Taxes (EDIT), amortization of Investment Tax Credits (ITC), or other permanent book-to-tax differences and flow-through items. According to Mr. Drennan, these omissions increased the Company's tax expense by approximately \$255,000. To correct this error and ensure accurate tax recovery going forward, TAWC proposes to incorporate these tax adjustments into future ARRM filings so that both customers and the utility are treated consistently with the Commission's intended outcome.<sup>105</sup> The Consumer Advocate and the City did not provide any specific objection to this issue.

The panel found that the corrections identified by TAWC for EDIT amortization, ITC amortization, and other flow-through tax items are fair, reasonable, and consistent with the Commission's intent. Because the omitted tax adjustments would have affected the Company's

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<sup>105</sup> Philip J. Drennan, Pre-Filed Direct Testimony, pp. 13-14 (November 18, 2025).

authorized revenue requirement, the panel voted unanimously that TAWC be allowed to incorporate them into future ARRM filings.

## **2. CAPITAL STRUCTURE**

The Company proposes to keep the Authorized Weighted Average Cost of Debt fixed for the ARRM period and not update it based on current cost rates or changes in capital structure.<sup>106</sup> In addition, the “Authorized Net Operating Income for the Historic Base Period will be calculated using (1) the average Rate Base for the reconciliation calendar year, multiplied by (2) the Authorized Rate of Return, or 6.8455%.” This rate of return will remain fixed for each annual ARRM filing.<sup>107</sup>

As there is Commission precedent finding that language substantially similar to that proposed by TAWC is in the public interest, the panel voted unanimously that the Company’s capital structure methodology in this matter is in the public interest.

### **IT IS THEREFORE ORDERED THAT:**

1. The *Petition of Tennessee-American Water Company to Adopt Annual Review Mechanism and ARM Tariff Pursuant to Tenn. Code Ann. § 65-5-103(d)(6)* filed by Tennessee-American Water Company on November 18, 2025, is denied.

2. Pursuant to Tenn. Code Ann. § 65-5-103(d)(1)(C), Tennessee-American Water Company may refile an amended petition for an annual rate review mechanism in accordance with the findings and conclusions discussed in this Order.

3. To be considered for Commission approval, Tennessee-American Water Company’s refiled annual rate review mechanism petition must contain the following modifications:

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<sup>106</sup> Robert C. Lane, Pre-Filed Direct Testimony, p. 15 (November 18, 2025).

<sup>107</sup> *Id.* at 14.

a. The schedules listed in the Consumer Advocate's Exhibit CDK-9 shall be incorporated, as appropriate, into the required annual filing in addition to Tennessee-American Water Company's proposed annual rate review mechanism schedules. Such other supporting documents and granular data must be submitted with the filing or made readily available upon request by the Commission staff, the Consumer Advocate, or other intervening parties, as appropriate.

b. Clarifying language shall be added to expressly state that the ratemaking adjustments used to determine Tennessee-American Water Company's earnings position under the annual rate review mechanism shall be consistent with the ratemaking adjustments adopted in the *Order Setting Utility Rates* in Commission Docket No. 24-00032, Tennessee-American Water Company's 2025 Rate Case.

c. Any approved annual rate review mechanism's rate adjustments, including rate surcharges and sur-credits, shall be calculated and expressed in dollars rather than percentages.

d. The rate adjustment provisions shall provide that Tennessee-American Water Company may propose any revenue allocation and rate design methodology in each annual rate review mechanism filing; the Consumer Advocate or other intervening parties may object to such revenue allocation and rate design methodology and may propose their own revenue allocation and rate design methodology; and the Commission shall, after hearing, determine the appropriate revenue allocation and rate design methodology based on the parties' proposals or such other appropriate revenue allocation and rate design methodology the Commission finds reasonable and in the public interest.

e. Carrying charges related to any calculated revenue sufficiency or deficiency shall be computed using Tennessee-American Water Company's approved rate of return for the

period commencing with the midpoint of the Historic Base Period and ending with the effective date of any approved rate adjustments.

f. The annual rate review mechanism filing deadline shall be no later than March 1st each year, with any approved rate adjustments taking effect the following July 1st.

4. Tennessee-American Water Company may request recovery of costs associated with filing this annual rate review mechanism petition in a separate proceeding; however, Tennessee-American Water Company shall not defer such costs to a regulatory asset for ratemaking purposes at this time.

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

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

**FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:**

**Chairman David F. Jones,  
Commissioner Herbert H. Hilliard,  
Commissioner Robin L. Morrison,  
Commissioner Clay R. Good, and  
Commissioner David Crowell concurring.**

None dissenting.

**ATTEST:**

A handwritten signature in cursive script, appearing to read "Earl Taylor" with a smaller signature "abh" to the right.

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**Earl R. Taylor, Executive Director**