

January 6, 2026

Electronically Filed in TPUC Docket
Room on January 6, 2026 at 1:52 p.m.

VIA ELECTRONIC FILING

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

RE: *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*

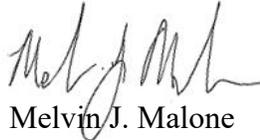
Dear Chairman Jones:

Attached for filing please find *Tennessee-American Water Company's Responses to Consumer Advocate's First Set of Discovery Requests*.

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

Very truly yours,

BUTLER SNOW LLP



Melvin J. Malone

clw

Attachments

cc: Bob Lane, TAWC
Shilina Brown, Consumer Advocate Division
Phillip Noblett, City of Chattanooga
Frederick Hitchcock, City of Chattanooga

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
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))	

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

Tennessee-American Water Company (“TAWC”), by and through counsel, hereby submits its Responses to First Set of Discovery Requests propounded by the Consumer Advocate Division of the Attorney General’s Office (“Consumer Advocate”).

GENERAL OBJECTIONS

1. TAWC objects to all requests that seek information protected by the attorney-client privilege, the work-product doctrine and/or any other applicable privilege or restriction on disclosure.
2. TAWC objects to the definitions and instructions accompanying the requests to the extent the definitions and instructions contradict, are inconsistent with, or impose any obligations beyond those required by applicable provisions of the Tennessee Rules of Civil Procedure or the rules, regulations, or orders of the Tennessee Public Utility Commission (“TPUC” or “Authority”).
3. The specific responses set forth below are based on information now available to TAWC, and TAWC reserves the right at any time to revise, correct, add to or clarify the objections or responses and supplement the information produced.

4. TAWC objects to each request to the extent that it is unreasonably cumulative or duplicative, speculative, unduly burdensome, irrelevant or seeks information obtainable from some other source that is more convenient, less burdensome or less expensive.

5. TAWC objects to each request to the extent it seeks information outside TAWC's custody or control.

6. TAWC's decision, now or in the future, to provide information or documents notwithstanding the objectionable nature of any of the definitions or instructions, or the requests themselves, should not be construed as: (a) a stipulation that the material is relevant or admissible, (b) a waiver of TAWC's General Objections or the objections asserted in response to specific discovery requests, or (c) an agreement that requests for similar information will be treated in a similar manner.

7. TAWC objects to those requests that seek the identification of "any" or "all" documents or witnesses (or similar language) related to a particular subject matter on the grounds that they are overbroad and unduly burdensome and exceed the scope of permissible discovery.

8. TAWC objects to those requests that constitute a "fishing expedition," seeking information that is not relevant or reasonably calculated to lead to the discovery of admissible evidence and is not limited to this matter.

9. TAWC does not waive any previously submitted objections to the Consumer Advocate's discovery requests.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 25-00089
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE DIVISION**

Responsible Witness: Philip Drennan

Question 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:

For an explanation of why an ARM is necessary, please see the Direct Testimony of Mr. Drennan at 16:12-23 and 17:1-2. Also, the Company has provided further explanation in the Direct Testimony of Mr. Lane at 6:1-14, 7:8-22, 8:1-4, 9:1-11, 18:1-16, and 19:1-13.

The ARM provides a symmetrical annual earnings test and allows surplus earnings to be credited to customers in a timely and efficient manner to ensure TAWC does not earn above its authorized return as explained by Mr. Drennan in his Direct Testimony at 13:16-23, and 14:1-2.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 25-00089
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE DIVISION**

Responsible Witness: Philip Drennan

Question 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:

The Company will submit electronic support files containing the Company's trial balance and general ledger accounting entries so regulators can review and verify Historic Base Period activity. The Company will also provide supporting workpapers for Schedule 5.2, when necessary, to validate rate making adjustments applied to current year results that adhere to methodologies ordered by the Commission in the Company's 2025 Rate Case (Docket No. 24-00032). The Company does not anticipate the need to file additional schedules but is open to considering doing so if the CAD can provide examples of additional schedules and explain what type of new information will be provided that the Company is not already submitting in its current schedules, and why the additional schedules are necessary.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 25-00089
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE DIVISION**

Responsible Witness: Robert Lane

Question 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:

