

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

Electronically Filed in TPUC Docket
Room on July 10, 2026 at 2:00 p.m.

IN RE:)
)
PETITION OF TENNESSEE-)
AMERICAN WATER COMPANY TO)
ADOPT ANNUAL REVIEW)
MECHANISM AND ARM TARIFF)
PURSUANT TO TENN. CODE ANN. §)
65-5-103(D)(6))

DOCKET NO. 25-00089

SUPPLEMENTAL TESTIMONY

OF

CLARK D. KAML

July 10, 2026

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1 **I. INTRODUCTION**

2 **Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION FOR**
3 **THE RECORD.**

4 A1. My name is Clark Kaml. My business address is the Office of the Tennessee Attorney
5 General, John Sevier State Office Building, 500 Dr. Martin L. King Jr. Blvd, Nashville,
6 Tennessee 37243. I am a Financial Analyst employed by the Consumer Advocate Division
7 in the Office of the Tennessee Attorney General (“Consumer Advocate”).

8 **Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND**
9 **PROFESSIONAL EXPERIENCE.**

10 A2. I received a Bachelor of Science Degree in Economics from the University of North Dakota
11 in 1987 and a Master of Arts Degree in Economics from the University of North Dakota in
12 1988. I have more than 30 years of experience working in the regulated utilities industries
13 including electric, natural gas, telephone, and water. I have worked for various agencies
14 including the Public Service Commission of North Dakota, the Kansas Corporation
15 Commission, the Minnesota Public Utilities Commission, the Minnesota Office of the
16 Attorney General, and the Grant County Public Utility District. I have worked with private
17 companies, municipalities, and served on a Rate Committee. I served as Co-Chair of the
18 National Association of State Utility Commissioners (“NARUC”) Staff Subcommittee on
19 Strategic Issues, am currently Co-Chair of the National Association of State Utility
20 Consumer Advocates (“NASUCA”) Gas Committee, and a member of the GTI Energy
21 Public Interest Advisory Committee. In addition, I am the author of the book “Don’t Fear

1 the Cost Study.”¹

2 **Q3. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE**
3 **TENNESSEE PUBLIC UTILITY COMMISSION (“TPUC” OR THE**
4 **“COMMISSION”)?**

5 A3. Yes. I filed testimony in the Tennessee-American Water Company’s (“TAWC” or “the
6 Company”) recent rate case, TPUC Docket No. 24-00032, the Limestone Water Utility
7 Operating Company’s recent rate case, TPUC Docket No. 24-00044, Chattanooga Gas
8 Company’s Annual Rate Review, TPUC Docket No. 25-00028, the Kingsport Power
9 Company’s Alternative Rate Mechanisms, TPUC Docket No. 25-00022, Piedmont’s
10 Annual Rate Review Filing, TPUC Docket No. 25-00036, TAWC’s Approval of Merger,
11 TPUC Docket No. 25-00040, Limestone’s Petition for Approval of Loan Agreement,
12 TPUC Docket No. 25-00066, Integrated Resources Management’s Petition for an
13 Alternative Rate Mechanism, TPUC Docket No. 25-00072, Spire’s Petition to purchase
14 Piedmont’s Tennessee operations, TPUC Docket No. 25-00074, Two Rivers Utility, LLC
15 Application for a Certificate of Public Convenience and Necessity, TPUC Docket No. 25-
16 00073, TAWC’s PFAS Settlement Fund Investigation, TPUC Docket No. 25-00086,
17 TAWC Petition to adopt an Annual Review Mechanism, TPUC Docket No. 25-00089,
18 Limestone Water Utility Operating Company’s Phase 2 of its Rate Case, TPUC Docket
19 No. 24-00044, and Atmos’ 2026 Annual Rate Review, TPUC Docket No. 26-00009.

¹ Clark Kaml, Don’t Fear the Cost Study (2022).

1 **II. PURPOSE OF TESTIMONY AND RECOMMENDATION**

2 **Q4. ON WHOSE BEHALF ARE YOU TESTIFYING?**

3 A4. I am testifying on behalf of the Consumer Advocate.

4 **Q5. WHAT IS THE SCOPE OF YOUR REVIEW IN THIS PROCEEDING?**

5 A5. My testimony addresses the Consumer Advocate's analysis of TAWC's *Amended Petition*
6 to adopt an annual rate review mechanism and ARRM tariff pursuant to Tenn. Code Ann.
7 § 65-5-103(d)(6).

