

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT 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

**DIRECT TESTIMONY
OF
CLARK D. KAML**

February 3, 2025

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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 utility 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 and am currently Co-Chair of the National Association of State Utility
20 Consumer Advocates (“NASUCA”) Gas Committee. In addition, I am the author of the
21 book “Don’t Fear the Cost Study.”¹

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

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

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

16 **II. PURPOSE OF TESTIMONY**

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

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

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

20 A5. My testimony addresses the Proposal of TAWC to implement an Annual Review
21 Mechanism (the “Proposal”).

22 **Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF YOUR**

1 lack of supporting documentation is particularly concerning given the extensive
2 implications of the Petition, which is that the Proposal is a substitute for a general rate case
3 review.

4 Historically, ALT-REG mechanisms had various objectives, often including the reduction
5 of regulatory lag administrative burden. However, they were not intended as a means to
6 reduce or eliminate the regulatory oversight of the ratemaking process. The minimal filing
7 requirements supported by TAWC would diminish the opportunity for regulatory review,
8 in contradiction to the intent of the statute. The filing requirements associated with an
9 ALT-REG should be detailed and thorough, which allows for an adequate review of the
10 underlying ALT-REG application. The thorough nature of the filing is especially important
11 in conjunction with the streamlined ALT-REG procedural schedule. TAWC's Petition
12 relies primarily on academic arguments that count on impression, such as fact that there
13 have been successful ALT-REGs that balance utility needs and public policy goals, rather
14 than providing quantitative analysis of its Proposal.

15 The filing highlighted general issues regarding the application of ALT-REGs including
16 consumer protection. This is not the Docket to address these aspects of the ALT-REG
17 filings, some are mentioned as part of this review.

18 **Q9. WHAT ARE YOUR RECOMMENDATIONS?**

19 A9. I recommend the Commission deny TAWC's request for approval of the implementation
20 of the Proposal. TAWC's Petition does not demonstrate that the Proposal is necessary, in
21 the public interest, or an improvement over existing regulatory mechanisms. The Proposal
22 lacks adequate supporting detail, fails to resolve fundamental rate design and policy issues,
23 and does not include sufficient reporting requirements to permit meaningful review.

1 If the Commission is inclined to approve the Proposal, I recommend that the Proposal be
2 substantially modified to allow sufficient annual review and set rates on a prospective
3 basis. The Proposal should be modified to include:

- 4 • Tariffs that contain rates being charged and detailed explanations of any
5 formulas used to calculate charges
- 6 • Comprehensive reporting schedules with supporting information as part of
7 the annual filing.
- 8 • Any revenue requirement deficiencies resulting from the Proposal be
9 adopted only upon achievement of specific metrics which I will discuss later
10 in my testimony.
- 11 • Safeguards consistent with Commission precedent and statutory
12 requirements.

13 Specific recommendations include the following:

- 14 1. Tariffs continue to contain the Public Interest Review language, as it exists.
- 15 2. TAWC provide 30-day notice to customers before the Proposal filing is made
16 and notification of the rate increase after Commission approval.
- 17 3. The tariffs continue to state that the Company will simultaneously provide the
18 Consumer Advocate copies of all annual Proposal petitions with the
19 Commission.
- 20 4. The annual petition be required to contain all workpapers, similar to that
21 required to be included by the filings of other utilities, necessary to support the
22 Proposal.
- 23 5. Filing schedules be provided (in electronic, native format with formulas intact).
- 24 6. For timeline purposes, the Proposal filing date is the date upon which all
25 information requirements are provided to the Commission and Consumer
26 Advocate in the form and structure identified by the Commission.
- 27 7. Any revenue requirement be reflected as a change in tariffed rates, not a
28 surcharge. In the alternative, detailed formulas enabling the calculation of any
29 surcharge be explicitly included in the tariffs.
- 30 8. The authorized rate of return should be calculated with the actual capital
31 structure and cost of debt (at the American Water Company), subject to a cap
32 on the percent of equity financing. The percentage of equity financing capped
33 at the level authorized in the last rate proceeding. The authorized return on
34 equity should be the amount authorized in the last rate proceeding (9.7%).
 - 35 a. Capital structure shall reflect the actual long-term debt, short term debt,
36 and common equity each as a percentage of the total average
37 capitalization using the 13-month period ending December 31 of the

1 Historic Base Period (“HBP”). The equity percentage shall be capped
2 at the level authorized in the last rate case.

3 b. Long-term debt costs shall reflect the actual average embedded cost of
4 long-term debt for the 13-month period ending December 31 of the
5 HBP.

6 9. The Proposal processing costs should be capped at the processing expenses for
7 ALT-REG filings made prior to 2026. An annual Proposal filing specifically
8 explains the reason for the over or under earnings. That the over or under
9 earnings not be applied for the previous year.

10 10. Adjustments to the schedules to:

11 a. Remove 55% of the allocated short-term incentive plan expenses.

12 b. Remove 100% of allocations of the direct and allocated short-term APP
13 that is part of the Company’s market-based employee compensation
14 related to Inclusion, Diversity and Equity (“ID&E”) metrics.

15 c. Exclude 25% of the lobbying expenses related to the Company’s
16 Manager of External Affairs.

17 11. The annual Proposal filing explains the cause of any variance between projected
18 costs and expenses and actual costs and expenses.

19 12. The Commission open a generic proceeding to investigate all aspects of
20 guaranteeing an authorized return including any necessary modifications to the
21 cost of equity associated with ALT-REG mechanisms and explore developing
22 Performance Based Mechanisms to promote efficiency.

23 **IV. ALTERNATIVE RATE MECHANISMS**

24 **Q10. WHAT IS AN ALTERNATIVE RATE MECHANISM?**

25 A10. Traditional utility ratemaking establishes a revenue requirement through a comprehensive
26 cost-of-service rate case. An Alt-Reg is any ratemaking approach that deviates from that
27 traditional process, including multi-year rate plans, trackers, riders, formula rates, or
28 decoupling mechanisms.³ The broad categorization necessitates caution when utilizing the

³ National Regulatory Research Institute, *Alternative Rate Mechanisms and their Compatibility with State Utility Commission Objectives*, Report No. 14-03, pp. iv, vi, and 2-11 (April 2014). A copy of this report is accessible at [FA86C519-AF31-D926-BE12-2AC7AE0CD8D6](https://www.nrrri.org/FA86C519-AF31-D926-BE12-2AC7AE0CD8D6). American Gas Association Report, *The Current State of Natural Gas Utility Line Extension Policies*, pp. 9-10 (July 10, 2014). A copy of this report is available at https://www.aga.org/wp-content/uploads/2024/07/The-Current-State-of-Natural-Gas-Utility-Line-Extension-Policies_FINAL.pdf.

1 term “alternative rate mechanism,” assessing of ALT-REGs in general, or a specific
2 mechanism. Each ALT-REG is highly fact-specific and must be evaluated on its own
3 design, objectives, and safeguard

4 The Commission should not accept or reject any Proposal on the grounds that it is similar
5 to, or represents a deviation from, ALT-REG methods or revenue requirement calculations
6 used by other companies. The unique nature of each alternative rate mechanism is
7 recognized by TAWC.⁴

8 **Q11. ARE ALT-REGS INHERENTLY BENEFICIAL OR DETRIMENTAL?**

9 A11. No. ALT-REGs can advance certain regulatory objectives but may impede others. Their
10 effects on the public interest depend on design, implementation, and oversight. Whether
11 an alternative rate mechanism is considered successful is case specific, subjective, and
12 depends on the objective:

13 [r]ate mechanisms are desirable only if they are compatible with the objectives
14 set out by regulators, assuming they satisfy statutory and other legal
15 requirements.

16 All rate mechanisms have mixed effects on the public interest. The presumption
17 is that when a rate mechanism impedes some regulatory objectives it sets back
18 the public interest, while improving the public interest when it advances an
19 objective. One example is cost trackers or riders in which the tradeoff exists
20 between timely and utility recovery of costs and robust incentives: Trackers and
21 riders allow the utilities to recover their cost more quickly and with more
22 certainty, but they can also create incentive problems when (1) regulators fail
23 to adequately scrutinize those costs and (2) cost recovery methods differ across
24 different utility function areas.

25 * * *

26 In viewing different rate making Proposals, state commissions should have
27 access to unbiased information for helping them better understand and evaluate
28 the consequences of a decision. To make an assessment of rate making
29 Proposals, the commission should follow three steps. First, commissions need
30 to define the public interest by identifying the multiple objectives that comprise

4 *Petition*, Direct Testimony of Robert C. Lane at 8:20-22.

1 the public interest, assigning weights to those objectives and resolving the
2 tradeoffs among them. Second, Commissions need to understand each group
3 making a Proposal fully in terms of how it advances or impedes the multiple
4 objectives that comprise the public interest. Third, commissions need to use a
5 logical, transparent decision-making process that selects or modifies
6 ratemaking Proposals that come closest to achieving a public interest, as defined
7 by a commission⁵.

8 Generally, ALT-REGs were considered to work in conjunction with rate cases. When
9 ALT-REGs substitute for rate cases, it is essential that they include sufficient transparency,
10 review, and alignment with public policy goals.

11 A recent report concluded:⁶

12 Alternative regulation does not lead to any meaningful nor measurable
13 ratepayer benefits. Utilities that have been allowed to adopt various forms of
14 alternative regulation (MYRPs, PBRs, FRPs) have requested very large and
15 generous rate increases, in most instances, orders of magnitude larger than
16 historical requests under traditional regulation. There are simply no “real-
17 world” examples nor evidence showing that ratepayers have received any
18 meaningful benefits, particularly in the form of rate decreases, from alternative
19 regulation.

20 **Q12. DO YOU HAVE GENERAL CONCERNS WITH ALT-REGS?**

21 A12. Alternative rate mechanisms should be viewed with caution. Alt-Regs have various
22 impacts and introduce concerns regarding the public interest:⁷

23 The presumption is that when a rate mechanism impedes some regulatory
24 objectives it sets back the Public Interest, while improving the Public Interest
25 when it advances an objective. . . . Trackers and riders allow utilities to recover
26 their cost more quickly and with more certainty, but they also can create
27 incentive problems when (1) regulators fail to adequately scrutinize those costs

⁵ National Regulatory Research Institute, *Alternative Rate Mechanisms and their Compatibility with State Utility Commission Objectives*, Report No 14-03, p. V (April 2014). A copy of this report is accessible at [FA86C519-AF31-D926-BE12-2AC7AE0CD8D6](https://www.in.gov/iurc/files/FA86C519-AF31-D926-BE12-2AC7AE0CD8D6).

⁶ Ratepayer Benefits and Impacts from Alternative Regulation: A survey and implications for Indiana, Prepared on behalf of the Indiana Office of Utility Consumer Counselor, Dr. Dismukes, the Acadian Consulting Group, November 22, 2024. The survey can be accessed at <https://www.in.gov/iurc/files/OUCC-Responses-to-Second-Survey-11-22-24.pdf> and starts on PDF p. 8. A copy of this Survey is attached as Exhibit CDK-10.

⁷ National Regulatory Research Institute, *Alternative Rate Mechanisms and Their Compatibility with State Utility Commission Objectives*, Report No. 14-03, p. v (April 2014). A copy of this report is accessible at [FA86C519-AF31-D926-BE12-2AC7AE0CD8D6](https://www.in.gov/iurc/files/FA86C519-AF31-D926-BE12-2AC7AE0CD8D6).

1 (2) and cost recovery methods differ across different utility functional areas.
2 Consistent with this example, primary concerns when moving from traditional rate
3 regulation to alternative regulatory methods include:

- 4 • Shifting of financial risks to the consumer (rate payers),
- 5 • Reduced oversight (prudence review),
- 6 • Increased rate volatility,
- 7 • Potential for excessive or cost-ineffective investments,
- 8 • Cost shifting or equity issues, and
- 9 • Customer notice and participation.

10 Accurate application of cost changes to rates often requires complex rate design in
11 meticulous detail to ensure the goals are being met without creating unintended
12 consequences. Effective and societally beneficial alternative rate mechanisms often
13 require fundamental shifts in the review and approval process that do not result in a
14 negative impact on customers. An alternative regulatory method that will produce net
15 consumer benefits necessitates detailed design and thorough analysis.

16 **Q13. WHAT ARE SOME SHORT-TERM AND LONG-TERM CONSIDERATIONS**
17 **WHEN EVALUATING ALT-REGS?**

18 A13. Regulated utilities are capital-intensive operations with long-term infrastructure
19 investments. Alt-Regs are annual reviews and adjustments with potential long-term
20 implications and potential unintended consequences. Short-term benefits might reduce
21 regulatory costs, efficiency, and produce more rapid investment, each of which can result
22 in long-run implications. Short-term concerns regarding an ALT-REG (such oversight,
23 inaccurate cost recovery, unfair rates, rate volatility, or customer notice) are issues that can
24 be addressed at any time. This is not the case for inefficient investment, be it over
25 investment or underinvestment, that can take years to remedy. Over investment cannot be
26 changed in one year, it may take years to remedy, likewise, under investment often cannot

1 be adjusted immediately. Recent decades have seen claims of underinvestment in electric,
2 gas, and water utility infrastructure. Natural gas infrastructure and safety concerns have
3 been of particular focus including a 2011 Call to Action by Pipeline and Hazardous
4 Materials Safety Administration that ultimately led to accelerated investment in the natural
5 gas infrastructure across the country.⁸

6 **Q14. HOW DOES THE COMMISSION VIEW THE COMPLEXITY OF RATE CASES?**

7 A14. The Commission recognizes the burden associated with rate case reviews. “A rate case
8 proceeding carries with it a great deal of complexity over a host of issues and rarely permits
9 the time for the parties or the Commission to deeply examine any rate case expense issue.”⁹

10 **Q15. WHY IS THE NATURAL GAS PIPELINE INVESTMENT RELEVANT TO THIS**
11 **PROCEEDING?**

12 A15. The investment in the natural gas infrastructure was instrumental in the development and
13 design of capital recovery ALT-REGs for the gas utilities in Tennessee. These ALT-REGs
14 are fundamental to the development of TAWC’s Proposal.¹⁰ However, methods designed
15 to address public hazards identified by the PHMSA’s (gas leaks) may not be the best
16 models for a water utility.

17 One commonality between the two is the significant need to upgrade the systems. Thus,
18 while there may be a need to adopt some alternative rate mechanism, there has been no

⁸ PHMSA’s March 18, 2011, Industry Letter from Administrator Cynthia Quarterman and DOT Pipeline Replacement Background (<https://www.phmsa.dot.gov/data-and-statistics/pipeline-replacement/pipeline-replacement-background#:~:text=In%202011%2C%20following%20major%20natural%20gas%20pipeline,and%20replacement%20of%20the%20highest%20risk%20pipeline%20infrastructure>). A copy of this document is attached as Exhibit CDK-2.

⁹ *Order Setting Utility Rates*, p. 34, TPUC Docket No. 24-00032 April 21, 2025).

¹⁰ *Petition*, Direct Testimony of Robert C. Lane at 7:12-14.

1 showing that TAWC's existing capital rider mechanism will not continue to meet the
2 financial needs of TAWC.

3 **Q16. TAWC'S PETITION STATES THAT THE COMMISSION HAS APPROVED**
4 **ANNUAL RATE REVIEWS FOR VARIOUS SECTORS INCLUDING GAS AND**
5 **WATER.¹¹ WHAT WATER COMPANIES HAVE OPERATED UNDER THE**
6 **ANNUAL REVIEW MECHANISM SIMILAR TO THAT PROPOSED BY TAWC?**

7 A16. I am not aware of any water utilities in Tennessee that operate with an annual review
8 mechanism similar to that proposed by TAWC.

9
10 **V. TAWC'S PROPOSAL**

11 **Q17. SUMMARIZE TAWC'S PROPOSAL.**

12 A17. TAWC proposed that, by March 31st of each year, it will make a filing under an alternative
13 ratemaking mechanism. Under its Proposal, it will:

- 14 • Enable an adjustment to align actual earnings authorized earnings.
- 15 • The filing will include 16 supporting schedules.
- 16 • Reflect an equal surcharge applied to both monthly fixed and volumetric
17 rates.
- 18 • Determine the earnings and associated revenue deficiency or surplus and an
19 annual rate adjustment, with both aggregated and reflected as an equal
20 percentage surcharge (or sur-credit) applied to both monthly fixed meter
21 charge and volumetric rates, for each customer class and rate area.
- 22 • Exclusively use a Historic Base Period to calculate and surplus or deficient
23 Earnings position.

24 TAWC claimed that the filing will allow the Commission to review TAWC's revenues,
25 expenses and investment (rate base) for the prior calendar year and determine if the

11 *Id.*

1 Company earned the authorized ROE that was adopted in the 2025 Rate Case. If the
2 Company earned more than the authorized ROE, it would make an adjustment accordingly.
3 The surplus will be captured and returned to customers via a sur-credit in the following
4 year. If the Company earns less than its authorized ROE, the Company will recover the
5 deficiency via a surcharge in the following year.

6 TAWC's Proposal is particularly unique in that it does not use a projected future Test
7 Period to set rates.¹²

8 **Q18. HAS THE COMMISSION EXPRESSED CONCERN REGARDING TIME**
9 **NECESSARY FOR RATE REVIEWS?**

10 A18. Yes. In its Order, the Commission noted the resources necessary for a rate review:

11 It is evident that the Company's Petition, corresponding exhibits, and the pre-
12 filed testimony of fifteen supporting witnesses were carefully prepared, not
13 hastily thrown together. Rate cases of this size and complexity require a
14 substantial commitment of the Commission's resources to review the evidence
15 and test the veracity of the Company's accounting, proposed rate of return, and
16 forecasts for both revenues and expenses. At the same time, the Commission's
17 finite resources must also be applied to other matters. This work includes
18 reviewing and analyzing various alternative regulatory rate mechanism filings
19 for several utilities, including Tennessee-American, with relatively short
20 statutory deadlines.¹³

21 **Q19. HOW DOES THIS ASSESSMENT APPLY TO THE CURRENT PETITION?**

22 A19. TAWC is proposing a mechanism that substitutes for a rate case, includes prudence review
23 and establishes rate design policy that will be reviewed in a much shorter time period.

24 **VI. EXISTING TAWC ALTERNATIVE RATE MECHANISMS**

25 **Q20. WHICH STATUTORY PROVISIONS GOVERN TAWC'S PROPOSAL?**

12 *Petition*, Direct Testimony of Robert C. Lane at 13:4-11.

13 *Order Setting Utility Rates*, p. 85, TPUC Docket No. 24-00032 (April 21, 2025).