The Company will provide the per book amounts of the allocated and directly assigned support services costs charged to the Company. The method of allocation is set forth in the Company's Cost Allocation Manual.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 25-00089
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE DIVISION**

Responsible Witness: Philip Drennan

Question 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:

“New Matters” is intended to provide the opportunity to address regulatory matters that are unknown or not in existence at the time of the approval of an initial ARM framework, such as changes in accounting standards and acquisitions. As with other matters before the Commission, the CAD is not prohibited from raising concerns, issues, and positions in a TAWC ARM docket.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 25-00089
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE DIVISION**

Responsible Witness: Robert Lane

Question 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. **Mr. Lane identifies the “ratemaking methodology” approved in the most recent general rate case in his Direct Testimony at page 12:10 – 13:8.**
2. **Please see the Direct Testimony of Mr. Lane at Page 12:10 – 13:8.**
3. **No, this does not include the rate design. TAWC’s current rate design is consistent with the Commission order.**
 - a. **TAWC understands rate design to include:**
 - i. **Specific tariff rates charged to all customer classes and all rate areas.**
 - ii. **Rate design can include the ratios of fixed to variable costs. However, the Commission ordered TAWC “to adopt an across-the-board increase, i.e., equal percentage rate increases to each class, finding that such rate design is more appropriate.” (p. 80 of Final Order in Docket No. 24-00032). In his Direct Testimony, Mr. Lane states that the “Company proposes that the annual ARM surcharge or sur-credit be applied to all customers via an equal percentage.”¹**
4. **In his Direct Testimony, Mr. Lane states that the “Company proposes that the annual ARM surcharge or sur-credit be applied to all customers via an equal percentage.”²**
 - a. **As explained in Mr. Lane’s Direct Testimony (see p. 16:12-18), future increases would be allocated across classes though an annual ARM surcharge or sur-**

¹ Direct Testimony of Robert Lane at 16:10-11.

² *Id.*

credit to be applied to all customers via an equal percentage. The ratio of fixed to variable rate would not change because the rate adjustment would be on an equal percentage.

- b. Yes, any change in revenue requirement will be applied to both variable rates and fixed charges as an equal percentage sur-credit or surcharge. See Mr. Lane's Direct Testimony at page 16:12-14.**
- c. The ARM surcharge or sur-credit would be applied to the rates adopted in TPUC Docket Number 24-00032. TAWC's ARM surcharge/sur-credit proposal would utilize the same method authorized by TPUC to be used in TAWC's PCOP and ICR filings.**
- d. The Company is applying the revenue requirement calculation approved in the most recent general rate case to calculate the Historic Base Period surplus or deficiency. The calculated surplus or deficiency amount is then credited or collected through an equal percentage adjustment to existing rates, consistent with the current ICR and PCOP surcharge design. The Company believes the Commission-approved revenue requirement calculation and rate design allocations provide sufficient specificity for ARM implementation because a general rate case involves a comprehensive prudence review of costs and investments and the allocation of the revenue requirement between customers, supported by detailed testimony of all parties and a detailed order approving the Commission's prudence determination.**

- 5. The equal percentage surcharge or sur-credit applied to all rate elements for each class in each rate allows, was specific enough to be used in the previous Rider filing (both Capital and PCOP) to set rates prior to the adoption of the ARM, so that would be specific enough to set rates under an ARM.**

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 25-00089
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE DIVISION**

Responsible Witness: Robert Lane

Question 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.” 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:

a. Rate of Return Components:

- i. No, as the Company stated in Mr. Lane’s Direct Testimony, it “will use the Capital Structure Approved in TPUC 24-00032, with an adjustment to synchronize interest expense.”¹**
- ii. No, TAWC does not intend to adjust the capital structure, cost of debt, and cost of equity from the base values approved in the last rate case.²**
- iii. Not applicable because TAWC does not intend to adjust the capital structure, cost of debt, and cost of equity from the base values approved in the last rate case.**
- iv. The Commission, in its Final Order in TPUC Docket No. 24-00032, calculated the total weighted average cost of capital, which is described by the Commission on pages 74 and 75 of its Order. Also, Schedule 7 of Exhibit PJD-1 to Mr. Drennan’s Direct Testimony shows this approved capital structure, which the Company intends to use.**

¹ *Pre-filed Direct Testimony of TAWC Witness Robert Lane*, 12:14-19, TPUC Docket No. 25-00089. See also Schedule 8 of Exhibit PJD-1 to Mr. Drennan’s Pre-filed Direct Testimony.