8 **Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF YOUR**
9 **TESTIMONY?**

10 A6. I have reviewed the original *Petition*, the testimony, the exhibits and workpapers filed with
11 the original *Petition*, the Applicants' Responses to Discovery, the Commission's *Order*
12 *Denying Petition of Tennessee-American Water Company to Adopt Annual Review*
13 *Mechanism and ARRM Tariff Pursuant to Tenn. Code Ann. § 65-5103(d)(6)* (the June 5
14 Order), the Company's *Amended Petition*, and the Applicant's responses to informal
15 discovery.

16 **Q7. WHAT ISSUES ARE YOU ADDRESSING?**

17 A7. My testimony addresses the following topics:

- 18 a. Implementation of the Commission's June 5 Order.
19 b. Filing requirement schedules.
20 c. That the ARRM does not provide efficiency incentives.

21 **Q8. WHAT ARE YOUR RECOMMENDATIONS?**

22 A8. The Consumer Advocate does not have any overriding objections. However, there are
23 some observations that I have made following my review of the *Amended Petition*. I

1 recommend the Commission:

- 2 a. Find that the *Amended Petition* meets the requirements of the Commission's June 5
3 Order in general, subject to future review.
- 4 b. Direct TAWC to demonstrate how the information required in CDK-9 will be provided
5 in TAWC's proposed schedules.
- 6 c. Determine that the ARRM does not provide incentives.

7 **III. AMENDED PETITION**

8 **Q9. WHAT ARE YOUR CONCERNS WITH THE *AMENDED PETITION*?**

9 A9. There are two specific areas of concern with the *Amended Petition*:

- 10 • The proposed schedules.
- 11 • The representation that the *Amended Petition* provides incentives for cost
12 containment.

13 **Q10. DO YOU AGREE THAT THE *AMENDED PETITION* COMPLIES WITH THE**
14 **COMMISSION'S JUNE 5 ORDER?**

15 A10. Not entirely. The proposed schedules were not included in the *Amended Petition*. In
16 addition, the company streamlined the schedules contained in CDK-9 without specifically
17 identifying the items that are not being provided or demonstrating where duplications were
18 omitted or where the streamlined schedules are in TAWC's proposed schedules.

19 **Q11. SUMMARIZE THE COMMISSION'S JUNE 5 ORDER.**

20 A11. The Commission found that TAWC's initial *Petition* was not in the public interest and
21 voted unanimously to deny the proposed ARRM. In denying the initial *Petition*, the panel
22 listed modifications that would be necessary if TAWC decided to amend its proposed

ARRM tariff.² The conditions include:

1. The incorporation of the schedules listed in the Consumer Advocate's Exhibit CDK-9 and supporting documents to 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.
2. The Company's tariffs must contain clarifying language expressly stating 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.
3. The ARRM rate adjustments, including rate surcharges and sur-credits, must be calculated and expressed in dollars rather than percentages.
4. The rate adjustment provisions 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
5. The 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.
6. The ARRM filing date shall be no later than March 1st each year, with any approved

² *Order Denying Petition of Tennessee-American Water Company to Adopt Annual Review Mechanism and ARRM Tariff Pursuant to Tenn. Code Ann. § 65-5-103(d)(6)*, pp. 27-30, TPUC Docket No. 25-00089 (June 5, 2026).

1 rate adjustments becoming effective the following July 1st.

2 The Order stated that TAWC may request recovery filing costs related to this ARRM
3 docket in a separate rate proceeding. Any such filing must include complete and auditable
4 documentation, such as cost summaries, invoices, and supporting workpapers, sufficient to
5 demonstrate the necessity and prudence of the expenditures. No presumption is made
6 regarding the likelihood of recovery of such costs. Furthermore, the panel determined that
7 the Company is not authorized to defer such costs to a regulatory asset for ratemaking
8 purposes at this time.³

9 **Q12. DID THE COMPANY ADDRESS THE 6 ITEMS LISTED ABOVE?**

10 A12. Yes. The *Amended Petition* addresses each of the topics discussed above. The Consumer
11 Advocate has some concerns with the last item: the schedules that need to be provided as
12 part of future ARRM filings.