1 A20. For reference, the following statutes address ALT-REGs:

- 2 1. Tenn. Code Ann. § 65-5-103(d) authorizes several distinct alternative
3 regulatory mechanisms, each with specific purposes and limitations. In
4 addition, the supporting statutes for alternative regulatory mechanisms vary.
- 5 2. Tenn. Code Ann. § 65-5-103(d)(1)(A) states “The commission is authorized to
6 implement alternative regulatory methods to allow for public utility rate
7 reviews and cost recovery in lieu of a general rate case proceeding before the
8 commission.”
- 9 3. Tenn. Code Ann. § 65-5-103(d)(2) authorizes recovery of items related to
10 safety.
- 11 4. Tenn. Code Ann. § 65-5-103(d)(3) allows for the recovery of infrastructure and
12 expansion costs.
- 13 5. Tenn. Code Ann. § 65-5-103(d)(4) allows for a mechanism to recover economic
14 development, if found in the public interest.
- 15 6. Tenn. Code Ann. § 65-5-103(d)(5) allows for recovery of operational expenses,
16 capital costs, other expenses, essential, and nondiscretionary expenses.
- 17 7. Tenn. Code Ann. § 65-5-103(d)(6) allows an annual review of rates based on
18 the most recent rate case, but it does not eliminate the need for clearly defined
19 methodologies, prospective application, or compliance with filed-rate
20 principles; “[a] public utility may opt to file for an annual review of its rates
21 based up its most recent rate case pursuant to § 65-5-101 and subsection (a), if
22 applicable.”
- 23 8. Tenn. Code Ann. § 65-5-103(d)(6)(D)(i) states “A public utility may terminate
24 an approved annual review plan only by filing a general rate case pursuant to §
25 65-5-101 and subsection (a).”
- 26 9. Tenn. Code Ann. §§ 65-5-103(d)(2), (3), and (5), addressing capital
27 investments, allow for a rate mechanism adjustment to recover capital costs “at
28 the rate of return approved in the most recent general rate case.”
- 29 10. Tenn. Code Ann. §§ 65-5-103(d)(6)(C) authorizes the adjustment “to
30 provide that the public utility earns the authorized return on equity established
31 in the public utility’s most recent rate case.”

32 **Q21. WHY IS STATUTORY LANGUAGE SIGNIFICANT?**

33 A21. The statutory provisions differentiate between recovery of specific cost categories and
34 broader rate review mechanisms. TAWC’s Proposal effectively consolidates and replaces
35 existing riders while altering rate design and recovery methods, raising legal and policy
36 concerns that must be addressed explicitly.

1 **Q22. DOES TAWC CURRENTLY OPERATE UNDER ALTERNATIVE**
2 **REGULATORY MECHANISMS?**

3 A22. Yes. The Company currently recovers costs through Incremental Capital Recovery Riders
4 (“CAP”) riders and the Production Costs and Other Pass-Throughs (“PCOP”) Rider, both
5 of which allow annual adjustments outside of a general rate case.¹⁴ As explained by the
6 Commission:

7 TAWC proposed and gained approval of a Qualified Infrastructure Investment
8 Program (“QIIP”) Rider; Economic Development Investment (“EDI”) Rider;
9 Safety and Environmental Compliance (“SEC”) Rider (collectively “Capital
10 Riders”); and a Pass-Through Mechanism for purchased power, chemicals,
11 purchased water, and wheeling water called the Production Costs and Other
12 Pass-throughs Rider (“PCOP”) in TPUC Docket No. 13-00130. Since 2013,
13 the Capital Riders and PCOP mechanisms have allowed the Company to
14 recover certain capital investments, including a return on equity, and certain
15 expenses outside of a rate case. (internal citations omitted).¹⁵

16 **Q23. WHY IS THE EXISTENCE OF CURRENT ALT-REGS RELEVANT TO**
17 **THIS PROCEEDING?**

18 A23. The goals and arguments made in favor of ALT-REGs are often similar and may overlap.
19 A review and assessment of potential benefits of TAWC’s Proposal requires an
20 understanding of TAWC’s goals, whether those goals are already being met, whether the
21 Company has demonstrated that these goals would be met with the Proposal, and whether
22 the Proposal is necessary to achieve these goals.

23 In addition, variations in the statutory language affect the application of the ALT-REG.

- 24 • TAWC is explicitly requesting a new alternative rate mechanism.
25 • TAWC is requesting to terminate its existing alternative ratemaking

¹⁴ TAWC identifies these as Alternative Rate Methods under TENN. CODE. ANN § 65-5-103. *See also* *Petition of Tennessee-American Water Company Regarding the 2023 Production Costs and Other Pass-Throughs Rider*, pp. 2-3, TPUC Docket No. 23-00007(January 17, 2023).

¹⁵ *Order Setting Utility Rates*, p. 5, TPUC Docket No. 24-00032 (April 21, 2025).

- 1 mechanisms.
- 2 • With the recent case, comparison between the Proposal and the rate case,
3 along with the traditional rate case process, seems natural. The correct
4 comparison is to the current rate setting procedure as it currently exists and
5 has existed since 2014. A review of the rate setting process as it currently
6 exists demonstrates that cost-related issues being raised by TAWC have
7 been addressed.
 - 8 • Rate of return and authorized return on equity are not the same and are
9 applied to different subsections in the statute.

10 **Q24. EXPLAIN HOW THE COST-RELATED GOALS RAISED BY TAWC ARE**
11 **ALREADY ADDRESSED BY EXISTING MECHANISMS.**

12 A24. TAWC provided cost-related reasons in its Petition:

- 13 • To help reduce the need to file costly, time-consuming, and administratively
14 burdensome general rate cases.
- 15 • Lessening of rate shock and general rate case expenses.
- 16 • It will eliminate the need for other regulatory mechanisms, such as the
17 PCOP and IRC, creating administrative efficiency.
- 18 • It provides an efficient way to seek recovery of its incremental investments.

19 The Company’s arguments rely extensively on generic arguments, opinions, and facts that
20 do not apply to the current situation rather than quantitative analysis of the Proposal.

21 Contrary to the claims made by TAWC:

- 22 • TAWC’s does not make frequent rate case filings. Its previous rate case
23 was in June 2012. The Company has not demonstrated how its Proposal
24 will lessen the frequency of rate case proceedings or attempted to quantify
25 the savings. The TAWC stated that Mr. Lane’s conclusions are based “upon
26 his over 38 years of experience in the Public Utility Sector and his
27 knowledge of the use of other approved ALT-REG filings of the other
28 Tennessee utilities operating under TPUC jurisdiction.”¹⁶ It argued that rate
29 cases were made frequently, prior to implementation of the existing riders,
30 and in other jurisdictions. The claim is irrelevant to this situation.¹⁷ In
31 addition, TAWC already explains that one of the many benefits of its
32 Capital Recovery Riders and PCOP is a more streamlined recovery

16 Company’s Response to Consumer Advocate DR No. 1-7(1).

17 *Id.*

1 approach with less frequent rate case filings.¹⁸

- 2 • The rate increase from the most recent rate case was less than the increases
3 from some annual filings. TAWC claims that a benefit of its existing
4 Capital Recovery Riders includes “the lessening of the occurrence of “rate
5 shock” associated with Base Rate increases.”¹⁹ Rate shock argument is
6 misleading at best. Annual filings have more frequent rate changes and can
7 result in rate increases or rate decreases. In the recent rate case the
8 Commission approved a revenue requirement increase of \$1,007,930, as
9 opposed to the Company’s request of approximately \$13.9 million.²⁰ The
10 results demonstrate that the previously existing capital rider mechanism is
11 meeting the financial needs of the TAWC and that the base rate case was
12 imprudently submitted.
- 13 • The Company’s Proposal is an annual mechanism. TAWC already has an
14 annual rate mechanism filing.²¹ It has not demonstrated how substituting
15 the current annual filing addressing the same issues with another will result
16 in administrative efficiency or reduce costs.²²
- 17 • The Capital Recovery Riders are specifically “designed, in part, to mitigate
18 regulatory lag, to accelerate the timeframe of essential infrastructure
19 upgrades and replacements, and to produce a safer and more reliable water
20 distribution and production system for ratepayers.”²³

21 The Commission noted:²⁴

22 TAWC asserted that the Capital Riders are functioning as intended and permit
23 the Company “to implement significant and required non-optional solutions
24 while avoiding regulatory lag and lessening rate shock to its customers, both of
25 which were expressly cited by [the] Commission in its approval of the Riders.”

26 The Commission recently affirmed its assessment:²⁵

27 The panel further found the Capital Recovery Rider programs continue to serve
28 the public interest by benefitting both consumers and the Company. The
29 programs allow the utility timely recovery of investment related expenditures

18 *Petition of Tennessee-American Water Company Regarding the 2023 Production Costs and Other Pass-Throughs Rider*, p. 2, TPUC Docket No. 23-00007 (January 17, 2023).

19 *Id.* See also, *Petition of Tennessee-American Water Company in Support of the Calculation of the 2023 Capital Recovery Riders Reconciliation*, p. 5, FNs 2,4, TPUC Docket No. 23-00018 (March 1, 2023).

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

21 *Petition*, Direct Testimony of Robert C. Lane at 5:21 – 6:2.

22 Company’s Response to Consumer Advocate DR No. 1-7(2).

23 *Petition of Tennessee-American Water Company in Support of the Calculation of the 2023 Capital Recovery Riders Reconciliation*, p. 4, FN 2, TPUC Docket No. 23-00018 (March 1, 2023).

24 *Order Approving Stipulation and Settlement Agreement*, p. 2, TPUC Docket 19-00103 (January 31, 2024).

25 *Order Granting Petition as Amended*, p.12, TPUC Docket No. 24-00011 (November 8, 2024).

1 to ensure safe and reliable drinking water and the promotion of economic
2 development, while also benefitting consumers through reduced rate case and
3 legal expenses which might otherwise result in the absence of these programs.
4 While additional changes or modifications may be necessary, the parties have
5 expressed an openness to continue to discuss the issue.

6 There is no evidence that an alternative to the capital rider is required. In the rate case, the
7 panel adopted a revenue requirement of \$1,007,930 out of the Company's request of
8 approximately \$13.9 million.²⁶ The Commission noted "the Company submitted an
9 estimate of \$1.554 million in rate case expense, covering legal, internal costs, and outside
10 consultants, for a rate case that ultimately ended with a relatively modest rate increase of
11 \$1,073,930."²⁷ The previous Capital Rider, PCOP, and Incremental Capital Recovery
12 Rider filings and the recent rate case decision are evidence that TAWC's existing
13 alternative ratemaking mechanisms are addressing the needs of the utility, and that this
14 Petition is not in the public interest?

15 **Q25. WHAT IS THE IMPORTANCE OF THE RATE OF RETURN AND RETURN ON**
16 **EQUITY LANGUAGE IN THE STATUTE?**

17 A25. The Company's Proposal determines the rate of return using the Weighted Average Cost
18 of Capital ("WACC") with the same method used for the Incremental Capital Recovery
19 ("ICR") Rider calculation. The applicable statutory language states, in part, that the rate
20 adjustments are made "to provide that the public utility earn the authorized return on equity
21 established in the most recent general rate case."²⁸ TAWC's method equates the rate of
22 return to the WACC.²⁹ The cost of equity is a unique component of the rate of return

26 *Order Setting Utility Rates*, p. 88, TPUC Docket No. 24-00032 (April 21, 2025).

27 *Id.* at 34.

28 TENN. CODE ANN. § 65-5-103(d)(6)(C).

29 *Petition*, Exhibit PJD-1, Direct Testimony of Philip J. Drennan, Appendix C, Proposed Tariffs TPUC No. 20, Original Sheet No. 12-ARM-2, and Original Sheet No. 12-ARM-4.

1 calculation that cannot be directly observed. The other components, cost of debt, and
2 capital structure, are factual accounting values and costs. The Tennessee’s alternative
3 regulatory methods statute allows a utility to recover its operational expenses and capital
4 costs “at the rate of return approved in the most recent general rate case.”³⁰ The Tennessee
5 statute allowing a utility to “opt into” an annual review mechanism authorizes adjustments
6 to the tariff rates “to provide that the public utility earns the authorized return on equity
7 established in the public utility’s most recent rate case.”³¹ The “authorized return on
8 equity” is a specific value determined by the Commission.

9 **Q26. WHAT IS THE IMPLICATION FOR THE ANNUAL CALCULATION?**

10 A26. Return on equity is net income divided by shareholder’s equity. For the language to have
11 meaning, the annual review should use the actual percentage of equity in the capital
12 structure and the authorized return and equity. The authorized return on equity is the value
13 determined by the Commission in TAWC’s last rate case.

14 **Q27. WHY IS THIS DISTINCTION IMPORTANT?**

15 A27. The capital structure and cost of debt can vary from year to year. With a fixed rate of
16 return, there is incentive to increase leverage, creating a variance between costs reflected
17 in rates and actual costs while increasing the book return on equity. The language in the
18 statute recognizes the importance of setting rates that reflect actual WACC and removes
19 the incentive for increased leverage. Ratepayers should be protected from an increase in
20 the cost due to increased percentage of equity financing by capping the equity percent of

30 TENN. CODE ANN. § 65-5-103(d)(2)-(3), (5).

31 TENN. CODE ANN. § 65-5-103(d)(6)(C).

1 the capital structure to that approved in the last rate case.

2 **Q28. WHAT IS YOUR RECOMMENDATION REGARDING THE RATE OF RETURN**
3 **AND THE COST OF EQUITY?**

4 A28. I recommend that an annual review mechanism, under Tenn. Code Ann. § 65-5-
5 103(d)(6)(C), reflect the statutory language “to provide that the public utility earns the
6 authorized return on equity established in the public utility’s most recent rate case.” The
7 rate of return should be calculated using the actual capital structure, cost of debt
8 components, and the authorized return on equity. The level of equity financed should be
9 capped at the percent authorized in the last rate case proceeding.

10 **VII. RATE ADJUSTMENT CONSISTENT WITH RATE CASE METHODS**

11 **Q29. TAWC CLAIMED THAT THE RATE ADJUSTMENT METHOD IS**
12 **“CONSISTENT WITH THE METHODOLOGIES ORDERED BY THE**
13 **COMMISSION IN TAWC’S 2025 RATE CASE (TPUC DOCKET NO. 24-00032),**
14 **THE LAST RATE CASE RATE CHANGE.” HOW DOES TAWC EXPLAIN THAT**
15 **RATE CHANGES WILL BE CONSISTENT WTH METHODS IN THE LAST**
16 **RATE CASE?**

17 A29. TAWC’s explanations of how a revenue deficiency or surplus would be assessed to current
18 rates are not clear and are inconsistent with the last rate case order.³²

19 **Q30. HOW DOES TAWC EXPLAIN THAT RATES WOULD BE ADJUSTED UNDER**
20 **THE PROPOSAL?**

³² *Petition*, Direct Testimony of Robert C. Lane at 10:8 – 11:2., *See also, Petition*, Exhibit PJD-1, Direct Testimony of Philip J. Drennan, Appendix C, Proposed ARM Tariff, TPUC No. 20, Original sheet No. 12-ARM-3, 4. C

1 A30. TAWC states that there will be an aggregated adjustment “reflected in an equal percentage
2 surcharge applied to both monthly fixed meter charge and volume rates, for each customer
3 class and area.”³³ The proposed tariff explains “the Company shall apply an equal
4 percentage increase to customer bills in the form of a surcharge. The percentage increase
5 will be calculated by dividing the Proposal’s Revenue Adjustment by the Base Revenue
6 Forecast for the Rate Effective Period.”³⁴

7 The plain language of the proposed tariff indicates that the surcharge would be determined
8 on a per bill basis to the total water charge as a defined percent increase. The preceding
9 explanation suggests that it will be applied to the individual rate components.

10 **Q31. WHY IS THE DISTINCTION BETWEEN APPLYING THE PERCENT**
11 **INCREASE TO THE INDIVIDUAL COMPONENTS AS OPPOSED TO THE**
12 **TOTAL WATER CHARGE IMPORTANT?**

13 A31. An analysis of TAWC’s Proposal necessitates an understanding of whether TAWC is
14 intending to change rates or assess a surcharge. Each has different implications.
15 Application of a surcharge based on water fees is technically not changing individual rates.
16 As filed, TAWC requests that a surcharge be applied.³⁵ Concerns with a surcharge will be
17 discussed below. An argument can be made that a surcharge on total water charges is an
18 equal percentage increase to both rate components. Both approaches are inconsistent with
19 the revenue requirement increase in the last rate case, which was applied entirely to the

33 *Petition*, Direct Testimony of Robert C. Lane at 10:8 – 11:2.

34 *Petition*, Exhibit PJD-1, Direct Testimony of Philip J. Drennan, Appendix C, Proposed ARM Tariff, TPUC No. 20, Original sheet No. 12-ARM-3, 4. C.

35 Company’s Response to Consumer Advocate DR No. 2-2. A copy of this response is attached as Exhibit CDK-3.

1 fixed charge.

2 **Q32. HOW DO THESE PROPOSALS DIFFER FROM THE RATE CHANGE**
3 **CALCULATION MADE IN THE LAST RATE CASE METHOD?**

4 A32. In the last rate case, the rate increase was applied across the board to the “monthly fixed
5 bill to recovery the revenue deficiency.”³⁶ This difference is noted by Mr. Lane who states
6 “the Company proposes that the annual ALT-REG surcharge or sur-credit be applied to all
7 customers via an equal percentage (as they were in the 2025 Order, though applied to all
8 rates not just the fixed meter service charge).”³⁷

9 In addition, the adjustment will be applied to customers with special contracts. Although
10 not consistent with the rate case revenue requirement allocations, the method is consistent
11 with the ICR and PCOP Rider adjustments.

12 In addition, TAWC is proposing that revenue requirement changes be recovered through a
13 surcharge rather than a change in rates.

14 **Q33. DOES TAWC’S PETITION INCLUDE TARIFF PAGES WITH EXISTING RATES**
15 **AND THE SURCHARGE EXPLAINED AS AN ADJUSTMENT TO THE RATES?**

16 A33. No. The proposed tariff explains the annual review mechanism under classification of
17 service. It does not:

- 18 • Specifically provide the formula in algebraic form.
19 • Include tariff sheets with the rates including notification that there is a
20 surcharge that will be applied to those rates, what the surcharge represents,
21 or how it is calculated.

³⁶ *Order Setting Utility Rates*, p. 80, TPUC Docket No. 24-00032 (April 21, 2025).

³⁷ *Petition*, Direct Testimony of Robert C. Lane at 16:10-12.

1 **Q34. WHY IS A RATE CHANGE CONSISTENT WITH THE METHOD IN THE LAST**
2 **RATE CASE IMPORTANT?**

3 A34. Rate design is a complex regulatory function encompassing a series of calculations that
4 reflect policy objectives, with rate design possibly becoming the most important single
5 issue in ratemaking.³⁸ The cost recovery:

- 6 • Starts with determining revenue requirement.
- 7 • Allocates revenue requirement to rate classes.
- 8 • Designs specific rate schedules, with various rate components, to recover
9 the allocated costs.

10 The rate designs include fixed and volumetric rates that differ within customer classes. An
11 equal change in each rate component does not equate to an equal rate increase for
12 customers, nor does it equal the change in the revenue requirement.