² *Id.*

- b. The Company understands “the capital structure and component costs” as referred to in this request as the capital structure and component costs as approved in TPUC Docket No. 24-00032. As such, this request is inapplicable because the Company intends to use the approved capital structure and component costs in the ARM, unless otherwise ordered by the Commission.**
- c. The Company understands “the actual capital structure and component costs” as referred to in this request as the capital structure and component costs incurred in the Adjusted Historic Base Period. As such, this request is inapplicable because the Company intends to use the approved capital structure and component costs as approved in TPUC Docket No. 24-00032, unless otherwise ordered by the Commission.**
- d. Yes, the Authorized Return (weighted average cost of capital) of 6.8455% as approved in Docket 24-00032 will be used in each annual ARM filing, unless otherwise ordered by the Commission.**

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 25-00089
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE DIVISION**

Responsible Witness: Robert Lane

Question 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

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. Mr. Lane has indeed concluded that “the ARM will be a more efficient method of achieving the objective of safe, clean, and reliable water service at just and reasonable rates.” TPUC has reached similar conclusions in recent ARM Orders; “[T]he panel found that Piedmont’s ARRM permits timely recovery of reasonable and prudent expenditures by the Company for the provision of safe and reliable**

natural gas services, while also reducing the need for more costly rate cases. Therefore, the panel concluded that the Company's ARRM continues to be in the public interest and should be approved."¹, and "[T]he panel found that CGC's ARRM allows for timely recovery of reasonable and prudent expenses while limiting more costly rate cases, which the Company might otherwise have to pursue to recover such expenditures. Further, the panel found that the Company's ARRM continues to be in the public interest."²

Mr. Lane also based his conclusion upon his over 38 years of experience in the Public Utility Sector, including as a Gubernatorial Appointee as an Advisor and Chief of Staff to two Utility Commissioners appointed by two different Governors. Mr. Lane provided expert analysis to the California Public Utility Commission in the Water, Telecommunications, Electricity and Transportation sectors. In addition, Mr. Lane was Director of Regulatory Strategy and Director Federal Regulatory Affairs at San Diego gas and Electric and lead the Company's formulaic rate setting team that filed cases similar to the ARM before the Federal Regulatory Commission. Moreover, Mr. Lane has reviewed the other ARMs utilized by TPUC-regulated utilities and concluded that such processes are more efficient than a typical general rate case. In light of his experience, his review of other ARMs approved in Tennessee, and the specific framework that the Company has proposed here, Mr. Lane has concluded that the Company's

¹ *Order Approving Settlement Agreement and Setting ARRM Rates*, p. 11, TPUC Docket No. 25-00036 (Nov. 25, 2025)

² *Order Approving Settlement Agreement Revising Chattanooga Gas Company's 2024 Annual Rate Review Filing Under Tenn. Code Ann. § 65-5-103(d)(6)*, p. 9. TPUC Docket No. 25-00028 (Sept. 29, 2025)

proposed ARM will allow for a more efficient review of TAWC's costs and earnings.

2. Mr. Lane based his conclusion that the ARM will allow the Company to recover its costs “without frequent, administratively burdensome, time-consuming, and expensive base rate cases” upon his over 38 years of experience in the Public Utility Sector and his knowledge of the use of other approved ARM filings of the other Tennessee utilities operating under TPUC jurisdiction.

a. Mr. Lane defines frequent as “occurring or done on many occasions, in many cases, or in quick succession.” In many states that American Water operates rate cases are generally filed every two or three years. Prior to 2012 the Company filed general rate cases in 2003, 2006, 2008, 2010 and 2012, essentially every two years. Mr. Lane considers those to be frequent rate cases. While the Riders adopted under the Alternative Regulatory Framework authorized by law were adopted in 2014, they still required significant regulatory efforts requiring an Annual Production Cost Rider filing, an annual Capital Rider filing and an annual Capital Rider Reconciliation filing.

