

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

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

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

This First Set of Discovery Requests is hereby served upon Tennessee-American Water Company (“TAWC” or the “Company”), pursuant to Rules 26, 33, 34, and 36 of the Tennessee Rules of Civil Procedure and Tenn. Comp. R. & Regs. 1220-01-02-.11. The Consumer Advocate Division of the Office of the Attorney General (“Consumer Advocate”) requests that full and complete responses be provided pursuant to the Tennessee Rules of Civil Procedure. The responses are to be produced at the Office of the Tennessee Attorney General and Reporter, Consumer Advocate Division, John Sevier Building, 500 Dr. Martin L. King Jr. Blvd., Nashville, Tennessee 37243, c/o Shilina B. Brown, on or before January 6th, at 2:00 p.m. Central.

PRELIMINARY MATTERS AND DEFINITIONS

1. **Continuing Request.** These discovery requests are to be considered continuing in nature and are to be supplemented from time to time as information is received by the Company and any of its affiliates which would make a prior response inaccurate, incomplete, or incorrect.
2. **Clear References.** To the extent that the data or information requested is incorporated or contained in a document, identify the document including page/line number if applicable.

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

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

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

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

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

(b) “Affiliate” shall mean any entity who, directly or indirectly, is in control of, is controlled by, or is under common control with the Company. For greater clarification, “control” is the ownership of 20% or more of the shares of stock entitled to vote for the election of directors in the case of a corporation, or 20% or more of the equity interest in the case of any other type of entity, or status as a director or officer of a corporation or limited liability company, or status as a partner of a partnership, or status as an owner of a sole proprietorship, or any other arrangement whereby a person has the power to choose, direct, or manage the board of directors or equivalent governing body, officers, managers, employees, proxies,

or agents of another person. In addition, the term “Affiliate” shall mean any entity that directly or indirectly provides management or operational services to the Company or any affiliate (as defined in the preceding sentence) of the Company, or to which the Company provides management or operational services. Further, the payment of money to the Company or receipt by the Company of money from an entity with which the Company has any relationship, other than such payment or receipt, shall include the payor or recipient of such money as an “Affiliate”.

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

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

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

(f) “Identify” with respect to:

- i. Any natural person, means to state the full name, telephone number, email address and the current or last known business address of the person (if no business address or email address is available provide any address known to you) and that person’s relationship, whether business, commercial, professional, or personal with you;
- ii. Any legal person, business entity or association, means to state the full name, the name of your contact person with the entity, all trade name(s), doing business as name(s), telephone number(s), email address(es), and current or last known business address of such person or entity (if no business address is available provide any address known to you);
- iii. Any document, means to state the type of document (e.g., letter), the title, identify the author, the subject matter, the date the document bears and the date it was written; and

iv. Any oral communication, means to state the date when and the place where it was made, identify the person who made it, identify the person or persons who were present or who heard it, and the substance of it.

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

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

FIRST SET OF DISCOVERY REQUESTS

1-1. General. Provide a comprehensive explanation indicating why the Company believes an ARM mechanism is necessary, given the consistent findings of excess earnings within recent capital rider filings, as well as the resulting revenue requirement approved in Docket 24-00032.

RESPONSE:

1-2. Schedules. Will the Company submit schedules supporting its Adjusted Historic Base period costs charged to TAWC, comparable to those provided by other Tennessee utilities within their ARM filings?

RESPONSE:

1-3. Schedules. Will the Company provide details supporting all charges allocated or direct charged by affiliates to TAWC within the ARM filing? Details would include identifying fields available within the affiliates’ accounting records necessary to explain the nature of the charge, whether it was directly charged or allocated to TAWC. If allocated, the supporting information should indicate the allocation method used.

RESPONSE:

1-4. New Matters. Refer to the *Direct Testimony of Philip Drennan* at 16:1-10. Mr. Drennan stated that TAWC may require the use of New Matters to include such things as “changes in accounting standards, [] changes in the tax law and to incorporate decisions made by the Commission.” The Company does not mention the right of the Consumer Advocate to raise New Matters in the ARM process. Is the intention of this to prevent the Consumer Advocate from raising New Matters within a TAWC ARM filing? Please explain.