13 The monthly service charge is often a contentious policy issue within rate design. It
14 includes topics such as cost shifting, affordability, disproportionate impact, fairness,
15 incentives (price signals), and cost causation. TAWC is moving rates from a fixed rate
16 recovery to a variable component. TAWC is also making a policy decision that special
17 rates should be allocated to a proportional increase in costs. These are fundamental policy
18 considerations that have been explained by the Commission:³⁹

19 There are often, however, many factors that are taken into consideration when
20 designing rates, including those related to economics and social considerations.
21 For example, a social consideration may be to establish rates for residential
22 customers that are affordable but not necessarily reflective of the actual cost of
23 service. In turn, rates for other services or classes of services (i.e., industrial
24 and commercial) may be priced further above cost in order to maintain
25 residential services at affordable rates. Further, substantially large customers,

38 Charles F. Phillips, Jr., *The Regulation of Public Utilities*, pp. 179-180, Public Utilities Reports, Inc. (1993).

39 *Order Setting Utility Rates*, pp. 79-80, TPUC Docket No. 24-00032 (April 21, 2025).

1 or customers with alternatives, may command lower rates via special contracts.

2 Any policy changes from the Proposal should be recognized.

3 **Q35. WHY DID TAWC PROPOSE THIS METHOD TO RECOVER CHANGES IN THE**
4 **REVENUE REQUIREMENT?**

5 A35. Mr. Lane explained that “[t]o minimize the administrative burden of adjusting each of
6 these rate elements annually, the Company proposes that the annual ALT-REG surcharge
7 or sur-credit be applied to all customers via an equal percentage (as they were in the 2025
8 *Order*, though applied to all rates not just the fixed meter service charge).”⁴⁰

9 This justification sounds reasonable in a vacuum. The reality is that the rates are being
10 charged to captive customers who have a right to know the rates that are being assessed by
11 TAWC.

12 **Q36. HOW CAN THESE ISSUES BE ADDRESSED?**

13 A36. A Company, in this case TAWC, should provide a formula for calculating the rate change
14 and be required to modify its tariffs each year to reflect the actual rate being charged. The
15 Company should also provide a list of assumptions that are embedded within that formula.

16 **Q37. WHAT ARE THE IMPLICATIONS OF A RATE CHANGE THROUGH A**
17 **SURCHARGE OR CREDIT?**

18 A37. A primary concern is that TAWC is proposing to recover changes in fundamental rate
19 components, such as rate base and depreciation, with long-term rate implications, in an
20 annual surcharge. The long-term costs recovery should be reflected in base rates. A
21 surcharge suggests that the charge is related to a specific one-time fee (or fees) and

⁴⁰ *Petition*, Direct Testimony of Robert C. Lane at 16:9-12.

1 obscures that the rate increases include capital costs, are related to fundamental base prices
2 covering core costs, and are likely to be permanent rate changes, rather than an added cost
3 for an additional service. They will be additive and likely to be increasing with time.
4 Furthermore, the surcharge, acts to mask actual cost and rate increases.

5 A reasonable position can be made that changes to the rate changes should reflect the cost
6 drivers, with capital investment-related costs being allocated to the fixed monthly charges.
7 The increase would provide more accurate signals regarding cost drivers than would be
8 obtained through either a proportional change to fixed and variable prices or a percentage
9 increase in the bill.

10 The Consumer Advocate is not arguing for or recommending any policy changes to rate
11 design in this proceeding. Any authorized change in base rate revenue recovery should be
12 reflected in base rates in the tariff.

13 **Q38. THE INTENT OF THE SURCHARGE/SUR-CREDIT IS TO RECOVER**
14 **HISTORIC EARNINGS VARIANCE AS OPPOSED TO SETTING RATES FOR A**
15 **PROJECTED REVENUE REQUIREMENT.⁴¹ COMMENT ON THIS**
16 **EXPLANATION.**

17 A38. The proposed adjustment will be for historic variance. This poses several concerns. The
18 historic variance from projections is being assessed prospectively. Thus, prudent rate
19 design and pricing necessitates accurate cost and revenue forecasting. Absent a focus on
20 accurate projections, the revenue variance is likely to be the result of prices that are
21 expected to be inaccurate, with no incentive to provide price signals or accurately reflect

⁴¹ *Petition*, Direct Testimony of Robert C. Lane at 16:7-10.

1 expected revenues. Customers should expect to know the “price” of the commodity and
2 service by looking at the rate sheets without doing calculations. In a free market, cost
3 signals are used by customers to make long-term consumption decisions. If the actual price
4 of the service is masked by a surcharge, customers are not being provided with accurate
5 price signals.

6 **Q39. WHAT ARE THE CONCERNS WITH TAWC’S PROPOSAL TO RELY**
7 **EXCLUSIVELY ON THE HISTORIC BASE PERIOD TO CALCULATE AND**
8 **RECOVER EARNINGS VARIANCES?**

9 A39. There are policy concerns regarding cost recovery from service other than what was
10 provided. In this instance, the cost will be recovered from future service for service already
11 provided. The proposed tariff clearly states that the annual Revenue Surcharge will be
12 calculated by dividing the Revenue Adjustment by the base revenue forecast for the rate
13 effective period.⁴² The base revenue forecast is intended to minimize any over or under
14 collection of the revenue.⁴³ Public policy and consumer interest suggest that best efforts
15 be aligned with making the projection as accurate as possible. As proposed, this is not the
16 case. The incentive for an accurate forecast is removed if the Company is able to recover
17 any under earnings.

18 **Q40. WHAT ARE THE COST OF EQUITY IMPLICATIONS WITH SUCH AN**
19 **ADJUSTMENT?**

20 A40. The adjustment proposed by TAWC removes earnings risk from the Company and shifts

⁴² *Petition*, Exhibit PJD-1, Direct Testimony of Philip J. Drennan, Appendix C, Proposed Tariff TPUC No. 20 Original Sheet No. 12-ARM-3.

⁴³ *Id.*

1 it to ratepayers. That risk shifting should result in a reduced cost of equity for TAWC.
2 Risk shifting is a cost, and, in a free market, is often seen through fees or premiums as
3 potential loss, or cost increase, is transferred to another party.

4 The risk shifting and resulting lower cost of equity is well known.⁴⁴

5 Many alternative ratemaking processes and rate recovery mechanisms carry the
6 benefit of reducing the risk that a utility may not recover certain revenues. As
7 discussed above, regulatory risk is typically a component that regulators
8 consider when setting a utility's ROE, because utilities that are considered more
9 risky require a higher ROE to attract capital, which results in a higher rate of
10 return and revenue requirement. As a result, many state regulatory agencies –
11 including, for example, Maryland with STRIDE and New York with fully
12 forecasted test years – will, when determining ROEs, consider any reductions
13 in risk that utilities face for cost recovery.

14 As explained by the Kentucky Public Service Commission:⁴⁵

15 The Commission continues to view capital riders, such as the ESM, as
16 providing lower risk to the utility due to the automatic cost recovery and true-
17 up components in the ESM and Duke Kentucky's gas pipeline replacement
18 program. As such, the Commission finds that a 10-basis point reduction in the
19 ROE component of the ESM from 9.75 percent to 9.65 percent is fair, just, and
20 reasonable.

21 **Q41. HAS THE TENNESSEE COMMISSION RECOGNIZED A CHANGE IN THE**
22 **COST OF EQUITY ASSOCIATED WITH ALT-REGS?**

23 A41. Yes. The Commission stated:

24 Also, the panel found that the evidence presented by the parties made clear that
25 decoupling impact the return on equity by reducing risks, although both parties

⁴⁴ *Alternative Utility Ratemaking Policies*, p.13, Maryland Department of Legislative Services, Office of Policy Analysis (September 12, 2019). This document can be accessed at https://dls.maryland.gov/pubs/prod/BusTech/Alternative_UTILITY_Ratemaking_Policies.pdf.

⁴⁵ *Order, In Re: Electronic Application of Duke Energy Kentucky, Inc. for 1) An Adjustment of the Electric Rates; 2) Approval of New Tariffs; 3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 4) All Other Required Approvals and Relief*, pp. 41-42, KY PSC Case No. 2022-00372 (October 12, 2023). A copy of this Order can be accessed at https://psc.ky.gov/pscscf/2022%20Cases/2022-00372/20231012_PSC_ORDER.pdf.

1 presented different views on both the direction and the magnitude of the required
2 adjustment. Having carefully reviewed the record, the panel voted unanimously to
3 adopt the conservative estimate of A 25 basis point reduction to equity return based
4 upon the rate design adopted by the panel.⁴⁶

5
6 **Q42. ARE YOU PROPOSING AN ADJUSTMENT TO THE COST OF EQUITY IN THIS**
7 **PROCEEDING?**

8 A42. No. The statutory language is directive, and that the cost of equity as determined in the
9 most recent rate case should be used. The cost of equity in that proceeding did not address
10 the cost of equity for a utility with the Proposal. The Proposal is intended to replace a
11 general rate case, restricting the ability to address the topic. Absent a rate case, a generic
12 proceeding to assess the impact of ALT-REG filings on the cost of equity could provide an
13 assessment of the potential cost and rate impact.

14 **VIII. BENEFITS OF THE PROPOSAL**

15 **Q43. WHAT ARE YOUR GENERAL OBSERVATIONS OF THE TESTIMONY**
16 **SUPPORTING TAWC'S PROPOSAL?**

17 A43. TAWC's supporting testimony heavily focused on conclusory statements, directing the
18 reader to a desired outcome rather than providing necessary explanatory detail. TAWC's
19 supporting testimony is short on supporting testimony and facts, for what is essentially an
20 annual filing substituting for rate case proceeding. Mr. Lane defers the specifics to Mr.
21 Phillip Drennan.⁴⁷ However, Mr. Drennan's testimony is similarly short with much of the

⁴⁶ *Order*, p.45, TRA Docket No. 09-00183 (November 8, 2010).

⁴⁷ *Petition*, Direct Testimony of Robert C. Lane at 9:20-22, 10:2-7, 14:18-20.

1 testimony dedicated to the structure of the proposed schedules and a short summary of
2 each. The testimony explains the basics of how the formulas would be provided and work.
3 It does not propose to provide the fundamental cost information necessary for a full review
4 nor does not quantify benefits to customers.

5 **Q44. DO YOU AGREE WITH TAWC’S CONCLUSION THAT THE “COMMISSION**
6 **ESTABLISHED THE NECESSARY AND APPROPRIATE METHODOLOGY**
7 **THAT CAN NOW BE USED AS A BASIS FOR TAWC’S REQUEST TO ADOPT**
8 **AN ARM” ?**

9 A44. No. In its Petition, TAWC states:⁴⁸

10 The Commission announced findings and conclusions in Docket No. 24-00032
11 with sufficient specificity with regard to the rate-making methodology for
12 TAWC. In its *Order Setting Rates*, the Commission established the necessary
13 and appropriate methodology that can now be used as a basis for TAWC request
14 to adopt an ARM.

15 The Commission’s Order determined a revenue requirement, with adjustments, return on
16 equity, rate base, and base rates. It did not provide formulas and methods for designing
17 rates or allocating revenue requirement changes to rates, determining adjustments,
18 prudence, such that they would substitute for a rate case as represented in the petition or
19 the statute. The adjustment to recover or refund from the previous period over or under
20 adjustment would ensure that the Company would not under earn. The Commission’s
21 Order does not discuss the development of methods for application in future ALT-REG
22 filings.

23 **Q45. WHAT PROBLEM WILL A TAWC’S PROPOSAL RESOLVE?**

24 A45. The Consumer Advocate has not identified a specific problem that would be resolved or

48 *Petition* at 3.

1 identified a specific project resolved by TAWC'S Proposal. Rather, TAWC's general
2 arguments in support of an alternative rate mechanism are regulatory lag, facilitate
3 investment, support new technology, encourage efficiency, reduce frequency of rate cases,
4 and mitigate regulatory lag. With the exclusion of the previous period earnings adjustment,
5 TAWC has not explained nor offered support that the existing ICR and PCOP Riders do
6 not already address these issues.⁴⁹

7 **Q46. WHAT HAS TAWC PRESENTED AS REASONS FOR THE PROPOSAL?**

8 A46. In addition to the issues addressed above, TAWC argued:

- 9 • The Commission has approved annual rate reviews and utilities in various
10 sectors operated within this regulatory framework.
- 11 • The Commission is familiar with the framework of these types of regulatory
12 mechanisms, and stakeholders have articulated a preference for and
13 understanding of this type of regulatory framework
- 14 • To help reduce the need to file costly, time-consuming, and administratively
15 burdensome general rate cases.
- 16 • It will eliminate the need for other regulatory mechanisms, such as the
17 PCOP and IRC, creating administrative efficiency.⁵⁰

18 Mr. Lane summarized the Proposal as providing a more efficient way for the Company to
19 seek recovery of its incremental investments and ongoing costs while providing
20 transparency and timely review by the Commission.⁵¹

21 More specifically, the Company believes the Proposal will greatly improve our
22 ability to efficiently advance the Company's objective, and the public's

49 More specifically, TAWC explained in its petition requesting the Capital Riders that:

[E]ach of the proposed mechanisms — the Qualified Infrastructure Investment Program, the Economic Development Investment Rider, the Safety and Environmental Compliance Rider and the pass-throughs — reduce the need for general rate cases, lessen the occurrence of consumer 'rate shock,' support the maintenance and improvement of essential infrastructure, ensure safety and reliability and allow for more efficient, streamlined regulation.

Direct Testimony of Deron E. Allen at 4: 15-20, TRA Docket No. 13-00130 (October 4, 2013).

⁵⁰ *Petition*, Direct Testimony of Robert C. Lane at 7:12 – 8:1

⁵¹ *Petition*, Direct Testimony of Robert C. Lane at 8:1-4.

1 expectation, of safe, clean, and reliable water service at just and reasonable
2 rates, while also providing the Commission and our customers with greater
3 transparency regarding our operations and how it translates into reasonable
4 rates. The annual process will also provide a more timely review of TAWC's
5 cost of providing service and allow the Company to recover its costs without
6 frequent, administratively burdensome, time-consuming, and expensive base
7 rate cases.

8 **Q47. DO YOU AGREE WITH MR. LANE'S REPRESENTATION THAT THE**
9 **STREAMLINED REGULATORY CONSTRUCT OF THE PROPOSAL BALANCES**
10 **THE INTEREST OF ALL PARTIES?**⁵²

11 A47. No. Mr. Lane's statement is conclusory and lacks specific application to this proceeding.
12 It offers broad principles without demonstrating how they address the issues at hand. His
13 testimony essentially summarizes generic arguments often cited in support of ALT-REGs
14 that are associated with dissatisfaction of the rigid features of traditional rate making
15 including inadequate incentives, changing regulatory objectives, recovery of non-revenue
16 producing investments, reducing risk utilities, reducing the frequency of rate cases,
17 mitigating regulatory lag.⁵³

18 In the instant case TAWC states "TAWC's primary focus and commitment remains
19 providing safe and reliable water service at affordable and reasonable rates."⁵⁴ However,
20 TAWC has not demonstrated that adopting the Proposal will advance this goal. The
21 Proposal relies on assertions rather than evidence of necessity or consumer benefit such
22 as:⁵⁵

23 For several years, the Commission has approved annual rate reviews and
24 utilities in various sectors (e.g. natural gas and water) have operated within this

⁵² *Id.* at 7:10-11.

⁵³ National Regulatory Research Institute, *Alternative Rate Mechanisms and their Compatibility with State Utility Commission Objectives*, Report No. 14-03, pp. 12-18 (April 2014). A copy of this report is accessible at [FA86C519-AF31-D926-BE12-2AC7AE0CD8D6](https://www.nrrri.org/FA86C519-AF31-D926-BE12-2AC7AE0CD8D6).

⁵⁴ *Petition*, Direct Testimony of Robert C. Lane at 7:9,19.

⁵⁵ *Petition*, Direct Testimony of Robert C. Lane at 7:13-16.

1 regulatory framework. The Commission is familiar with the framework of
2 these types of regulatory mechanisms, and stakeholders have articulated a
3 preference for and understanding of this type of regulatory framework.

4 The Company has not demonstrated any current problems that will be solved with the
5 Proposal, nor has it demonstrated how it will benefit consumers.

6 The claim that annual reviews enhance transparency is inaccurate. Traditional rate cases
7 provide a formal, comprehensive process in which underlying costs are fully examined.
8 This thorough review is precisely what some characterize as administratively burdensome
9 and costly. ALT-REGs, by design, reduce scrutiny and oversight. The promise of “timely
10 review” means faster decisions with less examination—not more transparency.

11 Furthermore, when a mechanism simply adopts prior value without reassessing the
12 underlying analysis, it fails to provide meaningful review or justification. As noted,
13 “[g]ood rate making is difficult, requiring both good analytics and sound judgment on the
14 part of regulators.”⁵⁶ The Proposal is specifically designed to reduce the analysis, starting
15 with the reduction in the time allowed to review and analyze the specifics of the Proposal.

16 **Q48. DO YOU AGREE WITH TAWC’S CLAIM THAT “THE COMMISSION IS**
17 **FAMILIAR WITH THE FRAMEWORK AND STAKEHOLDERS HAVE**
18 **ARTICULATED A PREFERENCE AND UNDERSTANDING OF THIS TYPE OF**
19 **REGULATORY FRAMEWORK.”⁵⁷**

20 A48. No. Mr. Dittmore’s testimony cited by TAWC is not consistent with the representation
21 made in testimony in TPUC Docket No. 24-00032 and not supportive of what has been

⁵⁶ National Regulatory Research Institute, *Alternative Rate Mechanisms and their Compatibility with State Utility Commission Objectives*, Report No. 14-03, p. v (April 2014). A copy of this report is accessible at [FA86C519-AF31-D926-BE12-2AC7AE0CD8D6](https://www.nrrri.org/AF31-D926-BE12-2AC7AE0CD8D6).

⁵⁷ *Petition*, Direct Testimony of Robert C. Lane at 7:14-16.

1 claimed. Mr. Dittmore’s testimony in Docket 24-00032 addresses. TAWC’s Proposal to
2 “expand its PCOP Rider to include the incremental (or decremental) costs associated with
3 its Pensions and OPEB costs and recovery of its Regulatory Costs.”⁵⁸ Mr. Dittmore’s
4 testimony discusses three concerns with the Company’s Proposal in that docket and,
5 addresses the specific concern of volatility, stating that the Company could request
6 adoption of an Annual Review Mechanism. It is not support of an ALT-REG and cannot
7 reasonably be interpreted as indicating general support for the Proposal. In TPUC Docket
8 No. 25-00016, Consumer Advocate witness, Mr. Dittmore, indicated that the ICR Rider
9 continues to be in the public interest.⁵⁹

10 **Q49. HAVE THE RATE INCREASES UNDER THE CURRENT ALT-REG**
11 **MECHANISMS FAILED TO KEEP UP WITH TAWC’S COSTS?**

12 A49. TAWC’s ALT-REG mechanisms have allowed the Company to keep up with cost
13 increases. The Commission explained:⁶⁰

14 Nevertheless, the Company’s rates have not remained stagnant. In 2013, the
15 General Assembly enacted legislation granting public utilities the ability to opt
16 for alternative rate regulation, which would allow rates to be increased without
17 the scrutiny or costs of a traditional rate case in statutorily expedited
18 proceedings. Pursuant to Tenn. Code Ann. § 65-5-103(d), TAWC proposed
19 and gained approval of a Qualified Infrastructure Investment Program (“QIIP”)
20 Rider; Economic Development Investment (“EDI”) Rider; Safety and
21 Environmental Compliance (“SEC”) Rider (collectively “Capital Riders”); and
22 a Pass-Through Mechanism for purchased power, chemicals, purchased water,
23 and wheeling water called the Production Costs and Other Pass-throughs Rider
24 (“PCOP”) in TPUC Docket No. 13-00130. Since 2013, the Capital Riders and
25 PCOP mechanisms have allowed the Company to recover certain capital
26 investments, including a return on equity, and certain expenses outside of a rate

⁵⁸ Direct Testimony of David N. Dittmore at 44, TPUC Docket No. 24-00032 (September 17, 2024). This testimony is attached as Exhibit CDK-4.