In addition, the Commission created a docket to specifically make ratemaking adjustments in conjunction with the 2017 Tax Cut and Jobs Act (TCJA) and an ongoing annual tariff change associated with accumulated Deferred Income Tax adjustments also associated with the TCJA. Further, in 2023 the Commission adopted a settlement in TPUC Docket Number 19-00103 that adopted an Incremental Capital Rider to

replace the previous capital riders. However, less than 5 months after this new mechanism was approved, the Company and the parties were processing and litigating a General Rate Case. In sum, a single ARM Filing will create less dockets than the current capital and cost rider (and their previous iterations since 2014), and it will present a more streamlined and simple filing than a general rate case filed every two years because the ARM does not require the re-litigation of the ratemaking methodology established in the most recent general rate case.

- b. Yes, it is correct that prior to the most recent rate case, TPUC Docket No. 24-00032, TAWC had not filed a rate case since June of 2012. However, the riders adopted under the Alternative Regulatory Framework authorized by law were adopted in 2014. The previous frameworks required significant regulatory efforts requiring 1) an Annual Production Cost Rider filing, 2) an annual Capital Rider filing and 3) an annual Capital Rider Reconciliation filing. However, as discussed in the response to subsection 2.a. above, prior to the institution of these riders, the Company typically filed general rate cases every two years.
- c. Mr. Lane has not made any statement with regard to when the Company may file future general rate cases. His position regarding the ARM is that it would likely negate the need for general rate case filings at a frequency similar to the pre-2014 era of general rate case filings.

d.

- i. The ARM filing will be an annual filing. The Company's position is not that the ARM will be filed less frequently than general rate cases but that, instead, general rate cases could be filed less frequently if the ARM is approved and is utilized by the Company.**
- ii. An ARM Filing takes 120 days to be adjudicated. The Company's last general rate case was filed May 1, 2024, and was decided on January 21, 2025, 265 days later.**

The ARM also replaces the PCOP Rider and the ICR Rider, each of which has historically required the filing of testimony from both the Company and Intervenors and generally required more than 120 days to reach conclusion. Not only does an ARM reduce the need for general rate cases, but it also replaces the PCOP and ICR annual filings and the burden and cost caused by those proceedings.

- iii. Historically, general rate cases have required more time and resources, and are more administratively burdensome, than an ARM filing. The process is significantly more burdensome and time-consuming on all parties, including intervenors and the Commission. Mr. Lane has reviewed the ARM filings made by other utilities in Tennessee and concluded that the cost and other burdens of ARMs is significantly less those created by rate cases.**

- iv. The Company is not claiming that an ARM provides the same level of review as a general rate case, nor is that a requirement of the Alternative Regulatory Framework Statute.**
- e. Mr. Lane is not saying the ARM petitions are less costly, less time-consuming, and less administratively burdensome than its annual ICR Rider. He is saying that an ARM is less costly, less time-consuming, and less administratively burdensome than an annual ICR Filing, annual PCOP Rider Filing, and more frequent general rate cases. It is incorrect to compare the burden and cost of the ARM only to the burden and cost of the ICR Rider.**
- f. The ARM proposed by the Company will benefit our customers. It will ensure that rates charged to TAWC's customers remain just and reasonable and take into account both increases and decreases in plant, expenses and revenues. The ARM will reduce the need for frequent general rate cases, thereby decreasing the substantial effort and administrative burden required of the Commission, intervenors, and the Company and lowering the cost to customers resulting from rate case proceedings. It will replace the existing Incremental Capital Rider and the PCOP Rider avoiding those two annual proceedings, and it will also provide gradual adjustments to customer rates arising from ongoing capital investment and changes in operating expenses, as compared to larger rate increases that can result from periodic general rate cases.**
- g. The Calculation of the Earnings test showed that in 2024 the Company earned above its authorized return of 10%. As Mr. Lane explained in his Direct Testimony in that Docket, TPUC Docket No. 25-00016, there was a one-time**

adjustment to the property tax and franchise tax resulting from a recalculation of prior period taxes. This adjustment reduced the property taxes and franchise taxes paid by the Company in 2024 by \$1,404,072. This pushed TAWC's authorized return for 2024 (after adjustment for regulatory excluded costs, above its authorized ROE of 10% approved in TPUC Docket No 12-00049.³ As a result, in accordance with the Company's ICR Tariff, no increase in rates was authorized in 2025.