RESPONSE:

1-5. Rates. Refer to the *Petition* pp. 2-3. The Company stated that “TAWC’s 2025 Rate Case satisfies this statutory requirement and **clearly established a rate-making methodology** upon which the requested ARM can be based.” Specifically explain the “established a rate-making methodology.”

1. Define the “ratemaking methodology” approved in the most recent general rate case.
2. Explain what is encompassed in subpart (1) above.
3. Does this include the rate design? If so, explain what is encompassed in rate design.
 - a. Explain TAWC’s understanding (definition) of rate design including:
 - i. Whether it includes customer classes and allocation?
 - ii. Whether it includes the ratios of fixed to variable rates?
 - b. Does it include the ratios of total rates among various classes?
4. Explain future rate changes:
 - a. Would future increases be allocated across classes (by revenue, sales, number of customers, or some other value?)
 - b. Would any change in revenue requirement be applied to variable rates and or fixed charges?
 - c. For subparts 4(a) and 4(b) above, would the allocation be based on the values in TPUC docket No. 24-00032, the most recent year, or some other source?
5. Explain how the setting of rates by a commission is the same as a methodology with sufficient specificity to be used in an ARM?

RESPONSE:

- 1-6. Cost of Capital.** Refer to the following statements within the Company filing: (1) *Petition* p. 4, “[t]he prior year of its revenues, expenses, investments, and rate of return components per its actual books and records”; (2) *Direct Testimony of Robert Lane* at 14:13-14; and (3) *Direct Testimony of Robert Lane* at 12:14-19. Respond to the following:

The Calculation of the ROE will be based on the Capital Structure approved in TPUC Docket Number 24-00032, the Company’s General Rate Case order, of 44.19% Equity, 55% Long-Term Debt, and 0.81% Short Term Debt with an adjustment of Debt Expense to reflect the interest rate expense being synchronized to reflect the higher amount of debt assumed in the General Rate Case Order compared to the actual level of debt that is reflected in the interest expense.

- a. For rate of return components:
 - i. Does TAWC intend to use the actual values for the year for which the ARM recovery is being sought?
 - ii. Does TAWC intend to adjust the capital structure, cost of debt, and cost of equity from the base values approved in the last rate case?
 - iii. If so, how will these be determined and reviewed?
 - iv. If not, provide a spreadsheet calculation with the calculations for the total weighted average cost of capital to be applied in the ARM petition.
- b. If the Company does not intend to use the capital structure and component costs, how will ratepayers be protected from fluctuations in the capital structure?
- c. If the Company intends to use the actual capital structure and cost components, explain how the values will be reviewed for prudence in the ARM filing.
- d. Mr. Lane states that, “the Authorized Rate of Return, or 6.8455% . . . will be fixed in each annual ARM proceeding.”¹ Is Mr. Lane claiming that the return of 6.8455% will be the cost of capital (weighted average cost of capital) that is applied to the rate base each proceeding?

RESPONSE:

¹ *Direct Testimony of Robert Lane* at 14:13-14.

1-7. ARM Benefits. Refer to the *Direct Testimony of Robert Lane* at 6:5-14, 9:5-8, and 17-19:

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

1. Provide all supporting documentation and studies relied upon by Mr. Lane to conclude "the ARM will be a more efficient method of achieving the objective of safe, clean, and reliable water service at just and reasonable rates."
2. Provide all supporting documentation studies and analysis conducted by Mr. Lane leading to the conclusion the ARM will allow the Company to recover its costs "without frequent, administratively burdensome, time-consuming, and expensive base rate cases."
 - a. Define the term "frequent" as used by Mr. Lane. How often must a rate case be filed to be considered frequent?
 - b. Is it correct that prior to the most recent rate case, TPUC Docket 24-00032, TAWC had not filed a rate case in approximately 12 years, TRA Docket 12-00049?
 - c. Is Mr. Lane stating that TAWC rate cases would be less frequent than every 12 years?
 - d. Demonstrate that the ARM petitions:
 - i. Will be less frequent than base rate cases.
 - ii. In total, require less time than rate cases.
 - iii. In total, will be less expensive than base rate cases.
 - iv. Will receive the same level of review that are afforded in base rate cases?
 - e. Is Mr. Lane stating that ARM petitions are less costly, less time-consuming, and less administratively burdensome than its annual Incremental Capital Recovery Rider Tariff? If so, provide the support for such a statement.
 - f. Provide an explanation of the benefits to consumers for TAWC to have an ARM versus the annual Incremental Capital Recovery Rider Tariff. Provide support for all identified benefits.