⁵⁹ David N. Dittmore Direct at 16:18-21, TPUC Docket No. 25-00016 (April 28, 2025). This testimony is attached as Exhibit CDK-5.

⁶⁰ *Order Setting Utility Rates*, pp. 4-5, TPUC Docket No. 24-00032 (April 21, 2025).

1 case.

2 On January 31, 2024, the Commission approved the addition of an earnings test for a
3 limitation to the recovery of the incremental capital rider recovery requirement.⁶¹ In the
4 Company’s next ICR Rider proceeding following that order, TPUC Docket No. 25-00016,
5 the Commission approved a settlement submitted by the Company and the Consumer
6 Advocate, in which TAWC agreed not to file a 2026 ICR Rider. The suspension was to
7 reflect excess earnings calculated in the proceedings and essentially remove the
8 asymmetrical aspect of the current tariff.⁶² As explained by the Commission:⁶³

9 In the Company’s most recent Capital Rider proceeding in Docket No. 24-
10 00011, shortly before this rate case was filed, TAWC reported that its earnings
11 exceeded the authorized return granted in the 2012 rate case. The Consumer
12 Advocate expressed concerns with the reported over-earnings in Docket No.
13 24-00011, but noted the Capital Rider docket was not the appropriate
14 proceeding to investigate the extent of any over-earnings.

15 The effectiveness of rate recovery from the current ALT-REGs was further demonstrated
16 in TAWC’s last rate proceeding. The Commission approved a revenue requirement of
17 \$1,007,930 as opposed to the Company’s request of approximately \$13.9 million.⁶⁴

18 **Q50. WHAT ADJUSTMENTS HAS TAWC PROPOSED TO THE REVENUE**
19 **REQUIREMENT?**

20 A50. TAWC provided “[a] complete list of the necessary adjustments to comply with the 2025
21 Order.”⁶⁵ TAWC adjustments are as follows:

- 22 • Base the ROE on the Capital Structure approved in the last rate case with
23 an adjustment of Debt Expense to reflect the amount of debt assumed in the

61 *Order Approving Stipulation and Settlement Agreement*, p. 2, TPUC Docket 19-00103 (January 31, 2024).

62 *Order Granting Petition as Amended*, pp. 7-8, TPUC Docket No. 25-00016 (August 8, 2025)..

63 *Id.*

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

65 *Petition*, Direct Testimony of Robert C. Lane at 12:12-13.

1 General Rate Case Order.

- 2 • Remove 50% of the direct and allocated short-term Annual Performance
3 Plan (“APP”) that is part of the Company’s market-based employee
4 compensation related to the financial operations of American Water.
- 5 • Remove 55% of the direct and allocated short-term APP that is part of the
6 Company’s market-based employee compensation related to Inclusion,
7 Diversity and Equity (“ID&E”) metrics.
- 8 • Remove 100% of the direct and allocated Long Term Performance Plan
9 (“LTPP”).
- 10 • Remove 100% of the expenses associated with ID&E, Business
11 Development, Lobbying, and Charitable Donations.
- 12 • An adjustment to fuel & power expense and chemicals expense for excess
13 water loss as determined by the Commission establishing a reasonable water
14 loss standard in a separate proceeding.

15 **Q51. ARE THERE ANY CLARIFICATIONS THAT SHOULD BE MADE TO THIS**
16 **LIST?**

17 A51. Yes. TAWC’s second and third bullets are not supported and conflict with the Order and
18 the other adjustments.

- 19 • Regarding the second bullet point, the Commission removed 55% of the
20 allocated short-term incentive plan expenses.⁶⁶
- 21 • Regarding the third bullet, the Commission removed 100% of allocations
22 of the direct and allocated short-term APP that is part of the Company’s
23 market-based employee compensation related to Inclusion, Diversity and
24 Equity (“ID&E”) metrics:⁶⁷

25 The panel voted to adopt a calculation of \$7,581,319 for the
26 Company’s attrition year support services charge from its Service
27 Company. This calculation reflects the removal of 100% and 55%,
28 respectively, of the allocated long- and short-term incentive plan
29 expenses, 100% of allocated business development costs, and
30 estimates for lobbying and ID&E expenses that are unnecessary in
31 the provision of safe and reliable drinking water. With respect to
32 the business development costs, there is little in the record to
33 describe how business development charges from the Service
34 Company provide a tangible benefit for ratepayers. Moreover, the
35 Commission has a long-standing practice of disallowing lobbying

⁶⁶ *Order Setting Utility Rates*, p. 31, TPUC Docket No. 24-00032 (April 21, 2025).

⁶⁷ *Id.* at 29-30.

1 expenses. While ID&E may have good intentions and provide the
2 Company with corporate goodwill, the connection between the
3 provision of water service and paying a financial incentive to
4 management at the Service Company to reach diversity goals in
5 hiring is tenuous at best. In total, the panel adopted a total of
6 \$1,055,357 in reductions to the Company's proposed shared
7 services expenses.

8 **Q52. WHAT OTHER ADJUSTMENTS SHOULD BE IDENTIFIED?**

9 A52. The Commission specifically excluded 25% of the lobbying expenses related to the
10 Company's Manager of External Affairs.⁶⁸

11 The Company's workpaper also included adjustments to O&M expenses and related taxes
12 in the CWC calculation.

13 **Q53. WHAT SCHEDULES HAS TAWC PROPOSED TO BE FILED AS PART OF ITS**
14 **PROPOSAL?**

15 A53. TAWC proposed a list of 16 schedules:⁶⁹

⁶⁸ *Id.*

⁶⁹ *Petition*, Direct Testimony of Robert C. Lane at 8.

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

1

2 **Q54. DO THE SCHEDULES PROVIDE SUFFICIENT INFORMATION TO REVIEW**
3 **THE CHANGES IN COSTS EXPENSES?**

4 **A54.** No, they do not. The schedules are summaries and formulas demonstrating the changes or
5 a specific calculation. They do not explain the cause of changes in the costs or expenses.
6 Schedule 2 summarizes the rate base components with the purpose of aggregating rate base

1 amounts for comparison to approved amounts in prior dockets. Schedule 2.1 presents the
2 components of the rate base with adjustments. Schedule 2.2 provides the components by
3 month. There are no supporting documents or links.

4 **Q55. HOW DOES THIS COMPARE TO WHAT TAWC IS CURRENTLY REQUIRED**
5 **TO FILE OR SIMILAR ALT-REGS?**

6 A55. The amount of information that TAWC is offering to provide as part of the Proposal's
7 annual filing is not similar to the supporting documentation currently provided by the
8 natural gas utilities in their ALT-REG filings. As explained above, TAWC's Proposal
9 provides for only 16 schedules. In comparison, Piedmont is required to provide the
10 following schedules as part of its ALT-REG filing:

LEAD SCHEDULES	
1	Results of Operations
2	Rate Base
3	Lead Lag Results
4A	Working Capital Expense Lag for HBP
4B	Working Capital Expense Lag for Annual Base Rate Reset
5	O&M Expense Summary
6A	Revenue Summary
6B	Revenue Detail
7	General Tax Summary
8	Excise and Income Tax Summary
9	Income Statement under Present Rates and Proposed Rates
10	Cost of Capital Summary
11	Revenue Conversion Factor & Tax Gross Up Factor

11

RATE BASE SCHEDULES	
12	Utility Plant in Service-End of Month Balances, Calculations of 13-month Average Balance
14	Depreciation Expense - Calculation of Depreciation and Amortization Expense based on HBP Utility Plant in Service
15	Construction Work in Progress - End of Month Balances, calculation of 13-month average balance
16	Accumulated Depreciation - End of Month Balances, calculation of 13-month average balance
17	Contributions in Aid of Construction - End of Month Balances, calculation of 13-month average balance
18	ADIT - End of Month Balances, calculation of 13-month average balance
19	Cash Working Capital - Summary of 13-month average balance
20	ARM Regulatory Asset Balances and Activity by Month

1

REVENUE SCHEDULES	
21	Historic Base Period Revenue Components by Rate Schedule & Special Contract
22A	Annual Base Rate Reset Total Revenue by Rate Schedule and Special Contract
22B	Annual Base Rate Reset Revenue Components by Rate Schedule and Special Contract
23	Annual Base Rate Reset Other Revenues
24	Summary of Normalized Billing Determinants and Proposed Margin R
25	Proof of Revenue at Proposed Rates
26	Revenue Changes by Rate Schedule
27	Normal Heating Degree Days
28	Factors for Weather Normalization Adjustment

2

REVENUE SCHEDULES	
21	Historic Base Period Revenue Components by Rate Schedule & Special Contract
22A	Annual Base Rate Reset Total Revenue by Rate Schedule and Special Contract
22B	Annual Base Rate Reset Revenue Components by Rate Schedule and Special Contract
23	Annual Base Rate Reset Other Revenues
24	Summary of Normalized Billing Determinants and Proposed Margin R
25	Proof of Revenue at Proposed Rates
26	Revenue Changes by Rate Schedule
27	Normal Heating Degree Days
28	Factors for Weather Normalization Adjustment

3

O&M EXPENSE SCHEDULES	
29	Customer Accounts & Service Expense, including uncollectible ratio calculation
30	Employee Salary and Wage Expense
31	Employee Short Term Compensation Expense
32	Employee Long Term Compensation Expense
33	Deferred Environmental Regulatory Amortization and Cost Support
34	Deferred Pension Regulatory Amortization and Pension Plan Contribution Support
35	Return on Service Company Assets
36	Other Pension Expense
37	Lobbying Expense, Charitable Contribution, Social Club Membership Adjustment
38	Promotional and Advertising Expenses, consistent with Commission Rule 1220-04-05-.45

1

FINANCIAL REPORTS	
39	Tennessee Allocated Income Statement, including details of all revenues and expenses for the HomeServe Warranty program
40a	Total Piedmont Regulatory View Year End Income Statement
40B	Total Piedmont SEC View
40C	Parent Year End Income Statement
40D	Service Company Year End Income
40E	Total Piedmont Regulatory View Year End Balance Sheet
40F	Total Piedmont SEC View Year End Balance Sheet
40G	Parent Year End Balance Sheet
40H	Service Company Year End Balance Sheet
41A	Total Piedmont Monthly Trial Balance Regulatory View
41B	Total Piedmont Monthly Trial Balance Regulatory View
41C	Parent Monthly Trial Balance Regulatory View
41D	Parent Monthly Trial Balance SEC View
41E	Service Company Monthly Trial Balance Regulatory View
41F	Service Company Monthly Trial Balance SEC View

2

OTHER INFORMATION SCHEDULES	
42	Piedmont Capital Budget for Tennessee operations for year subsequent to HBP
43	Piedmont Operating Budget for the year subsequent to the HBP
44	Piedmont Jurisdictional Allocation Factors: Composite Factors
45	Piedmont Jurisdictional Allocation Factors: Net Plant Factors
46	Cost Allocation Manual
47	Corporate Organizational Structure
48	List of Company Officers
49	Pension and OPEB actuarial reports
50	Employee Incentive Compensation Plan documents
51	Impact of any new accounting pronouncements
52	Additional workpapers as required, and referenced to applicable ARM Filing Schedule

3

Schedule 52: List of Additional Workpapers	
RATE BASE WORKPAPERS	
	UPIS - Monthly Activity by plant
	CWIP - Actual Capital Expenditures by Category and Project Number, to provide support for ARM Schedule 15
	ACC DEPR - Monthly Activity by plant account, to provide support for ARM Schedule 16
	WE - Calculation of 13-month average balance of Working Capital by category, to provide support for ARM Schedule 19
	ARM Reg Assets - Monthly activity, to provide support for ARM Schedule 6A, Line 7, Column A
O&M EXPENSE WORKPAPERS	
	Other Purchased Gas Expense Excluding Payroll and Incentive Compensation, to Provide support for ARM Schedule 5 Line 1
	Gas Storage Expense Excluding Payroll and Incentive Compensation, to provide support for ARM Schedule 5 Line 2
	Transmission Expense Excluding Payroll and Incentive Compensation, to provide support for ARM Schedule 5 Line 3
	Distribution Expense Excluding Payroll and Incentive Compensation, to provide support for ARM Schedule 5 Line 4
	Sales Expense Excluding Payroll and Incentive Compensation, to provide support for ARM Schedule 5 Line 8
	Other Admin & General Expense, to provide support for ARM Schedule 5 Line 18
	General Ledger transaction level detail for all O&M Charges
	General Ledger transaction level detail for all O&M Charges allocated to Tennessee Operations from the Service Corporation
	Calculation of depreciation expense allocated to Tennessee operations from the Service Corporation pursuant to Section 17.m. of the 2020 Rate Case Settlement
OTHER WORKPAPERS	
	Calculation of O&M Expense for Lead/Lag to provide for ARM Schedules 4A and 4B Lines 5 through 19
	Calculation of General Taxes, to provide support for ARM Schedule 7
	Statutory State Excise Tax Rate, to provide support for ARM Schedule 11 Line 6 and 12
	Calculation of Annual EDIT Amortization for Protected PPE, to provide support for ARM Schedule 8 Line 21
	Capital Structure and Cost Rates, to provide support for ARM Schedule 10
	ARM Reconciliation Deferred Account Activity by month, to provide support for ARM Schedule 12

1

2

3

4

Piedmont's ALT-REG filing requirements demonstrate the level of information that TAWC should be providing as part of its Proposal. Lacking such detail, TAWC's Proposal is inadequate.

1 **Q56. WHAT IS THE IMPACT OF PROVIDING LIMITED INFORMATION IN THE**
2 **ANNUAL PETITION?**

3 A56. The information that TAWC is proposing to file does not allow for a detailed review of the
4 Company's costs or expenses, much less a meaningful audit. It does not provide
5 transparency of the underlying costs and expenses driving the rate changes or a review for
6 prudence. Combined with the timeline between filing and a decision, the available
7 information does not enable a meaningful review of the Company's costs and investments.

8 **Q57. WHY IS AN IN-DEPTH REVIEW IMPORTANT?**

9 A57. The shareholder theory (sometimes called the Friedman doctrine) posits that the social
10 responsibility of business management is to increase profits.⁷⁰ This is not always consistent
11 with ratepayer interests. Thus, in rate regulation there is an inherent conflict between the
12 fiduciary obligation of the management to maximize shareholder value and profits which
13 is in direct conflict with ratepayer interests of lower cost and quality of service. Prudence
14 reviews are a fundamental and necessary component of rate of return regulation to ensure
15 that ratepayer interests are addressed. Under traditional rate-making principles, public
16 utilities are entitled to recover 'prudent' investments when they become 'used and
17 useful.'⁷¹

18 The adoption of the amount prudently invested as rate and the amount of capital charge as
19 to the measure of the rate of return give definitiveness to these two factors involved in rate
20 controversies.

⁷⁰ *A Friedman Doctrine—The Social Responsibility of Business is to Increase its Profits*, Milton Friedman, New York Times, (September 13, 1970). This article is attached as Exhibit CDK-6. *See also Analyze This, The Enduring Power of the Biggest Idea in Business*, The Economist, March 31, 2016. This article is attached as Exhibit CDK-7.

⁷¹ Charles F. Phillips, Jr., *The Regulation of Public Utilities*, p. 340, Public Utilities Reports, Inc. (1993)

1 **Q58. HOW DOES THE INFORMATION IN THE PROPOSAL COMPARE TO**
2 **CURRENT FILING REQUIREMENTS?**

3 A58. TAWC currently files:

4 1. An Incremental Capital Rider that includes:

- 5 • A return on equity test
- 6 • A Return Determining Capital Rider Rate Base and Rate of Return
- 7 • Depreciation Expense Determination
- 8 • Property and Franchise Tax Expense

9 The tariffs require that QIIP, EDI, and SEC Investments are to be identifiable on the
10 Company's books and segregated into the following general accounts:

- 11 • Account 331 - Transmission & Distribution Mains;
- 12 • Account 333 - Services;
- 13 • Account 334 - Meters & Meter Installations;
- 14 • Account 335 - Hydrants;
- 15 • Account 320 - Water Treatment Equipment, Non-Media;
- 16 • Account 311 - Pumping Equipment.
- 17 • Account 303 - Land and Land Rights;
- 18 • Account 304 - Structures and Improvements;
- 19 • Account 306 - Lake, River and Other Intakes;
- 20 • Account 307 - Wells and Springs;
- 21 • Account 309 - Supply Mains;
- 22 • Account 310 - Power Generation Equipment
- 23 • Account 330 - Distribution Reservoirs and Standpipes;
- 24 • Account 341 - Transportation Equipment; and
- 25 • Account 3300003 - Capitalized Tank Painting.

26 2. A Production Cost and Other Pass-Throughs Rider that includes:⁷²

27 The Company will include in its annual filing the following information at
28 a minimum: (a) a schedule of all Review Period PCOP Costs, including any
29 related general ledger support, (b) actual billing determinants by month as
30 used in the computation of the PCOP Collected from Customers, (c)
31 computation of the PCOP Percentage Rate, including the detailed
32 calculation of each component, (d) a schedule of any proposed prior period
33 adjustments, (e) an affirmative statement of whether the Company is aware
34 of any changes in market conditions or other factors that may affect whether
35 the Rider is still in the public interest, including the identification of such

⁷² TAWC Tariff TPUC No. 20, Original Sheet No. 12-PCOP-5.

1 factors if they exist, (f) the cumulative amount of PCOP Costs collected
2 from customers under this Rider, and (g) such other information as the
3 Commission may direct.

4 TWCA has proposed eliminating the existing tariff ICR and PCOP Rider tariff provisions,
5 including the Public Interest Review Section:⁷³

6 Nothing herein shall be construed to eliminate or otherwise restrict the
7 opportunity of the Consumer Advocate or any other interested party from
8 seeking a review of this Rider, as permitted by law and the rules and
9 regulations of the Commission, for a reconsideration of whether it remains
10 in the public interest.