- 3. Mr. Lane is aware that in TPUC Docket Number 24-00028 Tennessee Water Service, Inc. lowered its rates as a result of its first ARM filing following approval of its new ARM framework in TPUC Docket Number 23-00046. Mr. Lane did not do an exhaustive search of every ARM filing made by Tennessee public utilities.**

³ *Direct Testimony of TAWC Witness Robert Lane, 23:14-16, TPUC Docket No. 25-00016.*

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 25-00089
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE DIVISION**

Responsible Witness: Robert Lane

Question 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:

- a. **The phrase "To reconcile the Company's actual Return on Equity to its authorized ROE" means that the Company will, in its ARM filing, compare the realized return in the Historic Base Period to the authorized Rate of Return and adjust rates going forward to credit any identified revenue surplus or recover any identified revenue deficiency. Weighted ROE is a component of Rate of Return.**
- b. **No, the authorized ROE is not a cost of equity applied to rate base. The authorized ROE is the approved rate of return shareholders have the opportunity to earn on the equity invested in TAWC's rate base.**

- c. No, the actual return on equity as defined in the referenced testimony of Mr. Lane is the net operating income for the Historic Base Period, adjusted per the methodologies as reflected in the Final Order entered in TPUC Docket Number 24-00032.**
- d. No, Mr. Lane is not suggesting the authorized ROE is equivalent to a guaranteed ROE. It is necessary to reconcile the actual ROE to the authorized ROE to calculate the deficiency or surplus for the Historic Base Period. While the ARM allows utilities to adjust rates annually to recover or credit differences between the regulatory earned ROE and the authorized ROE, the Commission ultimately can review costs incurred by and investments made by TAWC for prudence. If the Commission determines a cost or investment is not prudent, the ROE earned by TAWC for financial statement purposes will vary from the authorized ROE used for ARM measurement purposes.**

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 25-00089
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE DIVISION**

Responsible Witness: Robert Lane

Question 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:

- a. **No. Mr. Lane is not suggesting that any costs resulting in under earnings will be allowed to be recovered through a rate increase. As Mr. Lane testified, there are certain costs that are excluded from recovery in rates and these costs are removed when calculating the Historic Base Period earnings surplus or deficiency.**
- b. **The Company does not believe a full rate of return analysis is necessary to determine a fair comparison of the authorized return to the earned rate of return. The ARM earnings test compares the return realized in the Adjusted Historic Base Period to the authorized return approved in the most recent general rate case to measure the earnings surplus or deficiency realized in the Historic Base Period. The Commission completed its analysis of the Capital Structure and cost of capital in the Company's most recent general rate case (TPUC Docket Number 24-00032). The conclusions**

from that proceeding would be applied in the Company's ARM filing without need for a "full rate of return analysis" as suggested by this question and therefore be less burdensome than the comprehensive analysis completed in a rate case.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 25-00089
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE DIVISION**

Responsible Witness: Robert Lane

Question 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:

- a. **A list of all “methodologies” to which Mr. Lane is referring and expects to be applied in future ARM filings is provided in Mr. Lane’s Direct Testimony at 12:10 through 13:5. The list of the necessary adjustments to comply with the 2025 Order are:**
 - **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 (See page 74 of the 2025 Rate Order);**
 - **Removal of the 50% of the direct and allocated short-term Annual Performance Plan (“APP”) that is part of the Company’s market-based employee compensation**

that is related to the financial operations of American Water. (See page 31 of the 2025 Rate Case Order);

- **Removal of 5% of the direct and allocated short-term APP that is part of the Company’s market-based employee compensation that is related to Inclusion, Diversity and Equity (“ID&E”) metrics. (See page 31 of the 2025 Rate Case Order);**
- **Removal of 100% of the direct and allocated Long Term Performance Plan (“LTPP”). (See page 31 of the 2025 Rate Case Order);**
- **Removal of 100% of the expenses associated with ID&E, Business Development, Lobbying, and Charitable Donations. (See page 31 of the 2025 Rate Case Order);**
and
- **An adjustment to fuel & power expense and chemicals expense for excess water loss as determined by the Commission establishing a reasonable water loss standard in a separate proceeding. (See page 22 and page 23 of the 2025 Rate Case Order).**

b. See response above for page location in the Commission’s Order in the Company’s last Rate Case (TPUC Docket Number 24-00032).