13 **Q13. HOW DID THE COMPANY CLARIFY THE RATEMAKING ADJUSTMENT?**

14 A13. The language added to 4(F) to the proposed ARRM Tariff specifically identifies the
15 ratemaking adjustments, and how the following factors used to calculate the adjustments
16 will be determined: Capital Structure, salaries and wages, production costs, multiple
17 expense categories, and allowance for funds used during construction and non-operating
18 items.

19 **Q14. HOW DID THE COMPANY ADDRESS THE RATE SURCHARGES AND SUR-**
20 **CREDITS?**

21 A14. TAWC explained that in its most recent rate case that the Commission applied an equal

3 *Id.* at p. 30.

1 percent across the board rate increase.⁴ The Company further noted that the Commission's
2 Order⁵ setting utility rates indicated that all customer class will receive an equal increase
3 to their monthly fixed bill to recover the revenue deficiency.⁶ The tariff language has been
4 modified to reflect the dollar increase in rates. Important clarification and transparency
5 will result from the Company's statement that it will allocate the annual ARRM revenue
6 deficiency or surplus to the customer rate groups using the same fixed meter rate ratios,
7 consistent with the methodology set in its most recent rate case. TAWC noted that special
8 contract customers are not charged monthly fixed rates and do not share in a rate increase
9 using this method.

10 The Consumer Advocate does not disagree with TAWC's representation of the rate setting
11 methodology approved by the Commission. The Company's explanation emphasizes need
12 for ongoing clarity and transparency regarding terminology and the formulas used to apply
13 rate changes

14 **Q15. HOW DID THE COMPANY AMEND ITS PETITION TO ADDRESS RATE**
15 **DESIGN AND REVENUE ALLOCATIONS?**

16 A15. The Company modified Section 4(S) to explicitly state that the Company, the Consumer
17 Advocate, or intervening parties may propose their own revenue allocation and rate design
18 methodology.

⁴ *Amended Petition*, Appendix A, Supplemental Direct Testimony Philip J. Drennen at 9:19-10:2, TPUC Docket No. 25-00089 (June 18, 2026). See also *Order Setting Utility Rates*, p. 80, TPUC Docket No. 24-00032 (April 21, 2025).

⁵ *Order Setting Utility Rates*, TPUC Docket No. 24-00032 (April 21, 2025)

⁶ *Id.*

1 **Q16. DOES THE NEW TARIFF APPROPRIATELY REFLECT CHANGES TO THE**
2 **CARRYING CHARGE CALCULATION AND THE EFFECTIVE DATE OF THE**
3 **NEW RATE?**

4 A16. Yes. Section 4(T) stated that the carrying charge shall be calculated based on the result
5 over a 12-month period from the midpoint of the Historic Base Period to the beginning of
6 the Rate Effective Period.

7 Section 3 was changed to reflect the March 1st filing date and July 1st effective date.

8 **Q17. WHAT UNDISPUTED ISSUES SHOULD BE HIGHLIGHTED?**

9 A17. TAWC modified its tariff to specifically indicate that rate surcharges and sur-credits will
10 be calculated in dollars rather than percentages. TAWC acknowledged that its original
11 proposal was not consistent with rate case methodology and highlighted direction from its
12 most recent rate case, where the Commission⁷:

- 13 • Adopted an across-the-board increase, i.e., equal percentage rate increase to each
14 class.
- 15 • Explained that each customer will receive an approximate 1.45% increase to their
16 **monthly fixed bill** to recover the revenue deficiency. (Emphasis added.)
- 17 • The Commission did not increase rates for the Company's special contract
18 customers.

19 This detail emphasizes the importance of consistency in terminology and clear calculation
20 of increases necessary for transparency and rate design impacts

21 **Q18. HOW DID TAWC MODIFY ITS PETITION TO INCORPORATE ALL THE**
22 **SCHEDULES IN CDK-9?**

23 A18. TAWC made numerous modifications and adjustments to integrate the schedules in Exhibit

⁷ *Amended Petition*, Appendix A, Supplemental Testimony of Philip J. Drennen at 9:16-10:2. See also *Order Setting Utility Rates*, p. 80, TPUC Docket No. 24-00032 (April 21, 2025).