11 **Q59. WHAT ARE YOUR RECOMMENDATIONS FOR FILING REQUIREMENTS OF**
12 **TAWC’S PROPOSAL?**

13 A59. TAWC should be required to file the same relevant information required to be filed by
14 other utilities utilizing a similar ALT-REG. The Petition should not be considered
15 complete or filed until all such information has been received by the Commission and the
16 Consumer Advocate. A list of relevant information that should be included is provided as
17 Exhibit CDK-9.

18 **Q60. WHY IS THE FILING AND THE TIMING OF THIS INFORMATION**
19 **NECESSARY?**

20 A60. TAWC is asking that this petition substitute for “a general rate case proceeding.” The
21 schedules proposed by TAWC reflect the schedules included in the Commission’s Order
22 in Docket No. 24-00023. Those do not include the underlying calculations, analysis, or
23 supporting documents and do not reflect the information that is necessary for a review. In
24 TAWC’s last rate case, the Consumer Advocates first round of data requests contained 200

⁷³ *Petition*, Exhibit PJD-1, Direct Testimony of Philip J. Drennan, Attachment C, TPUC No. 20, Original Sheet No. 12-IRC-14.

1 questions, many directed to obtain the supporting documentation and calculations.⁷⁴

2 The schedules required in the annual ALT-REG filings have been developed to provide
3 information to review a company's costs and expenses and to set just and reasonable rates.

4 **Q61. WHAT IS THE CONCERN WITH REQUESTING THE INFORMATION AFTER**
5 **AN ALT-REG PETITION HAS BEEN FILED?**

6 A61. ALT-REG should not circumvent a meaningful review through a lack of information and
7 limited time period. Requiring the information as part of the filing will facilitate an
8 efficiency by directing the type, form, and availability of information that is necessary.

9 **IX. WATER LOSSES**

10 **Q62. HOW DID TAWC ADDRESS WATER LOSSES IN THE PROPOSAL ALT-REG?**

11 A62. The Company proposes to apply the existing water loss standard adopted in the 2025 rate
12 case until a new standard is adopted. TAWC proposes that the Commission open a
13 proceeding, apart and separate from the Proposal filing framework to revisit and evaluate
14 what should be considered excessive water loss.

15 **X. CONCLUSION AND RECOMMENDATION**

16 **Q63. IS THE COMPANY'S PROPOSAL IN THE PUBLIC INTEREST?**

17 A63. No. TAWC has failed to demonstrate that this Proposal will result in any cost savings for
18 customers. An annual filing of the magnitude proposed does not reduce the amount of
19 information required for a review. It simultaneously increases the review burden and
20 shortens the timeframe. The entire revenues, expenses, and rate base components must be
21 reviewed in the proposed mechanism, thus regulatory costs will increase relative to what

⁷⁴ Exhibit CDK-8.

1 they are today. The Proposal introduces new issues such as historic adjustments and shifts
2 risk from the company to ratepayers without offering commensurate cost reductions. Thus,
3 the Proposal is not in the public interest compared to the ICR Rider that has been meeting
4 TAWC's financial needs.

5 **Q64. WHAT ARE YOUR CONCLUDING COMMENTS?**

6 A64. ALT-REGs need to be carefully considered. The NRRI explained listed four major
7 questions that regulators face in deciding on the merits of different rate mechanisms:⁷⁵

- 8 1. What are the objectives of ratemaking?
- 9 2. What is their relative importance in advancing the public interest?
- 10 3. What rate mechanisms are most effective in achieving those objectives?
- 11 4. What rate mechanisms would bereft both utilities and their customers?

12
13 Further, the NRRI stated: ⁷⁶

14 The last question is compatible with the “balancing act” wherein any regulatory
15 action, including rate making, should produce a non-zero-sum game, with both
16 utility investors and customers benefiting. Some of the alternative rate
17 mechanisms violate this condition by leaving out utility customers as
18 beneficiaries. They either shift risk to customers or allocate no direct benefits
19 to them.

20
21 **Q65. WHAT ARE YOUR RECOMMENDATIONS?**

22 A65. I recommend the Commission:

23 Deny TAWC's request for approval of the Proposal. The Petition does not demonstrate
24 that the Proposal is necessary, in the public interest, or an improvement over existing

⁷⁵ National Regulatory Research Institute, *Alternative Rate Mechanisms and Their Compatibility with State Utility Commission Objectives*, Report No. 14-03, p. 82 (April 2014). A copy of this report is accessible at [FA86C519-AF31-D926-BE12-2AC7AE0CD8D6](https://www.nrrri.org/AF31-D926-BE12-2AC7AE0CD8D6).

⁷⁶ *Id.*

1 regulatory mechanisms. The Proposal lacks adequate supporting detail, fails to resolve
2 fundamental rate design and policy issues, and does not include sufficient reporting
3 requirements to permit meaningful review.

4 If the Commission is inclined to approve an ALT-REG, I recommend that the Proposal be
5 substantially modified to allow sufficient annual review and set rates on a prospective
6 basis.

7 The petition should be modified to include:

- 8 • Detailed formulas and explanations of rates explicitly included in the tariffs.
- 9 • Comprehensive reporting schedules with supporting information as part of
10 the annual filing.
- 11 • Any revenue requirement deficiencies resulting from the annual filing be
12 adopted only upon achievement of specific metrics.
- 13 • Safeguards consistent with Commission precedent and statutory
14 requirements.

15 Specific recommendations are:

- 16 1. Tariffs continue to contain the Public Interest Review language as it exists.
- 17 2. TAWC provide 30-day notice to customers before the annual filing is made
18 and notification of the rate increase after Commission approval.
- 19 3. The tariffs continue to state that the Company will simultaneously provide
20 the Consumer Advocate copies of all annual petitions with the Commission.
- 21 4. The annual petition be required to contain all workpapers, similar to that
22 required to be included by the filings of other utilities, necessary to support
23 the filing.
- 24 5. Filing schedules be provided (in electronic, native format with formulas
25 intact.)
- 26 6. For timeline purposes, the filing date is the date upon which all information
27 requirements are provided to the Commission and Consumer Advocate in
28 the form and structure identified by the Commission.
- 29 7. Any revenue requirement be reflected as a change in tariffed rates, not a
30 surcharge. In the alternative, detailed formulas enabling the calculation
31 surcharge be explicitly included in the tariffs.
- 32 8. The authorized rate of return should be calculated with the actual capital

1 structure and cost of debt (at the American Water Company level), subject
2 to a cap on the percent of equity financing. The percentage of equity
3 financing capped at the level authorized in the last rate proceeding. The
4 authorized return on equity should be the amount authorized in the last rate
5 proceeding (9.7%).

6 a. Capital structure shall reflect the actual long-term debt short term debt
7 and common equity each as a percentage of the total average
8 capitalization. The average determined on a 13-month period ending
9 December 31 of the HBP. The cost of equity percentage shall be
10 capped at the level authorized in the last rate case.

11 b. Long-term debt costs shall reflect the actual average embedded cost of
12 long-term debt for the 13-month period ending December 31 of the
13 HBP.

14 9. The processing costs of the annual filing should be capped at the processing
15 expenses for of the ALT-REG filings prior to 2025. The petition
16 specifically explain the reason for the over or under earnings. The over or
17 under earnings not be applied for the previous year.

18 10. Adjustments to the schedules to:

19 a. Remove 55% of the allocated short-term incentive plan expenses.

20 b. Remove 100% of allocations of the direct and allocated short-term APP
21 that is part of the Company's market-based employee compensation
22 related to Inclusion, Diversity and Equity ("ID&E") metrics.

23 c. Exclude 25% of the lobbying expenses related to the Company's
24 Manager of External Affairs.

25 11. The annual filing explains the cause of any variance between projected costs
26 and expenses and actual costs and expenses.

27 **Q66. DOES THIS CONCLUDE YOUR TESTIMONY?**

28 A66. Yes, it does. However, I reserve the right to incorporate any new data that may
29 subsequently become available.

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT 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

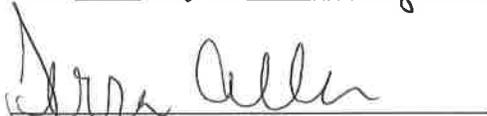
AFFIDAVIT

I, Clark Kaml, on behalf of the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Direct 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 30th day of January, 2026.


NOTARY PUBLIC



My commission expires: 1/31/2027.

- 35) **Other Working Capital** shall reflect the 13-month average of the actual EOM balances for the HBP and the month prior to the HBP, for the following:
- a. Material and Supplies
 - b. Gas Inventory
 - c. Prepaid Insurance
 - d. Fleets & Overheads
 - e. Accounts Payables applicable to CWIP
 - f. Accounts Payables applicable to Materials and Supplies
 - g. Customer Deposits
 - h. Interest on Customer Deposits
 - i. Accrued Vacation
 - j. The Company may request recovery of any Deferred Debits for Environmental Costs. It shall bear the burden of proof that such costs are appropriately included in Rate Base.
 - k. Pension Costs: Piedmont shall be allowed to recover through the ARM the unamortized balance of the pension regulatory asset included in the agreed-upon rate base in the Company’s last rate case in Docket No. 20-00086 through annual expense amortizations over the remaining portion of the authorized eight-year amortization period. No additional regulatory asset for pensions or OPEBs above the amount that was authorized in Piedmont’s last rate case shall be established for ratemaking purposes unless the Company first obtains express approval from the Commission.

Capitalization Components

- 36) **Capital Structure** shall reflect the long-term debt, short-term-debt and common equity (not including the impact of goodwill) each as a percentage of total capitalization as of December 31 of the HBP.
- 37) **Long Term Debt Cost** shall reflect the actual embedded cost of long-term debt as of December 31 of the HBP. The computation of the embedded cost of long-term debt shall include an adjustment for unamortized loss on reacquired debt and credit facility fees.
- 38) **Short Term Debt Cost** shall reflect the computed average cost rate of short-term debt borrowings (Piedmont's intercompany money pool borrowings) during the HBP.
- 39) **Authorized Return on Equity** as defined in Section I of this tariff

IV. ARM FILING SCHEDULES

LEAD SCHEDULES	
1	Results of Operations
2	Rate Base
3	Lead Lag Results
4A	Working Capital Expense Lag for HBP

4B	Working Capital Expense Lag for Annual Base Rate Reset
5	O&M Expense Summary
6A	Revenue Summary
6B	Revenue Detail
7	General Tax Summary
8	Excise and Income Tax Summary
9	Income Statement under Present Rates & Proposed Rates
10	Cost of Capital Summary
11	Revenue Conversion Factor & Tax Gross Up Factor
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CWIP – Actual Capital Expenditures by Category and Project Number, to provide support for ARM Schedule 15
ACC DEPR – Monthly Activity by plant account, to provide support for ARM Schedule 16
WC – Calculation of 13 month average balance of Working Capital by category, to provide support for ARM Schedule 19
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Regression Analysis for the Computation of Base Rate Reset Billing Determinants, to provide support for ARM Schedules 22A, 22B & 28
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ADIT Refund Elimination, to provide support for ARM Schedule 6A, Line 7, Column A
O&M EXPENSE WORKPAPERS
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General Ledger transaction level detail for all O&M Charges
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OTHER WORKPAPERS
Calculation of O&M Expense for Lead/Lag to provide support for ARM Schedules 4A and 4B Lines 5 through 19
Calculation of General Taxes, to provide support for ARM Schedule 7
Statutory State Excise Tax Rate, to provide support for ARM Schedule 11 Line 6 and 12
Calculation of Annual EDIT Amortization for Protected PPE, to provide support for ARM Schedule 8 Line 21
Capital Structure and Cost Rates, to provide support for ARM Schedule 10
ARM Reconciliation Deferred Account Activity by month, to provide support for ARM Schedule 12

Other Schedules

53) Variance Reporting: As part of its Annual ARM filing, Piedmont shall prepare and file with the TPUC, with a copy to the Consumer Advocate, a Variance Report that identifies and explains each and every Piedmont revenue and operating expense

- account and/or subaccount for which the Tennessee amount (including amounts allocated to Tennessee) either exceeds the prior year's amount (based on amounts either as filed by Piedmont in the Annual ARM Filing or as adjusted by the TPUC under Tennessee Code Annotated Section 65-5-103(d)(6)(C) by 5% and \$30,000.
- 54) The monthly balances of short-term debt, long-term debt and equity at December 31st of the month preceding the beginning of the HBP as well as month end balances throughout the HBP.
 - 55) The amount of accrued expenses recorded in the HBP along with a full explanation identifying the nature of each accrual, further identified between direct and allocated charges.
 - 56) If not in the Cost Allocation Manual, the Company shall supply a description of each 'Operating Unit', 'Allocation Pool ID', 'Resource Type ID', 'Source CD JD', and 'Project ID CB' included within its O&M Expense workpaper: General Ledger transaction level detail for all O&M Charges allocated to Tennessee operations from DEBS.
 - 57) A description of each DEBS asset whose allocated costs to Piedmont-Tennessee operations is \$50,000 annually or more.
 - 58) A schedule of the Company's HBP accounting entries made for the 'return to provision' transaction reflecting the impacts of its filed tax return made in the year subsequent to the HBP, along with an explanation of the impact of the transaction on the regulate return in the period the entry is made.
 - 59) The following operating metrics for the HBP:
 - a. Response Time to Emergency Calls
 - b. Age of Natural Gas Leaks
 - c. Number of Natural Gas Leaks by Grade.

V. OTHER

Consumer Advocate Authority to Petition

The Consumer Advocate shall have the right in its sole discretion to file a petition or complaint asking the Commission to terminate or modify any ARM Tariff resulting from Docket No. 21-00135 or any directly or indirectly related docket or to take any other action contemplated by Tennessee Code Annotated Section 65-5-103(d)(6). The Company shall not oppose the Consumer Advocate's petition or complaint filed under this Section on the grounds that such a proceeding is not statutorily authorized or that Consumer Advocate is not authorized to bring such a proceeding; provided, however, that the Company reserves all rights with regard to the merits of any termination or modification or other relief that the Consumer Advocate may request or position that the Consumer Advocate may assert in any such proceeding.



U.S. Department
of Transportation
**Pipeline and Hazardous Materials
Safety Administration**

Administrator

1200 New Jersey Avenue, SE.
Washington, DC 20590

MAR 18 2011

Recent tragedies involving natural gas explosions and spills of hazardous liquids highlight the need to take a hard look at the integrity of the Nation's pipelines. As you are keenly aware, some of this infrastructure is aging and requires prompt attention to ensure the safety of communities across the country.

On April 18, 2011, U.S. Transportation Secretary Ray LaHood will convene a Pipeline Safety Forum with the goal of accelerating the rehabilitation, repair, and replacement of critical pipeline infrastructure with known integrity risks. This forum will bring together pipeline safety experts, researchers, industry representatives, State partners, other Federal agency officials, and members of the public to share their expertise, experience, research, and ideas.

On behalf of the Secretary, I invite you to participate. Please RSVP to pipelineforum@dot.gov with the name(s) and contact information of attending individual(s) from your organization.

In preparation for the Forum, I also ask that your organization identify and share with Pipeline and Hazardous Material Safety Administration (PHMSA) information on the integrity of your members' infrastructure based on any comprehensive review or data analysis as well as possible solutions to the challenges confronting the rehabilitation, repair, and replacement of the following: (1) pipelines made of bare steel, cast iron pipe, copper pipe, and polyethylene or plastic pipe; (2) pipelines with unknown or uncertain material specifications or longitudinal seams; (3) pipelines with questionable or unconfirmed integrity.

Please reply with this information and any related studies or reports by April 10, 2011. We will post your submissions on the Forum website, www.phmsa.dot.gov/pipelineforum. Our plan is to issue a Report to the Nation on the steps needed to achieve the Secretary's goal within the next six months.

Your members jointly own and operate the nation's pipeline infrastructure - more than 2.5 million miles of pipelines delivering energy to homes and businesses across America. The American public depends upon you and your members, as well as regulatory, inspection and enforcement programs of PHMSA and our state pipeline safety partners to safeguard the integrity and reliability of the nation's pipeline systems.

Together, we can improve public safety. Thank you in advance for partnering with us on this vitally important undertaking.

Regards,

A handwritten signature in black ink, appearing to read "Cynthia Quarterman". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Cynthia L. Quarterman

BUTLER | SNOW

January 20, 2026

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*

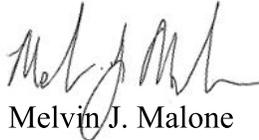
Dear Chairman Jones:

Attached for filing please find *Tennessee-American Water Company's Responses to Consumer Advocate's Second 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

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BUTLER SNOW LLP

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**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 SECOND SET OF DISCOVERY REQUESTS**

Tennessee-American Water Company (“TAWC”), by and through counsel, hereby submits its Responses to Second 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
SECOND DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE DIVISION**

Responsible Witness: Robert C. Lane

Question 2-1: Refer to the Direct Testimony of Robert C. Lane at 16:10-15. The Company proposes that the annual ARM surcharge or sur-credit be applied to all customers via an equal percentage (as they were in the 2025 Order, though applied to all rates not just the fixed meter service charge). Thus, the Company's base tariff rates remain unchanged each year, and the surcharge or sur-credit becomes the only means of adjusting customer rates as a result of the historic ARM calculation. Is this correct? If not, provide a detailed explanation and support.

Response:

Yes. This is correct.

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

Responsible Witness: Philip J. Drennan

Question 2-2: In addition to Mr. Lane's testimony referenced above, refer to the Direct Testimony of Philip J. Drennan, Appendix C - Proposed Tariff, TPUC No 20, Original Sheet No. 12-ARM-3, Section 4. Methodology, Subsection C. Annual ARM Revenue Surcharge, which states:

To collect or credit ARM Revenue Adjustment, the Company shall apply an equal percentage increase to customer bills in the form of a surcharge. The percentage increase will be calculated by dividing ARM Revenue Adjustment by the Base Revenue Forecast for the Rate Effective Period.

Respond to the following and provide documentation and support:

- A. Provide the formula for determining the surcharge.
- B. How will the surcharge appear on bills?
- C. Provide examples of the formula being applied to individual bills.
- D. Will the surcharge for each customer vary based on a monthly percentage calculation applied to the bill? Or will it be the same amount every month of the year for every customer in a specific class?
- E. How will customers be informed about the surcharge and changes in the surcharge?

Response:

- A. The ARM surcharge will be calculated by dividing total ARM revenue deficiency (surplus) by the Base Revenue Forecast. The Base Revenue Forecast will be calculated

using the fixed and volumetric tariff rates approved in the Company’s last rate case, adjusted for current billing determinants. The current Base Revenue Forecast will approximately equal the level of authorized revenues in Docket 24-00032 and is expected to gradually increase as the Company’s customer base grows. The following hypothetical example shows the formula to calculate the surcharge percentage.

$$\text{ARM Surcharge} = \frac{\text{Total ARM Revenue Deficiency (Surplus): Line No. 21, Schedule 1}}{\text{Base Revenue Forecast}}$$

$$3.90\% = \frac{\$2,894,171}{\$74,153,841}$$

B. The ARM surcharge will appear on customers’ bills in the same manner that the Company’s expense and capital recovery riders have appeared on customers’ bills for numerous years. The ARM surcharge will be calculated as a percentage of water service charges, made up of both fixed meter and volumetric rates.