In the Company’s Proposed Tariff, they can be found at Section 4 Methodology:

- **Subsection F for APP, LTPP Adjustments, ID&E, and Business Development;**
- **Subsection G for Water Loss;**

- **Subsection P for adjustments associated with Lobbying, and Charitable Donations; and**
- **Subsection O for ROE and Capital Structure.**

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 25-00089
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE DIVISION**

Responsible Witness: Robert Lane

Question 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:

- a. **In addition to posting notice of the proposed annual rate increase on TAWC's website, the Company will provide customer notice consistent with TPUC rules, regulations, and orders.**
- b. **The Commission provides various avenues and processes for customer participation and comment, including written comments and comments during Commission hearings. The Company also has various pathways to provide its customers with the opportunity to provide communication, input and concerns to TAWC.**

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 25-00089
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE DIVISION**

Responsible Witness: Philip Drennan

Question 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:

- a. **The testimony referenced relates to why the application of a carrying charge for over or under earnings experienced in the Adjusted Historic Base Period is appropriate. Mr. Drennan is not assigning a percentage to the term “typically” but instead making a statement that a rate regulated utility can reduce regulatory lag by exhibiting the essential characteristics of a broader group of utilities that are authorized to use future test periods.**
- b. **Mr. Drennan is making a statement that it is typical for regulated utilities to accomplish reduced regulatory lag by using future test periods. American Water has regulated operations in 14 states, 13 of which allow the use of future or partially**

forecasted test periods (California, Hawaii, Iowa, Illinois, Indiana, Kentucky, Missouri, New Jersey, Tennessee (Georgia via TN), Pennsylvania, Virginia, and West Virginia). The fourteenth state, Maryland, is the only state with a purely historical test year. Mr. Drennan is trying to explain in his testimony that TAWC is proposing to use historical data with minimal adjustments to simplify the ARM process. TAWC is able to maintain its uncomplicated approach to the ARM due to the recurring and formulaic nature of the ARM and the carrying charge calculation applied to surplus or deficient earnings in the Historic Base Period.

- c. The use of test years and the concept of setting customer rates based on a cost-of-service model generally applies to rate regulated utilities, regardless of ownership and structure such as municipalities.
- d. Mr. Drennan's conclusion is based on TAWC proposing to not use forecasted data in the ARM for an earnings test in a future attrition period because TAWC's ARM proposal is intended to be less complicated and easier to administer. Therefore, the use of a carrying charge for earnings incurred in the Adjusted Historic Base Period above or below the authorized return on equity could mitigate the regulatory lag incurred by customers or the Company during the rate effective period because of using historic data.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 25-00089
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE DIVISION**

Responsible Witness: Philip Drennan

Question 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. Drennan’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:

- a. **Mr. Lane’s testimony is correct in the context of the ARM’s earnings test, which is used to determine earnings surplus or deficiency in the Historic Base Period.**
- b. **Confirmed. There is no need to forecast or predict future revenues and future costs to calculate earnings surplus or deficiency in the Historic Base Period.**
- c. **Mr. Drennan states on 8:4-5 of his Direct Testimony that the “Base Revenue Forecast will only be used for setting new surcharge rates and will not be a component of the annual earnings test in the ARM filings.” The definition of the Base Revenue Forecast is given on page 1 of Appendix C:**

“Base Revenue Forecast means’ the base revenue forecast for the Rate Effective Period which shall be used as the denominator to calculate the ARM Revenue Adjustment surcharge percentage. The purpose of the Base Revenue Forecast is to minimize any over/under collection of revenue or over/under credit of revenue of the ARM Revenue Adjustment amount. The Base Revenue Forecast is not used in the annual earnings test.”