CDK-9.

Q19. HOW DID TAWC INCORPORATE THE SCHEDULES IN CDK-9?

A19. The Company stated that it reviewed the schedules and⁸:

- Removed schedules, workpapers, or financial reports that pertain specifically to gas.
- Removed schedules related to construction work in progress consistent with the methodology already adopted
- Removed schedules that contained duplicative reports for Tennessee American Water Company.
- Combined schedules or reports where possible.

TAWC proposed 47 schedules to address the schedules in CDK-9.

Q20. COMMENT ON TAWC'S PROPOSED SCHEDULES.

A20. TAWC made a good faith effort to discuss its process and proposal with the Consumer Advocate and accurately represented that it is reasonable to remove information that does not apply to the water industry in general or to TAWC's specifically. The Consumer Advocate's position is that given the truncated time available for a review in an ARRM petition, the information should be provided with the petition. Consistent with information availability and time schedules, the CA notes that the amended petition did not include the proposed schedules. TAWC provided samples of the schedules on June 25, 2026.

The Consumer Advocate has not verified that all the information required CDK-9 will be contained with the schedules proposed by TAWC.

Q21. DO YOU AGREE WITH THE SUGGESTIONS THAT "TAWC IS INCENTIVIZED TO CONTROL COSTS"?

⁸ *Amended Petition*, Appendix A, Supplemental Testimony of Philip J. Drennen Supplemental Testimony at 5:4-6:3.

⁹ *Amended Petition*, Appendix A, Supplemental Testimony of Philip J. Drennen at 16:23-17:1.

1 A21. No. To the extent that the statement is linked to the proposed ARRM, the Consumer
2 Advocate disagrees with the statement from a design perspective and a factual perspective.
3 The statement is misleading at best.

4 From a practical perspective, the proposed ARRM is not an incentive-based rate
5 mechanism. Within the context of alternative ratemaking mechanisms, when designed to
6 create incentives, there are usually performance adjustments tied to allowed earnings or to
7 a rate of return. The Company's ARRM Proposal is a straightforward calculation that
8 adjusts rates to reflect any over- or under-earning from the historical period. The
9 authorized return used in the calculation is established and does not adjust based on any
10 performance metric. It does not allow increased earnings or penalize earnings based on
11 achieving specific goals or reducing spending; the ROE, in fact, remains the same. There
12 was no discussion of creating an incentive as part of the ARRM in this Docket. TAWC
13 has consistently represented the petition as a method for increasing administrative
14 efficiency and reducing regulatory cost and "a more efficient way" to seek cost recovery.¹⁰
15 The Consumer Advocate disputes the inference that the proposed ARRM is an incentive-
16 based mechanism or that it contains real incentives regarding cost containment. The
17 Consumer Advocate's position, in fact, is the opposite – there is minimal incentives for the
18 Company to contain its costs under the proposed ARRM mechanism. The suggestion that
19 the ARRM provides incentives is a new claim that has not been fully explored. The
20 essential elimination of regulatory lag within the ARRM mechanism removes the incentive
21 to control costs that exist in the traditional rate-setting format.

22 In addition, issues labeled as incentives by TAWC exist on a standalone basis, are a result

¹⁰ Direct Testimony of Robert C. Lane at 7:19-8:4 and 19:2-13 (November 18, 2025). See also *Petition* at p. 4.

1 of the last rate case, and would continue to exist without the ARRM. In response to a
2 request for an explanation, TAWC stated:¹¹

3 Also, in response to Shilina's June 22nd email regarding cost control (which
4 Melvin sent to me), the ARM incentivizes TAWC to control costs because
5 it adheres to the ratemaking methodologies established in the last rate case.
6 For example, TAWC cannot recover 55% of APP and 100% of LTPP, so
7 the company is incentivized to control headcount to minimize disallowed
8 costs and preserve ROE. Controlling headcount results in lower salary and
9 benefit expenses, which are components of the company's revenue
10 requirement. Additionally, the company cannot recover all of its chemical
11 and electric costs. TAWC is incentivized to seek favorable chemical pricing
12 and use chemicals efficiently to keep overall costs down and minimize
13 chemical disallowances. Lower chemical costs will benefit customers. For
14 the same reason, TAWC is incentivized to operate as efficiently as possible
15 to reduce electric expenses. We updated the ARM tariff filed in the amended
16 petition to clearly explain the required ratemaking adjustments.