	Water Service		31.43
	Water Service Charge		
	04/30/24 to 05/19/24		9.01
	05/20/24 to 05/30/24		4.95
	Water Usage Charge		
	04/30/24 to 05/19/24	(30 x \$0.03566)	1.07
		(8.07 x \$0.56555)	4.56
	05/20/24 to 05/30/24	(20.93 x \$0.56555)	11.84
	Other Charges		11.26
	Expense Recovery Riders		1.05
	Capital Recovery Riders		10.21
	Total Service Related Charges		42.69

C. See the following Hypothetical bill example using the 3.9% surcharge rate calculated in the Company's response to question 2-2 A. The surcharge percentage would be applied to total water charge to calculate the ARM surcharge amount.

Water Service Charge		\$19.92
Water Usage Charge	(30 x \$0.05017)	\$1.51
	(8 x \$0.79567)	\$6.37
<u>Total Water Charge</u>		<u>\$27.79</u>
ARM Surcharge		\$1.08
ARM Surcharge %		3.90%

D. The surcharge will vary based on a monthly percentage calculation applied to the bill (volumetric and fixed water service charges combined). The surcharge will be calculated like the Company's expense and capital riders, which the Company is proposing to replace with the ARM surcharge, pending approval from TPUC.

E. Customers will be informed about the surcharge in the "Understanding Your Bill" section in each monthly bill next to account charge detail. The Company's tariffs explaining the surcharge calculation will be available on the Company's website. Customers can also contact our customer service center for an explanation of the surcharge.

The Company will also comply with TPUC's rules, regulations, and orders regarding customer notices.

**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))

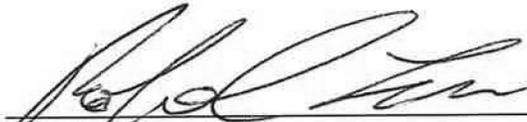
DOCKET NO. 25-00089

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 16th day of January, 2026.



Notary Public

My Commission expires: 2/28/28



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 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.

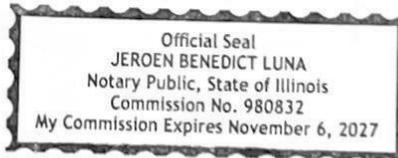
Philip Drennan

PHILIP DRENNAN

Sworn to and subscribed before me
this 20th day of January, 2026.

[Signature]

Notary Public



My Commission expires: 11/6/27

CERTIFICATE OF SERVICE

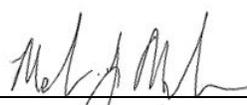
I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

Shilina Brown, Esq.
Senior Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Advocate Division
P.O. Box 20207
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rhitchcock@chamblisslaw.com
cgarrett@chamblisslaw.com

This the 20th day of January 2026.



Melvin Malone

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

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

DIRECT TESTIMONY OF
DAVID N. DITTEMORE

September 17, 2024

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I. Background

Q1. PLEASE STATE YOUR NAME AND OCCUPATION FOR THE RECORD.

A1. My name is David N. Dittmore. I am a self-employed consultant working in the utility regulatory sector.

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

A2. I received a Bachelor of Science Degree in Business Administration from the University of Central Missouri in 1982. I am a Certified Public Accountant licensed in Oklahoma (#7562). I was previously employed by the Kansas Corporation Commission (“KCC”) in various capacities, including Managing Auditor, Chief Auditor, and Director of the Utilities Division. I was self-employed as a utility regulatory consultant for approximately four years, primarily representing the KCC staff in regulatory issues. I also participated in proceedings in Georgia and Vermont, evaluating issues involving electricity and telecommunications regulatory matters.

Additionally, during this time frame, I performed a consulting engagement for Kansas Gas Service (“KGS”), my subsequent employer. For eleven years, I served as Manager and subsequently Director of Regulatory Affairs for KGS, the largest natural gas utility in Kansas, serving approximately 625,000 customers. KGS is a division of One Gas, a natural gas utility serving about two million customers in Kansas, Oklahoma, and Texas. I joined the Tennessee Attorney General's Office in September 2017 as a Financial Analyst. In July 2021, I began my consulting practice.

1 I have been a Board Member of the Financial Research Institute (University of Missouri),
2 a member of the NARUC Subcommittee on Accounting, the Vice-Chair of the Accounting
3 Committee of the National Association of State of Utility Consumer Advocates
4 (“NASUCA”), and an active participant in NASUCAs’ Natural Gas and Water Committees.

5 Overall, I have thirty-five years of experience in public utility regulation and have
6 presented testimony as an expert witness on many occasions. A detailed overview of my
7 background is attached to my testimony as Appendix 1.

8 **Q3. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

9 **A3.** I am testifying on behalf of the Consumer Advocate Division (“Consumer Advocate”) of
10 the Office of the Tennessee Attorney General.

11 **Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

12 **A4.** My testimony supports certain adjustments to Operating and Maintenance expenses
13 (“O&M”), property taxes, state and federal income taxes and an adjustment to
14 Accumulated Deferred Income Taxes (“ADIT”) related to an adjustment to attrition period
15 income tax expense. I am supporting the following adjustments to the Company’s
16 expenses:

Table 1				
Exhibit Reference	Item	Revenue Req. Category	Amount	
Exhibit DND-1	CA - Pro forma Income Statement	N/A	N/A	
Exhibit DND-2	Federal and State Income Tax Expense	Income Tax Exp/ADIT	\$ (3,641,589)	
Exhibit DND-3	Labor, Benefits and Payroll Taxes	Labor Related	\$ (1,200,409)	
Exhibit DND-4	TAWC Direct Charged Incentive Compensation	Labor	\$ (287,613)	
Exhibit DND-5	Allocated Incentive Compensation	Support Services	\$ (802,962)	
Exhibit DND-6	Non-Recurring Legal Charges	Contract Services	\$ (121,869)	
Exhibit DND-7	Purchased Power Costs	Production Costs	\$ (253,309)	
Exhibit DND-8	Purchased Water/Chemical Costs	Production Costs	\$ (190,816)	
Exhibit DND-9	Charitable Costs	Miscellaneous	\$ (108,820)	
Exhibit DND-10	Property Tax Expense	General Taxes	\$ (1,343,890)	
Exhibit DND-11	Costs not benefitting customers	Support Services	\$ (113,209)	
Exhibit DND-12	TAWC Lobbying	Labor	\$ (38,303)	
Exhibit DND-13	To Reflect Impact of State Tax Credit	Income Tax Exp	\$ (210,827)	
Exhibit DND-14	Cash Working Capital	Rate Base	\$ (366,485)	

In addition to sponsoring adjustments to Tennessee American Water Company's ("TAWC" or the "Company") revenue requirement, I will address the following topics:

- I provide historical context regarding the Company's earnings relative to their \$14 million rate increase request.
- I will also address the Consumer Advocate's attrition period Cash Working Capital computation.
- I will sponsor the Consumer Advocate's proposed revenue requirement tax gross-up calculation.
- I will address the Company's proposal to use the Production Costs and Other Pass-Through ("PCOP") rider to recover or refund Pension, and Other Post-Employment Benefit ("OPEB") costs that differ from those included in base rates in this proceeding.

II. TAWC Historical Earnings

Q5. CAN YOU PROVIDE SOME HISTORICAL PERSPECTIVE ON THE COMPANY'S EARNINGS?

A5. Yes. The Company submits an annual earnings test calculation within its annual capital rider filing. The rationale for evaluating earnings annually is that the Company should

only be permitted to recover incremental revenue to the extent that it does not generate revenue in excess of that necessary to earn its authorized return on equity.

Q6. HAVE YOU BEEN INVOLVED IN THE RECENT CAPITAL RIDER FILINGS MADE BY THE COMPANY?

A6. Yes.

Q7. HAVE YOU REVIEWED THE EARNINGS PROVIDED BY THE COMPANY IN ITS RECENT CAPITAL RIDER FILINGS?

A7. Yes. The table below compares the earnings (excess)/deficiency of the Company’s last three capital rider filings with the \$14.1 million revenue increase sought in this proceeding.

Year	Table 2		Source:
	Year	Amount	
2025 Forecast	2025	14,173,524	TAWC Schedule FS-1.1 Docket: 24-00011; CA Exhibit DND-2, from TAWC Data
2023 Actual Results	2023	(1,505,302)	TAWC Robert Lane Exhibit RCL - Exhibit 1
2022 Actual Results	2022	(1,175,140)	TAWC Elaine Chambers Exhibit EKC; page 2 of 4
2021 Actual Results	2021	50,750	

The point is that the Company achieved a return on equity in 2022 and 2023 above those authorized by the Commission in the Company’s last rate case. The Company seeks an increase of 19.7%.¹

Q8. DO UTILITIES TYPICALLY FILE A RATE CASE WHEN THEY ARE IN AN EXCESS EARNING SITUATION BASED UPON HISTORICAL DATA SUCH AS TAWC?

¹ *Petition*, File <TAWC 2024 Rate Case – Revenue Requirement.xlsx>, Tab “Revenue Requirement” (Schedule FS-1.1). The proposed revenue requirement (\$85,855,923) divided by Operating Revenue at Present Rates (\$71,724,922) equals an increase of 19.7%.

1 A8. No.

2 Q9. GIVEN THESE RECENT HISTORICAL EARNINGS, ARE YOU SURPRISED
3 THAT THE REVENUE REQUIREMENTS SUPPORTED BY THE CONSUMER
4 ADVOCATE DIFFER SIGNIFICANTLY FROM THOSE SOUGHT BY THE
5 COMPANY?

6 A9. No. These historical results are not those of a utility needing a significant rate increase,
7 especially one with access to a robust capital rider surcharge mechanism.²

8 Q10. DO YOU HAVE ANY COMMENTS CONCERNING STATEMENTS MADE IN
9 THE PETITION?

10 A10. Yes. In paragraph 7 of the *Petition*, the following statement is made:

11 “Notably, the Company has experienced \$173 million in rate base growth since
12 the 2012 rate case.”

13 This statement leaves the reader with the erroneous conclusion that the Company deserves
14 a rate increase associated with \$173 million of investment it is currently not earning on.
15 The \$173 million amount is simply the difference between the Company’s proposed rate
16 base in this case and that rate base adopted in TPUC Docket No. 10-00189. However, the
17 statement is misleading from the standpoint that the Company is, in addition to its base
18 rates, earning a return on a capital rider rate base of \$149,037,001. For further context,
19 please see the table below:

² Company’s Response to Consumer Advocate DR No. 1-110. The Company expects that over \$29 million of its 2025 capital expenditures would have otherwise qualified for capital rider recovery had this base rate case not been filed, whereas an estimated \$5.4 million forecasted to be spent in 2025 would not have qualified for rider recovery. Based upon this response, it can be determined that an estimated 84.5% of capital expenditures during the attrition period are believed to be otherwise eligible for capital rider recovery, absent this base rate filing.

Table 3				
Calculation of Effective TAWC Rate Base - Current Rates				
Line No.	Item	Amount	Amount	Source
1	Proposed Rate Base		305,126,372	Docket 24-00032; Testimony of Robert Lane, Petitioner's Exhibit FS-1
2	Rate Base Per Existing Base Rates	132,015,472		TPUC Order Docket 12-00049 Schedule 1
3	Pus: Rate Base per Existing Capital Rider Rates	149,037,001		Docket 24-00011; Robery Lane Petitioner's Exhibit TAWC 2024 Incremental Capital Rider; Line 6
4	2023 Rate Base Corresponding to Existing Revenue Stream		281,052,473	Line 2 + 3
5	Rate Base Increase Sought in this Filing for 2024/2025 Investments		\$ 24,073,899	Line 1 - 4

The more accurate statement is that the Company seeks a net increase in rate base of \$24 million above that currently adopted by the Commission. In other words, of the cited \$172 million amount, the Company is receiving a revenue stream on \$149 million of its Incremental Capital Rider rate base, leaving the net investment for which it is currently not earning a revenue stream of just over \$24 million.

It is interesting to consider that the current Capital Rider rate base of \$149 million is based on 2023 data. Absent the current base rate filing, the \$149 million in capital expenditures subject to recovery would undoubtedly have increased with the 2024 and 2025 capital rider filings.

III. Income Statement Adjustments

Q11. HAVE YOU SUMMARIZED THE ADJUSTMENTS YOU ARE SPONSORING?

A11. Yes. I am sponsoring Exhibit DND-1, which sets forth each of the adjustments I sponsor.

It is important to note that some adjustments are quantified as test period values, while others are quantified as attrition period values. The effective date for each adjustment is identified within the column header.

1 **Q12. WHY ARE SOME ADJUSTMENTS QUANTIFIED AS OF THE TEST PERIOD,**
2 **WHILE OTHERS ARE QUANTIFIED AS OF THE ATTRITION PERIOD?**

3 **A12.** The adjustments sponsored as of the test period (2023) are within the cost categories that
4 Mr. Bradley subsequently adjusts within his Schedules AB-1 and AB-2. Specifically, Mr.
5 Bradley brings test period balances forward to the attrition period by incorporating the
6 inflation factors he sponsors. After considering Mr. Bradley's adjustments, all proposed
7 Consumer Advocate cost categories reflect attrition period balances.

8 **Q13. WHICH COST CATEGORIES ARE INCORPORATED WITHIN MR.**
9 **BRADLEY'S INFLATION ADJUSTMENT?**

10 **A13.** Mr. Bradley adjusts the following TAWC cost categories: Support Services, Contracted
11 Services, Customer Accounting, Uncollectible Expense, Rents, Telecommunications,
12 Miscellaneous and Maintenance Expense.

13 Of the cost categories identified above, I have quantified adjustments to Support Services
14 (DND-5 and 11), Contracted Services (DND-6), and Miscellaneous Expenses (DND-9) as
15 of the 2023 test period, which Mr. Bradley then applies an inflation factor to arrive at the
16 Consumer Advocate as-adjusted attrition period balances.

17 **Q14. HAS THE CONSUMER ADVOCATE ACCEPTED THE COMPANY'S**
18 **METHODOLOGY FOR MOVING FROM THE TEST PERIOD TO THE**
19 **ATTRITION PERIOD FOR CERTAIN COST CATEGORIES?**

20 **A14.** Yes. For the cost categories not identified above, such as TAWC Labor, Employee
21 Benefits, Transportation, Other Insurance, and Payroll Taxes, the Consumer Advocate has
22 accepted the Company's methodology for projecting test period costs to the attrition period.

1 However, accepting the methodology from the test period to the attrition period does not
2 indicate acceptance of the proposed attrition period balances for these cost categories.

3 **Q15. PLEASE PROVIDE AN EXAMPLE OF A COST CATEGORY WHERE THE**
4 **CONSUMER ADVOCATE IS SPONSORING AN ADJUSTMENT WHILE ALSO**
5 **ACCEPTING THE METHODOLOGY THE COMPANY HAS USED TO MOVE**
6 **FROM THE TEST PERIOD TO THE ATTRITION PERIOD.**

7 **A15.** I object to the Company's proposal to include the cost of vacant positions in its attrition
8 period TAWC labor costs. I am proposing an adjustment to remove these costs, which will
9 be discussed later in my testimony. Notwithstanding the adjustment to remove those costs,
10 the Consumer Advocate does not object to the assumed merit increases in its projection of
11 attrition period costs for active employees. Thus, the Consumer Advocate has accepted the
12 methodology to move from the test period to the attrition period in this instance while
13 simultaneously supporting an adjustment to the attrition period costs.

14 **Q16. FOR THE TEST PERIOD ADJUSTMENTS YOU HAVE QUANTIFIED, DO YOU**
15 **HAVE AN ALTERNATIVE ADJUSTMENT AS OF THE ATTRITION PERIOD IN**
16 **THE EVENT THE COMMISSION DOES NOT ACCEPT MR. BRADLEY'S**
17 **ADJUSTMENT TO THE COMPANY'S INFLATION METHODOLOGY?**

18 **A16.** Yes. I identify the alternative value of the attrition period for each test period adjustment I
19 am sponsoring, discussed below, if the Commission does not accept Mr. Bradley's inflation
20 adjustment.

1 A. *Income tax expense – State and Federal; Flow Through of Repair Deduction/ADIT*

2 **Q17. PLEASE BEGIN BY EXPLAINING THE ADJUSTMENT YOU ARE PROPOSING**
3 **TO REDUCE FEDERAL AND STATE INCOME TAX EXPENSE.**

4 A17. My first adjustment reduces attrition period federal income taxes \$2,735,894 and state
5 excise taxes \$905,695 for a total reduction in income tax expense of \$3,641,589. These
6 calculations are set forth in Exhibit DND-2. These amounts represent the revenue
7 requirement impact of the flow-through of the Repair Deduction and can be seen in
8 Schedule 11, line 27 of the Consumer Advocate’s Exhibits. The resulting pro-forma excise
9 and federal income tax calculations reflect the Consumer Advocate’s attrition period pro-
10 forma balances, including recognition of the Repair Deduction.

11 The adjustment treats the Repair Deduction in the calculation of income taxes as a “flow-
12 through” item, whereas the Company has normalized this tax deduction. For purposes of
13 calculating the adjustment, the Company reversed the Repair Deduction by adding it back
14 to Taxable Income for purposes of calculating its attrition period state and federal income
15 tax expense. I eliminated the “add back” of the Repair Deduction in calculating the attrition
16 period Deferred Tax Expense.

17 I will discuss the technical issues surrounding the two methods for treating the Repair
18 Deduction.

19 **Q18. PLEASE DESCRIBE HOW INCOME TAX EXPENSE IS RECORDED ON THE**
20 **FINANCIAL RECORDS OF UTILITIES.**

21 A18. Income tax expense recognized for financial reporting purposes is generally computed
22 based upon revenues and expenses as defined by Generally Accepted Accounting

1 Principles (“GAAP”). Therefore, there is a symmetry between income tax expense defined
2 by GAAP and the revenue and expenses recorded in financial statements. GAAP generally
3 requires the adoption of accrual accounting, that is, the recognition of revenues and
4 expenses when such costs are incurred. This recognition will often differ from the period
5 in which cash is received (“revenue”) or expended (“expenses”). The difference between
6 income tax expense recorded for financial reporting purposes and actual taxes paid to the
7 Internal Revenue Service (“IRS”) is recorded to a deferred tax liability or asset account, as
8 appropriate.