To illustrate how the Base Revenue Forecast will work in practice, assume the following hypothetical example: in a future Historic Base Period, TAWC collects \$73,000,000 of base revenue compared to \$71,219,854 authorized in the Company’s 2025 Rate Case. The only revenue change from the rate case is an increase in billing determinants due to organic customer growth. In this example, the Company calculated a \$1,000,000 revenue deficiency in the Historic Base Period (driven by expense inflation and capital investments) and expects to collect \$73,000,500 of base revenue in the Rate Effective Period due to continued customer growth. \$73,000,500 is the Base Revenue Forecast to be used as the denominator to calculate the ARM Revenue Adjustment surcharge percentage ($\$1,000,000 / \$73,000,500 = 1.37\%$). In contrast, if the Company uses the level of authorized revenue from the 2025 Rate Case in the denominator to calculate the surcharge percentage ($\$1,000,000 / \$71,219,854 = 1.40\%$), the Company will likely over collect the \$1,000,000 revenue deficiency in the Rate Effective Period as this 1.4% will be applied to authorized base rates but collected from a larger customer base compared to the 2025 Rate Case. The ARM is a fully reconciled mechanism and any over or under collection will be reconciled in the next annual earnings test, but the purpose of the Base Revenue Forecast is

twofold; 1) to minimize potential over/under collections in the Rate Effective Period, and 2) to present updated billing determinants and customer usage for informational purposes in a similar format that the Company previously provided with its PCOP and ICR filings.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 25-00089
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE DIVISION**

Responsible Witness: Philip Drennan

Question 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:

- a. Please see the Company’s response to Question 1-2. The Consumer Advocate can review supporting documents and workpapers, sample capital and operating expense invoices to verify amounts, and issue Discovery Requests to answer additional questions. Additionally, for informational purposes, the Company is providing a schedule of the capital investments expected to occur in the next test period.
- b. The Company expects the process to be similar to the processes used to review other approved ARM filings that have been authorized by TPUC. The Company has intentionally proposed a simplified ARM framework that minimizes test period adjustments and eliminates attrition period earnings forecasts, which should allow additional time to review Historic Base Period activity.

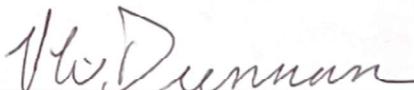
**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE**

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

VERIFICATION

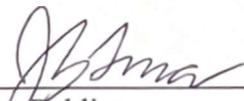
STATE OF Illinois)
COUNTY OF Cook)

I, PHILIP DRENNAN, being duly sworn, state that I am authorized to testify on behalf of Tennessee-American Water Company in the above-referenced docket, that if present before the Commission and duly sworn, verifies that the data requests and discovery responses are accurate to the best of my knowledge.



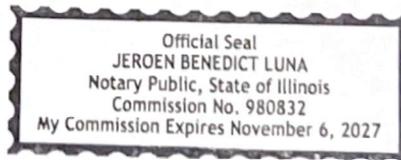
PHILIP DRENNAN

Sworn to and subscribed before me
this 5th day of January, 2026.



Notary Public

My Commission expires: 11/6/27



BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE

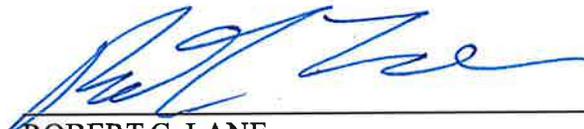
IN RE:)
)
PETITION OF TENNESSEE-)
AMERICAN WATER COMPANY TO)
ADOPT ANNUAL REVIEW)
MECHANISM AND ARM TARIFF)
PURSUANT TO TENN. CODE ANN.)
§ 65-5-103(d)(6))

DOCKET NO. 25-00089

VERIFICATION

STATE OF Tennessee)
COUNTY OF Hamilton)

I, ROBERT C. LANE, being duly sworn, state that I am authorized to testify on behalf of Tennessee-American Water Company in the above-referenced docket, that if present before the Commission and duly sworn, verifies that the data requests and discovery responses are accurate to the best of my knowledge.



ROBERT C. LANE

Sworn to and subscribed before me
this 6th day of January, 2026.



Notary Public

My Commission expires: 2/28/28



CERTIFICATE OF SERVICE

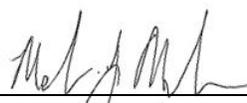
I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

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

Phillip Noblett, Esq.
City of Chattanooga
300 City Hall Annex
East 11th Street
Chattanooga, TN 37403
noblett@chattanooga.gov

Frederick L. Hitchcock
Cecilia Y. Garrett
Chambliss, Bahner & Stophel, P.C.
Suite 1700, Liberty Tower
605 Chestnut Street
Chattanooga, TN 37450
rhitchcock@chamblisslaw.com
cgarrett@chamblisslaw.com

This the 6th day of January 2026.



Melvin Malone