17 The 55% of APP and 100% of LTPP are an adjustment built into existing rates. These are
18 not direct costs; rather, they are incentive-based compensation costs that would need full
19 review to determine whether they are aligned with cost reduction incentives.¹² The
20 Consumer Advocate contends that costs are excluded on the grounds that they do not
21 benefit consumers. In his testimony, David N. Dittmore stated: ¹³

22 The APP metrics include a 50% weighting of the earnings per share of
23 AWS. This metric primarily benefits the company's shareholders and is the
24 type of metric that was excluded from rate recovery in TPUC Docket No.
25 18-00017.

26 With respect to LTPP costs, the purpose of these costs is itself considered a trade secret,
27 with the benefits exclusive to shareholders.¹⁴

28 The chemical and electrical exclusions are not operational incentives associated with the

11 Email to Consumer Advocate from Phil Drennan, TAWC on June 25, 2026. A copy of this email is
attached as Exhibit CDK-1.

12 *Order Setting Utility Rates*, p. 27, TPUC Docket No. 24-00032 (April 21, 2025).

13 Direct Testimony of David N. Dittmore at 25:10-12, TPUC Docket No. 24-00032 (September 17,
2024).

14 *Id.* at 26:18 – 27:1.

1 ARRM. They are exclusions associated with the “lost and unaccounted for water” in
2 excess of 15%. These are not associated with the ARRM, rather, they are adjustments due
3 to operational concerns.

4 Each of the items listed above are adjustments to existing rates and independent of the
5 ARRM. Reductions to these costs directly benefit the company if the costs and losses are
6 reduced, regardless of the existence of the ARRM.

7 **IV. CONCLUDING COMMENTS AND RECOMMENDATION**

8 **Q22. WHAT ARE YOUR CONCLUDING COMMENTS AND RECOMMENDATIONS?**

9 A22. I recommend the Commission:

- 10 a. Find that the Petition meets the requirements of the Commission’s June 5 Order in
11 general, subject to future review.
- 12 b. Direct TAWC to demonstrate how the information required in CDK-9 is represented
13 in TAWC’s proposed schedules.
- 14 c. Determine that the ARRM does not provide incentives.

15 **Q23. DOES THIS COMPLETE YOUR TESTIMONY?**

16 A23. Yes. However, I reserve the right to incorporate any new information that may
17 subsequently become available.

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:)
)
PETITION OF TENNESSEE-)
AMERICAN WATER COMPANY TO)
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PURSUANT TO TENN. CODE ANN. §)
65-5-103(D)(6)

DOCKET NO. 25-00089

AFFIDAVIT

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


CLARK D. KAML

Sworn to and subscribed before me
this 10 day of July, 2026.


NOTARY PUBLIC

My commission expires: 5/12/2030



From: Phil Drennan <Phil.Drennan@amwater.com>
Sent: Thursday, June 25, 2026 10:45 AM
To: Clark Kaml <Clark.Kaml@ag.tn.gov>
Subject: TAWC ARM Schedules

Hello Clark –

Please see the attached ARM schedules. Also, in response to Shilina's June 22nd email regarding cost control (which Melvin sent to me), the ARM incentivizes TAWC to control costs because it adheres to the ratemaking methodologies established in the last rate case. For example, TAWC cannot recover 55% of APP and 100% of LTPP, so the company is incentivized to control headcount to minimize disallowed costs and preserve ROE. Controlling headcount results in lower salary and benefit expenses, which are components of the company's revenue requirement. Additionally, the company cannot recover all of its chemical and electric costs. TAWC is incentivized to seek favorable chemical pricing and use chemicals efficiently to keep overall costs down and minimize chemical disallowances. Lower chemical costs will benefit customers. For the same reason, TAWC is incentivized to operate as efficiently as possible to reduce electric expenses. We updated the ARM tariff filed in the amended petition to clearly explain the required ratemaking adjustments.

Please let me know if you have any questions. Thank you,

Phil Drennan
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