9 **Q19. HOW DOES THE CALCULATION OF TAXABLE INCOME FOR THE IRS**
10 **PURPOSES DIFFER FROM THE AMOUNT CALCULATED ACCORDING TO**
11 **GAAP FOR FINANCIAL REPORTING PURPOSES?**

12 **A19.** The IRS recognizes revenue and expenses on a cash basis rather than an accrued basis in
13 determining taxable income. On the other hand, Revenue and expenses recorded pursuant
14 to GAAP are made on an accrual basis when revenues are earned, but not necessarily when
15 they are received, and when expenses are incurred, but not necessarily when they are paid.
16 Another important distinction between book and taxable income involves how depreciation
17 is recognized on asset values. Typically, the IRS permits accelerated tax depreciation,
18 where most of an asset’s value is deductible as depreciation expense over the early years
19 of an asset’s life, while book depreciation involves the application of a consistent
20 depreciation rate that does not vary from year to year, referred to as straight-line
21 depreciation. These differences can be further classified as either temporary or permanent
22 differences.

23 Temporary book/tax timing differences will eventually result in the same recognized

1 revenue and expenses for both book and taxable income. The Repair Deduction is such an
2 example of a temporary but long-lived book/tax timing difference. The Repair Deduction
3 is capitalized and depreciated as an asset for book purposes (“GAAP”), while qualifying
4 Repair Deductions are expensed for tax purposes. As the book asset is depreciated over its
5 useful life, this book/tax difference diminishes until eventually, the asset is fully
6 depreciated, and the book/tax timing difference is eliminated.

7 **Q20. IS THE INCOME TAX EXPENSE INCLUDED IN RATES BASED ON THE**
8 **AMOUNT OF TAXES EXPECTED TO BE PAID IN THE TEST PERIOD?**

9 **A20.** No. State utility regulators must compute income tax expense for ratemaking purposes
10 using the book level of depreciation expense.³ This regulatory treatment is referred to as
11 the “normalization requirement”,⁴ where the depreciation expense included in the
12 computation of the revenue requirement must be based upon the same depreciation rates
13 used in the computation of Depreciation expense included in the revenue requirement,
14 exclusive of the Cost of Removal factor, if any, included in the approved depreciation rate.⁵

15 The book level of depreciation expense is generally much lower than accelerated tax

³ IRS Section 168 requires state utility regulators to calculate income tax expense for rate-making purposes on a normalized basis. If state regulators do not comply with this requirement, the jurisdictional utility is at risk of disallowing the use of accelerated tax depreciation to compute taxable income.

⁴ The other methodology where IRS-determined values are used to compute income tax expense for rate making is referred to as the “flow-through” method. In summary, the flow-through method relies on IRS-determined values, while the normalization method relies on GAAP-determined values.

⁵ The Cost of Removal is not protected, that is it may also be ‘flowed-through’ for purposes of computing income tax expense for ratemaking; Internal Revenue Service, Private Letter Ruling, No. 202033002 (Release Date August 14, 2020) at <https://www.irs.gov/pub/irs-wd/202033002.pdf>. I did not propose that the Cost of Removal be flowed-through in this proceeding simply because I could not determine the appropriate amount. Normalizing the cost of removal for income tax purposes is punitive for customers as it not only requires the pre-payment of the cost of removal, but the normalization process increases the deferred tax asset, increasing rate base. So, customers not only pre-fund these costs, but also are required to pay a return on the deferred tax asset resulting from the non-deductibility of the cost of removal accrual embedded within regulated depreciation expense. The deferred tax asset represents the value of the future tax deduction (funded by customers), that the Company will not achieve until the asset is actually removed from service. *Id.*

1 depreciation used to compute taxable income. This disparity results in a higher Income tax
2 expense level determined for rate-making purposes than the utility owes the IRS.⁶ The
3 difference in income tax expense computations for book and tax purposes is recorded as a
4 Deferred Tax Expense, which, in theory, reflects an amount of taxes that will be due at
5 some point in the future. The significance of the book/tax timing difference associated
6 with the recognition of depreciation, coupled with the IRS requirement to normalize such
7 differences, results in a value of income tax expense computed for ratemaking purposes
8 exceeding income taxes paid to the IRS. In short, customers incur an income tax expense
9 that often far exceeds the utilities' cash payments to the state tax authorities and the IRS.

10 **Q21. ARE THERE TERMS USED TO DESCRIBE THE ADOPTION OF**
11 **COMPONENTS OF TAXABLE INCOME ACCORDING TO IRS DEFINITIONS**
12 **AND THOSE COMPUTED ACCORDING TO GAAP WITHIN THE**
13 **RATEMAKING CALCULATION?**

14 **A21.** Yes. Income tax expense components defined pursuant to the IRS Tax Code are referred
15 to as “flow-through” items, while components computed according to GAAP are
16 considered “normalized.”

17 **Q22. DO STATE UTILITY REGULATORS HAVE DISCRETION IN USING**
18 **NORMALIZATION OR THE ALTERNATIVE FLOW-THROUGH METHOD**
19 **FOR BOOK/TAX TIMING DIFFERENCES OTHER THAN DEPRECIATION?**

20 **A22.** Yes. For all timing differences, other than depreciation, utility regulators have discretion
21 whether to rely on deductions computed under the tax code or those deductions quantified

⁶ Book depreciation expense is a deduction in the computation of book income subject to tax. Therefore, the lower expense produces a higher level of income and, therefore, a higher level of income tax expense.

1 according to GAAP in determining income tax expense used in the ratemaking formula.

2 **Q23. PLEASE EXPLAIN THE REPAIR DEDUCTION.**

3 **A23.** As discussed above, expenditures that qualify under the IRS Repair Deduction are fully
4 deductible in the year they are incurred for tax purposes. However, such expenditures
5 qualify as an asset pursuant to GAAP, thus creating a very significant book/tax timing
6 difference.

7 **Q24. PLEASE EXPLAIN THE NATURE OF YOUR ADJUSTMENT TO STATE AND**
8 **FEDERAL INCOME TAX EXPENSE.**

9 **A24.** I recommend the Company's test year income tax expense be computed by adopting the
10 flow-through methodology for the Repair Deduction. This approach recognizes the
11 significant tax deductibility of the Repair Deduction in reducing income tax expense the
12 Company owes to state and federal taxing authorities. Adoption of the flow-through
13 approach better aligns income tax expense recovered in rates with taxes actually owed by
14 the Company. Essentially, adopting the flow-through methodology for the Repair
15 Deduction moves a step closer to matching taxes included in rates with taxes paid to taxing
16 authorities.

17 **Q25. WHAT IS THE PRACTICAL RESULT OF NORMALIZING THE REPAIR**
18 **DEDUCTION FOR RATEMAKING PURPOSES RATHER THAN FLOWING IT**
19 **THROUGH AS AN IMMEDIATE TAX DEDUCTION?**

20 **A25.** Normalizing the repair deduction results in a deferred tax expense recovered from
21 customers but not otherwise paid to a taxing authority until some point in the future, if ever.
22 This results in a reduction to the Company's rate base. Practically speaking, this will

1 reduce the Company's revenue requirement by approximately 8% of the amount of the tax
2 repair deduction, depending upon the Company's overall approved weighted average cost
3 of capital. The flow through methodology would result in a reduction to income tax
4 expense by 100% of the tax repair deduction thereby reducing the revenue requirement by
5 the full amount.

6 **Q26. WILL THE BOOK/TAX TIMING DIFFERENCE ASSOCIATED WITH THE**
7 **REPAIR DEDUCTION REVERSE FOR ACCOUNTING PURPOSES SUCH THAT**
8 **THE COMPANY WILL ACTUALLY PAY THE TAXES THAT ARE REFLECTED**
9 **AS A DEFERRED TAX EXPENSE WHEN THE REPAIR DEDUCTION IS**
10 **NORMALIZED?**

11 **A26.** Yes, in theory. However, as I will demonstrate below, the ever-increasing level of capital
12 expenditures incurred by utilities like TAWC ensure significant Repair Deductions and
13 accelerated tax depreciation (a deduction) on those capital expenditures that create minimal
14 or negative taxable income.

15 **Q27. HAVE YOU COMPARED AMERICAN WATER COMPANY'S ("AWC")**
16 **ANNUAL DEFERRED TAX EXPENSE WITH ACTUAL TAX PAYMENTS TO**
17 **TAXING AUTHORITIES?**

18 **A27.** Yes. The table below compares the amounts recorded as Current Tax Expense on the books
19 of AWC with those recorded to Deferred Tax Expense. The amounts identified as Current
20 Tax Expense represent estimated amounts paid to taxing authorities for income tax
21 expense.

Source: 2017, 2020 and 2023 American Water Company 10k's Filed with the Securities and Exchange Commission			
Amounts in Millions			
Year	Taxes Paid	Deferred Taxes (Normalized)	
2015	12	312	
2016	16	295	
2017	30	462	
2018	38	195	
2019	12	208	
2020	7	207	
2021	1	230	
2022	335	1/	80
2023	-	208	
Average - Excluding Gain on Sale (2023)	\$ 15	244	
Context			
Tennessee American Water Company Customer Base		87,099	2/
American Water Company Regulated Customer Base:		3,486,000	3/
Tennessee Percentage to total AWC Customer Base		2.50%	
1/	Estimated Tax payments for sale of non-regulated business and New York regulated operations		
Tennessee American Water Company 2023 Annual			
2/	Report page W-3		
American Water Company			
3/	2023 10k; page 4		

1

2 **Q28. WHAT WAS THE SOURCE OF THE INFORMATION CONTAINED IN THE**
 3 **TABLE ABOVE?**

4 **A28.** The amounts above were taken from American Water Company’s publicly available 10k
 5 Annual Reports submitted to the Securities and Exchange Commission (“SEC”).

1 **Q29. WHAT CONCLUSIONS CAN BE DRAWN FROM THE INFORMATION**
2 **PRESENTED ABOVE?**

3 **A29.** Other than 2022, American Water Company's income tax payments are not significant
4 given the size of the Company. Further, it needs to be emphasized that TAWC's customer
5 count represents only 2.5% of American Water Company's customer count. Thus, once
6 the minimal size of the Company's Tennessee operations is considered, the applicable tax
7 obligations associated with the Company's Tennessee operations are very small. This
8 contrasts with the amounts charged to Deferred Expense – which equates to a full
9 normalization approach to measuring income tax expense.

10 **Q30. WHAT ACCOUNTS FOR THE \$355 MILLION TAX PAYMENT REFLECTED IN**
11 **2022?**

12 **A30.** This payment was significant. The notes contained in the 10k indicate such payments
13 related to two material sales completed in 2022, the sale of the Company's New York
14 regulated water operations and the sale of the Company's unregulated warranty operations
15 to a third-party, both of which resulted in significant taxable events. Importantly, however,
16 the payments were unrelated to ongoing normal operations. Therefore, for purposes of this
17 analysis, the \$355 million in tax payments should be disregarded since they are unrelated
18 to ongoing operations.

19 This table demonstrates some important points that should factor into the Commissions'
20 consideration of this issue. First, in considering whether the Repair Deduction should be
21 incorporated using the flow-through versus Normalization methodology, the Commission
22 need not be concerned that adopting the flow-through methodology will cause a cash
23 shortfall related to funding the Company's income tax obligations. Secondly, adopting the

1 full normalization approach for ratemaking results in a significant level of pre-paid taxes
2 customers provide. While this ratepayer funding is accounted for as a reduction in rate
3 base in the ratemaking formula,⁷ the question is whether it should be the customers'
4 responsibility to fund a portion of the Company's capital expenditures or whether that
5 responsibility should fall on the Company's shareholders. The Company's current ADIT
6 balance included in this proceeding of \$60,093,004⁸ is a proxy for the amount of TAWC
7 customer's pre-funding of future tax obligations.⁹

8 **Q31. IF TAWC CUSTOMERS RECEIVE THE BENEFIT FROM A RATE BASE**
9 **REDUCTION DUE TO THE PRE-FUNDING OF INCOME TAXES, WHY**
10 **SHOULD THE COMMISSION CONSIDER AN ALTERNATIVE INCOME TAX**
11 **CALCULATION?**

12 **A31.** First, customers will continue to provide tax funding in excess of the Company's tax
13 obligations if the flow-through approach is adopted for the Repair Deduction. This is
14 because the normalization approach will continue to be used for book/tax timing
15 differences associated with Depreciation. My flow-through recommendation is limited to
16 the Repair Deduction. Accelerated Tax Depreciation, deductible for tax purposes, will
17 continue to exceed book depreciation. Thus, some portion of tax pre-funding will continue
18 going forward.

⁷ The offset to deferred tax expense is the recording of a deferred tax liability which is considered a cost-free source of financing in the revenue requirement calculation. *Petition*, Direct Testimony of Dominic J. Degrazia; File <TAWC 2024 Rate Case – RB 1 Rate Base Summary.xlsx>, Tab “RB 1 Rate Base Summary (Petitioner’s Exhibit RB-1 – Summary-DD).

⁸ *Petition*, File <TAWC 2024 Rate Case – RB 1 Rate Base Summary.xlsx>, Tab “RB 1 Rate Base Summary (Petitioner’s Exhibit RB-1 – Summary-DD).

⁹ As discussed earlier, the reference to future tax obligations should be considered the theoretical amount of taxes which may be due at some point in the future. If history is any indication, tax deductions on future capital expenditures will likely result in minimal or negative taxable income in future periods.

1 Secondly, the Company, not its customers, has the fundamental obligation to fund capital
2 expenditures. The Commission should not adopt rate-making accounting conventions that
3 shift this responsibility to its customer base.¹⁰

4 Finally, many customers undoubtedly have financial challenges paying their utility (and
5 other) bills and should not have the burden of pre-funding the Company's tax obligations.¹¹

6 **Q32. WHAT HAS BEEN THE COMMISSIONS' TRADITIONAL PRACTICE**
7 **REGARDING THE FLOW-THROUGH VERSUS NORMALIZATION ISSUE?**

8 **A32.** The Commission has traditionally normalized all book/tax timing differences in the
9 computation of income tax expense in rates. At the same time, I m not aware of whether
10 any party has advocated using the flow-through methodology to compute income tax
11 expense in the ratemaking formula. This is an issue that has not been recently before the
12 Commission.

13 The Commission acknowledged that the Repair Deduction is not protected for purposes of
14 amortizing excess ADIT in TPUC Docket No. 18-00039.¹² In this sense the designation
15 "unprotected" as it relates to ADIT is a recognition that this book/tax timing difference is
16 not required to be "normalized." Thus for purposes of addressing excess ADIT issues, the
17 Commission adopted the flow-through methodology for the Repair Deduction.
18 Furthermore, the Commission has adopted the flow-through methodology in recognizing

¹⁰ In certain situations, where capital expenditures are made exclusively for one customer or a small group of customers, a customer contribution would be appropriate. The comments above relate to general capital expenditures not exclusive to any customer.

¹¹ Katie Kelton, *Survey: Half of American cardholders now carry credit card debt, many with no plan to pay it off* (August 5, 2024) at <https://www.bankrate.com/credit-cards/news/credit-card-debt-survey/>. This article states that 50% of Americans are carrying credit card debt. This suggests that for that subset of customers with credit card debt, their personal cost of capital is significantly higher than the benefit they are receiving via a reduction in rate base due to the pre-funding of corporate income taxes that occurs under the comprehensive normalization methodology.

¹² *Final Order Resolving Phase Two Issues*, p. 13, TPUC Docket No. 18-00039 (August 3, 2000).

1 pension expense using the cash basis rather than an accrual basis for ratemaking purposes.

2 **Q33. CAN YOU PROVIDE MORE INFORMATION SUPPORTING YOUR**
3 **STATEMENT THAT THE COMMISSION HAS ACKNOWLEDGED THAT THE**
4 **REPAIR DEDUCTION IS NOT REQUIRED TO BE NORMALIZED?**

5 **A33.** Yes. The Commission's order included a determination as to whether the Repair
6 Deduction was "protected" or "unprotected" for purposes of determining the appropriate
7 amortization treatment of excess ADIT.¹³ The "unprotected" designation indicates that the
8 Commission has discretion over the amortization period and is consistent with a finding
9 that a flow-through methodology may be adopted. The Commission found:

10 For purposes of resolving this docket, the Hearing Panel concluded
11 unanimously the Repairs Deduction-Related EADIT¹⁴ should be classified as
12 Unprotected EADIT.¹⁵

13 This "flow-through" approach to relieving the excess ADIT balance should also be applied
14 to the regulatory determination of income tax expense for ratemaking purposes.

15 **Q34. ARE YOU AWARE WHETHER OTHER STATE REGULATORY BODIES HAVE**
16 **ADOPTED THE FLOW-THROUGH METHOD OF COMPUTING INCOME TAX**
17 **EXPENSE?**

18 **A34.** Yes. The Iowa Utilities Commission approved the use of the flow-through methodology
19 for all property-related book/tax timing differences as requested by Black Hills.¹⁶

¹³ *Id.*

¹⁴ EADIT refers to Excess Accumulated Deferred Income Taxes.

¹⁵ *Final Order Resolving Phase Two Issues*, p. 13, TPUC Docket No. 18-00039 (August 3, 2000).

¹⁶ *Order Approving Settlement, Approving Compliance Filings, and Granting Confidential Treatment Requests*, p. 7, IUB Docket No. RPU-202-00002 (December 28, 2021). In this proceeding there was no dispute regarding the use of the flow-through methodology for computing income tax expense, instead the amount of the appropriate deduction as an issue, eventually resolved in a stipulated Repair Deduction amount that was adopted by the Commission.

1 **Q35. DOES YOUR ADJUSTMENT USING THE FLOW-THROUGH METHODOLOGY**
2 **FOR THE REPAIR DEDUCTION IMPACT THE BALANCE OF ADIT?**

3 **A35.** Yes. Applying the flow-through methodology to the Repair Deduction reduces Deferred
4 Tax Expense. The offsetting entry to the reduction in Deferred Tax Expense is a reduction
5 to the ADIT, which is an offset to rate base. Therefore, adopting the flow-through
6 methodology requires a corresponding adjustment to increase rate base. The adjustment I
7 am sponsoring to reflect the ADIT implications of adopting the flow-through methodology
8 for the Repair Deduction increases rate base \$3,167,952 and is set forth in Exhibit DND-
9 2.

10 **Q36. WILL THE ADOPTION OF THIS ADJUSTMENT RESULT IN A PROSPECTIVE**
11 **CHANGE IN THE MANNER IN WHICH THE COMPANY RECORDS INCOME**
12 **TAX EXPENSE AND ADIT ON ITS REGULATORY SET OF BOOKS?**

13 **A36.** Yes. Adopting this adjustment will result in a change in how the Company treats the Repair
14 Deduction going forward. In the future, the Repair Deduction will be treated as a flow-
15 through for items in the recording of income tax expense on the books maintained by
16 TAWC and reported to the Commission. There will be no change in the cumulative
17 book/tax timing difference associated with the Repair Deduction before the date new base
18 rates become effective in this case. However, that timing difference will not grow going
19 forward since these costs are no longer normalized for ratemaking purposes. When new
20 base rates become effective, the timing differences at this transition date will decrease
21 annually as book depreciation is recorded on those previously normalized Repair
22 Deductions.