- g. Confirm that TAWC was overearning in its last Incremental Capital Rider Recovery Tariff (2024).
3. Provide a list of all incidents of which Mr. Lane is aware where the ARM resulted in a reduction in rates.

RESPONSE:

- 1-8.** ROE. Refer to the *Direct Testimony of Robert. Lane* at 8:5-15. A guiding principle of the ARM is to reconcile the Company’s actual Return on Equity (“ROE”) to its authorized ROE. Respond to the following:
- a. Explain the meaning of the statement “to reconcile the Company's actual Return on Equity to its authorized ROE.”
 - b. Is the authorized ROE a cost of equity applied to rate base, thus a cost or an authorized earning that is recovered each year?
 - c. Is the actual return on equity a reflection of the profit after adjusting for other costs?
 - d. Is Mr. Lane suggesting that the authorized ROE is equivalent to a guaranteed ROE?
 - i. If not explain the need to reconcile the actual ROE to the authorized ROE.

RESPONSE:

- 1-9.** ROE. Refer to the *Direct Testimony of Robert. Lane* at 9:14-20. Respond to the following:
- a. Is Mr. Lane suggesting that any costs resulting in under earnings will be allowed to be recovered through a rate increase?
 - b. Explain how a full rate of return analysis is necessary to determine a fair comparison of the authorized return to the earned rate of return would be less burdensome than the analysis in a rate case.

RESPONSE:

1-10. Methodologies. Refer to the *Direct Testimony of Robert. Lane* at 13:2-3 “The methodologies utilized in the ARM calculations are consistent with the 2025 Order.”

Respond to the following:

- a. Provide a list of all “methodologies” to which Mr. Lane is referring and expects to be applied in future ARM filings; and
- b. Explain where each can be found in the Order and where each is being applied in the tariff.

RESPONSE:

1-11. Customer Notification. Regarding customer notification, respond to the following:

- a. How will TAWC inform customers of its proposed annual rate increases; and
- b. Explain how customers can participate and comment on the proposal.

RESPONSE:

1-12. Lead lag. Refer to the *Direct Testimony of Philip Drennan* at 6:14-15. Mr. Drennan states, “Typically, utilities align future test periods with the effective date of new rates to reduce regulatory lag.” Respond to the following:

- a. As used in this statement, what percent of total does “typically” represent;
- b. Is Mr. Drennan alleging that utilities typically use future test periods? If not, clarify to what “typically” is referring;
- c. Does this apply to all utility industries and all utilities, regardless of ownership and structure such as municipalities? and
- d. Provide all documentation and studies supporting Mr. Drennan’s conclusion.

RESPONSE:

1-13. Test year. Refer to the *Direct Testimony of Robert. Lane* at 13:12-18. Respond to the following:

- a. Confirm that Mr. Lane stated that the ARM filings will be “exclusively using historical data in the Company’s ARM Filing.” If not, explain why the statement is incorrect.

- b. Confirm that Mr. Lane stated “[t]here is no need to forecast or predict future revenues and future costs.”
- c. Reconcile Mr. Drennen’s explanation for the use of the “Base Revenue Forecast” in his own Direct Testimony on pages 7 and 8 with Mr. Lane’s representation that the ARM filings will be exclusively using historical data.

RESPONSE:

1-14. Prudence. Refer to the *Direct Testimony of Philip Drennan* at 16-20-22. Mr. Drennan states, “TAWC’s capital investments and operating results will be subject to an annual prudency review by the Commission.” and respond to the following:

- a. Explain how the investments and operating results will be subject to an annual prudency review?
- b. Explain the process and time necessary for a prudence review?

RESPONSE:

RESPECTFULLY SUBMITTED,



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CERTIFICATE OF SERVICE

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

upon:

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This the 16th day of December, 2025.



SHILINA B. BROWN
Senior Assistant Attorney General