23 *B. Labor Associated with Vacant Positions*

1 **Q37. NOW TURN TO THE LABOR ADJUSTMENT AND EXPLAIN HOW THE**
2 **COMPANY DEVELOPED ITS ATTRITION PERIOD CLAIM FOR ITS LABOR**
3 **EXPENSE.**

4 **A37.** The Company has developed a budgeted labor forecast through the attrition period,
5 inclusive of active and vacant employment positions, and applied forecasted increases in
6 wage rates, group insurance, other benefit costs, and payroll taxes. This results in an
7 attrition period adjustment that increases labor and related costs by \$1,242,192.

8 **Q38. PLEASE DESCRIBE THE ADJUSTMENT YOU ARE SPONSORING TO THE**
9 **COMPANY'S ATTRITION PERIOD LABOR COSTS.**

10 **A38.** I have eliminated the attrition period costs associated with vacant positions from the
11 Company's calculations based upon employee vacancies as of April 20, 2024, as identified
12 in Confidential Response to Consumer Advocate DR No. 2-5. Eliminating the labor, group
13 insurance, benefits, and payroll taxes associated with vacancies reduce attrition period
14 O&M costs by \$1,200,409. This adjustment is reflected in Exhibit DND-3 and includes
15 the removal of incentive compensation costs associated with the vacant positions.

16 **Q39. HOW MANY VACANT POSITIONS WERE REMOVED IN YOUR**
17 **ADJUSTMENT?**

18 **A39.** There were sixteen vacancies identified in the Confidential Response to Consumer
19 Advocate DR No. 2-5.

20 **Q40. WHY SHOULD THE COSTS ASSOCIATED WITH VACANT POSITIONS BE**
21 **REMOVED FROM THE REVENUE REQUIREMENT?**

1 **A40.** The Company consistently has employee vacancies. Accepting the Company’s assumption
2 that it will be fully staffed on an ongoing basis is not reasonable and is not consistent with
3 its actual historical results. The Company’s assumption that all vacant positions will be
4 filled and will remain filled in the attrition period is unrealistic.

5 The month-end number of open TAWC positions for the period January 2021 through June
6 2024 was identified in Response to City of Chattanooga’s DR No. 2-18.¹⁷ As indicated in
7 the Response, the Company consistently has vacancies.

8 **Q41. WHAT ARE THE PRACTICAL IMPLICATIONS OF INCLUDING THE COSTS**
9 **OF BUDGETED POSITIONS IN THE REVENUE REQUIREMENT THAT ARE**
10 **NOT FILLED?**

11 **A41.** The costs of vacant positions represent an additional operating margin for the Company,
12 and customers would pay TAWC for costs the utility does not actually incur in the attrition
13 period.

14 **Q42. DOES THE COMPANY HAVE A FINANCIAL INCENTIVE TO MAXIMIZE THE**
15 **HEADCOUNT INCLUDED IN ITS REVENUE REQUIREMENT PROPOSALS?**

16 **A42.** Yes. The Company will generate additional margins if it obtains cost recovery for positions
17 that are not subsequently filled.

18 **Q43. ARE THE ACTIVE POSITIONS IDENTIFIED IN CONFIDENTIAL RESPONSE**
19 **TO CONSUMER ADVOCATE DR NO. 2-5 AN ACCURATE REPRESENTATION**
20 **OF THE NUMBER OF TAWC EMPLOYEES?**

¹⁷ In the response to the City of Chattanooga’s request, the Company claimed 10 open positions as of April 2024, while the response to Consumer Advocate DR No. 2-05 identified 16 vacancies within the labor detail.

1 **A43.** Not entirely. In addition to the TAWC-designated employees, there are also employees
2 designated as employees whose time is charged 100% to TAWC. The Response to
3 Consumer Advocate DR No. 2-59 identifies four AWSC employees who charge 100% of
4 their time to TAWC and another who charges 85% of their time to TAWC. For all practical
5 purposes, TAWC has five more employees than what is reflected in the Confidential
6 Response to Consumer Advocate DR No 2-5. Two of these employees were re-designated
7 as AWSC employees in 2024. Thus, comparing current TAWC employee counts with
8 historic levels can be misleading because some employees are essentially TAWC
9 employees, but are not counted as such.

10 *C. Direct Charged Incentive Compensation*

11 **Q44. PLEASE IDENTIFY THE TYPES AND AMOUNTS OF INCENTIVE**
12 **COMPENSATION AVAILABLE TO EMPLOYEES.**

13 **A44.** The Company offers short-term incentive compensation, referred to as the Annual
14 Performance Plan (“APP”) to all employees. The Company also offers upper-management
15 and executive employees a long-term incentive plan (“LTPP”). In total the Company seeks
16 recovery of \$439,290¹⁸ of TAWC direct-charge APP costs and \$105,679 in direct-charged
17 LTPP costs. The Company also seeks recovery of \$621,676 in allocated APP costs and
18 \$475,824 in allocated LTPP costs.

19 **Q45. WHAT CRITERIA HAS THE COMPANY ADOPTED TO DETERMINE THE**
20 **AMOUNT OF APP THAT SHOULD BE GRANTED?**

¹⁸ Accounts 50171000 and 50171100, Link out tab, Petitioner’s Exhibit EXP-5.

1 **A45.** The APP compensation distribution criteria was provided in the Company's Response to
2 Consumer Advocate DR No. 1-21. The largest single criteria is premised upon achieving
3 a target level of earnings per share (50% weighting). Other criteria include at least a top
4 50% score for customer satisfaction (15% weighting), two different employee safety
5 metrics (15% total weighting), two different environmental criteria (15% total weighting),
6 and finally, two different diversity, equity, and inclusion metrics (5% total weighting).

7 **Q46. PROVIDE SOME BACKGROUND INFORMATION ON THE COMPANY'S LTTP**
8 **PROGRAM.**

9 **A46.** [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]¹⁹

14 **Q47. WHAT CRITERIA SHOULD BE USED BY THE COMMISSION IN**
15 **DETERMINING WHAT LEVEL OF INCENTIVE COMPENSATION, IF ANY,**
16 **SHOULD BE RECOVERED IN RATES?**

17 **A47.** The Commission should only allow recovery of incentive compensation costs to the extent
18 that the overall compensation level is reasonable, and the criteria used to determine the
19 amount of such compensation issued to employees provides direct customer benefits.

20 **Q48. HAS THE COMMISSION ADDRESSED THE RECOVERABILITY OF**
21 **INCENTIVE COMPENSATION IN PRIOR PROCEEDINGS?**

¹⁹ For more information refer to the Company's Confidential Response to Consumer Advocate DR No. 1-25.

1 **A48.** Yes. The Commission removed 50% of Chattanooga Gas Company's short-term incentive
2 compensation and 100% of its long-term incentive compensation from its revenue
3 requirement in TPUC Docket No. 18-00017 in an order issued on January 11, 2019, based
4 upon a finding that such treatment was consistent with Commission precedent.²⁰

5 **Q49. HAVE YOU EVALUATED THE EXTENT TO WHICH CUSTOMERS BENEFIT**
6 **FROM THE CRITERIA ADOPTED BY THE COMPANY'S UNDERLYING APP**
7 **AND LTTP AWARDS?**

8 **A49.** Yes.

9 **Q50. WHAT ARE YOUR CONCLUSIONS?**

10 **A50.** The APP metrics include a 50% weighting of the earnings per share of AWS. This metric
11 primarily benefits the Company's shareholders and is the type of metric that was excluded
12 from rate recovery in TPUC Docket No. 18-00017. Further, an additional 5% of APP is
13 dependent upon meeting thresholds for women and ethnic representation in the workforce.
14 While this may be an appropriate corporate goal to strive for, the objective is not required
15 in the provision of utility service, and costs associated with this metric should not be
16 recovered from the Company's customers. Therefore, I recommend that 55% of the TAWC
17 direct APP costs be removed from the revenue requirement.

18 Stock awards comprise the long-term incentive costs requested in this proceeding. [REDACTED]
19 [REDACTED] with a three-year vesting
20 window, referenced as the RSU's. Performance Stock Units represent the other [REDACTED]
21 [REDACTED]

²⁰ Order, p. 34, TPUC Docket No. 18-00017 (January 11, 2019).

1 [REDACTED]

2 [REDACTED].²¹ The criteria established for the
3 payment of the collective RSU's and PSU's awards clearly benefit shareholders and
4 consistent with past Commission practice, these costs should be removed from the revenue
5 requirement.

6 **Q51. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S**
7 **PROPOSAL TO RECOVER APP COSTS?**

8 **A51.** I recommend the disallowance of 55% of the Company's APP costs based upon the sum of
9 the earnings per share criteria and the diverse employment criteria. The result is
10 eliminating \$200,307 of TAWC directly charged O&M costs as set forth in Exhibit DND-
11 4 in the attrition period. This adjustment is net of \$75,095 in incentive costs removed from
12 the attrition period associated with vacant positions, discussed earlier and as outlined in
13 Exhibit DND-3.²² If the labor adjustment I am supporting is not accepted, the APP
14 adjustment in Exhibit DND-4 should be adjusted accordingly.

15 **Q52. WHAT IS YOUR RECOMMENDATION REGARDING THE RECOVERY OF**
16 **LTPP COSTS?**

17 **A52.** I recommend an adjustment to eliminate \$87,306 from the attrition period associated with
18 TAWC LTPP costs, also outlined in Exhibit DND-4. The purpose of these costs is to
19 [REDACTED], both

²¹ The publicly available description of the PSU awards may be found on page 108 of American Water Company's 2023 10K filing with the Securities and Exchange Commission; "Distribution of performance shares is contingent upon the achievement of one or more internal performance measures and, separately, a relative total shareholder return performance measure, over the Performance Period." Available at [999ef431-4b40-47bf-ba68-3f8e93247bf1.pdf](https://www.sec.gov/edgar/data/1000003/000100000323000001/awr2310k.htm#3f8e93247bf1.pdf) (SECURED) (d18rn0p25nwr6d.cloudfront.net).

²² The 75,095 is the sum of the APP Union (line 6), Non-Union Hourly (line 11) and Non-Union Salaried (line 15) shown in Exhibit DND-3.

1 of which are benefits exclusive to shareholders. I have removed these costs in Exhibit
2 DND-4, consistent with the treatment provided by the Commission in other dockets and
3 the fact that they do not benefit TAWC customers. The \$87,306 attrition period adjustment
4 to remove TAWC LTPP costs is net of \$18,373 of attrition period LTPP costs removed in
5 Exhibit DND-3.

6 *D. Allocated Incentive Compensation*

7 **Q53. HAS THE COMPANY INCLUDED A REQUEST FOR RECOVERY OF**
8 **INCENTIVE COMPENSATION COSTS ALLOCATED TO TAWC FROM ITS**
9 **AFFILIATE SERVICE COMPANY AWSC?**

10 **A53.** Yes. The test period allocated APP costs sought to be recovered totaled \$621,676²³ while
11 LTPP costs were \$ 475,824.²⁴

12 **Q54. DID YOU APPLY THE SAME RATIONALE TO QUANTIFY THE ADJUSTMENT**
13 **TO ALLOCATED INCENTIVE COMPENSATION THAT YOU USED IN**
14 **DETERMINING THE AMOUNT OF TAWC DIRECT INCENTIVE COSTS**
15 **ELIGIBLE FOR RECOVERY DISCUSSED ABOVE?**

16 **A54.** Yes.

17 **Q55. WHAT ADJUSTMENT ARE YOU SUPPORTING FOR THE REDUCTION OF**
18 **O&M COSTS ASSOCIATED WITH ALLOCATED INCENTIVE**
19 **COMPENSATION?**

²³ Company's Response to Consumer Advocate DR No. 1-90 – Corrected (Certain portions of the file are identified as confidential).

²⁴ Company's Response to Consumer Advocate DR No. 1-24.

1 **A55.** I recommend the removal of \$334,692 in APP costs and \$468,271 in LTPP costs, as
2 reflected on Exhibit DND-5, for a total reduction to O&M costs of \$802,962, with all
3 amounts stated on a test period basis. These balances are net of adjustments to the Business
4 Development and External Affairs functions I will discuss later in my testimony. The
5 netting of these other adjustments is necessary to avoid a duplication of the removal of
6 allocated APP and LTPP costs.

7 The rationale for removing these costs is identical to that discussed above regarding the
8 exclusion of TAWC direct-charged incentive compensation costs. After the adjustment, the
9 portion of the allocated APP costs remaining in O&M reflects the 45% of APP costs related
10 to customer benefits. I have removed 100% of the allocated LTPP costs for the
11 abovementioned reasons.

12 The corresponding attrition period adjustment is \$933,864 as set forth in Exhibit DND-5,
13 presented in the event the Commission does not adopt the inflation adjustment for Support
14 Services sponsored by Mr. Bradley.

15 **Q56. WHY IS THE ADJUSTMENT TO TAWC DIRECT-CHARGED INCENTIVE**
16 **COMPENSATION QUANTIFIED AS OF THE ATTRITION PERIOD, BUT THE**
17 **ADJUSTMENT TO THE ALLOCATED INCENTIVE COMPENSATION COSTS**
18 **STATED ON THE TEST PERIOD BASIS?**

19 **A56.** Mr. Bradley is proposing an inflation adjustment to the Support Services category, which
20 includes incentive compensation allocated to TAWC. Thus, his adjustment reconciles the
21 attrition period costs with the test period costs, resulting in the need for the incentive
22 compensation adjustment to be stated as the test period. The Consumer Advocate is not
23 proposing a similar adjustment to TAWC direct labor charges, thus, the adjustment I'm

1 supporting to TAWC direct incentive compensation costs is based upon attrition period
2 amounts.

3 *E. Non-Recurring Charges*

4 **Q57. NOW TURN TO YOUR ADJUSTMENT TO REMOVE NON-RECURRING COSTS**
5 **FROM THE TEST PERIOD.**

6 **A57.** I recommend removing legal costs associated with TPUC Docket No. 19-00103 incurred
7 in the test period from O&M costs. These costs should not be recurring, and if they are
8 recurring, they should not be borne by the Company's customers. The test period
9 adjustment of \$121,869 was based upon information provided in Consumer Advocate DR
10 No. 1-74 and is outlined in Exhibit DND-6. The alternative attrition period adjustment is
11 \$128,139.

12 **Q58. WHY DO YOU BELIEVE THAT SUCH COSTS ARE NON-RECURRING, OR IF**
13 **THEY ARE RECURRING, WHY SHOULD THEY NOT BE RECOVERED FROM**
14 **CUSTOMERS?**

15 **A58.** The parties to TPUC Docket No. 19-00103 spent considerable time resolving outstanding
16 issues over the past several years.²⁵ Recently, a resolution was reached among the parties,
17 which provided a framework for the rider calculation moving forward.²⁶ Therefore, this
18 significant cost should not be considered an ongoing charge.

19 The Company should have updated its capital rider tariff within this proceeding to
20 accommodate the implications of this filing on the capital rider, but it chose not to do so.

²⁵ Notwithstanding the amount of time spent over the years, it is quite surprising that the Company incurred \$121 thousand in legal costs in 2023 alone associated with this Docket.

²⁶ *Order Approving Stipulation and Settlement Agreement*, TPUC Docket No. 19-00103 (January 31, 2024).

1 Legal costs incurred in the future resulting the need to revise the company's capital rider
2 tariff should not be incurred by customers. The Commission should find that legal costs
3 associated with issues raised in TPUC Docket No. 19-00103 are either non-recurring or not
4 the type of costs that should continue to be recovered from customers.

5 *F. Excess Purchased Power Costs*

6 **Q59. NOW TURN TO YOUR ADJUSTMENT TO ELIMINATE EXCESS PURCHASED**
7 **POWER COSTS. PLEASE IDENTIFY THIS ADJUSTMENT AND EXPLAIN WHY**
8 **IT IS NECESSARY.**

9 **A59.** I recommend eliminating \$253,309 of attrition period Purchased Power costs to properly
10 implement the Commission's 15% non-revenue water ("NRW") limitation factor as set
11 forth on Exhibit DND-7. This adjustment is necessary to remove those costs that result
12 from excess unaccounted-for water within the Company's system.

13 **Q60. WHAT IS THE NON-REVENUE WATER LIMITATION FACTOR?**

14 **A60.** The NRW limiter is the percentage of actual water system sales to water system delivery
15 (water loss) compared to the established water loss limitation factor of 15%.

16 The Commission has a long-standing precedence of allowing up to a 15% non-revenue
17 water factor. Further, the Company acknowledged the 15% NRW limitation in TPUC
18 Docket No. 24-00002.²⁷

²⁷ Direct Testimony of Robert Lane at 10:7-12, TPUC Docket No. 24-00002 (January 16, 2024).

1 **Q61. HOW DO YOU RESPOND TO THE COMPANY'S RESPONSE TO CONSUMER**
2 **ADVOCATE DR NO. 3-13 IN WHICH IT MAKES A DISTINCTION BETWEEN**
3 **NRW AND LOST AND UNACCOUNTED-FOR WATER?**

4 **A61.** The Company points out the distinction between these two terms in its response and argues
5 that the Commission has not established a 15% NRW factor, but rather this standard was
6 instead, a lost and unaccounted for water threshold. While I agree the Commission used
7 the phrase lost and unaccounted for water in its findings in TRA Docket No. 10-00189,
8 there is no indication that it made a distinction in the ratio calculation from the standard
9 NRW determination made in PCOP filings. Because NRW is not metered, it is not possible
10 to definitively make a numeric distinction between lost water and NRW. This 15% lost
11 and unaccounted for water percentage was approved in TRA Docket No. 10-00189.²⁸

12 **Q62. IS YOUR ADJUSTMENT CALCULATED CONSISTENTLY WITH HOW SUCH**
13 **COSTS ARE DETERMINED IN A PCOP FILING?**

14 **A62.** Yes.

15 **Q63. GIVEN THE COMPANY'S CURRENT PCOP RIDER, WHICH ADDRESSES**
16 **ANNUAL PRODUCTION COSTS, WHY IS THIS ADJUSTMENT NECESSARY?**

17 **A63.** The PCOP rider uses the Purchased Power and Chemical costs established in its last rate
18 case as the benchmark to determine incremental or decremental costs to recover from or
19 return to customers. If Purchased Power and Chemical costs are overstated within the
20 revenue requirement, these balances will not self-correct in subsequent PCOP filings. If
21 this adjustment is not accepted TAWC customers will be saddled with incurring costs

²⁸ *Final Order*, pp. 65-67, TRA Docket No. 10-00189, (April 27, 2012).

1 associated with an effective NRW percentage of 23.27% in base rates and that will not
2 change as a result of future PCOP filings.

3 **Q64. PLEASE EXPLAIN HOW THE ADJUSTMENT WAS CALCULATED.**

4 **A64.** The Company's NRW limiting factor for the test period was 23.27%, based upon
5 information provided in Minimum Filing Guidelines # 22. Comparing this NRW rate with
6 the allowable 15% NWR limitation results in a net recoverable factor of 91.73% as set out
7 in Exhibit DND-7. When applied to the attrition period Purchased Power costs contained
8 in TAWC Exhibit 2.2, the resulting attrition period adjustment is \$253,309.

9 **Q65. DID THE COMPANY ADJUST ITS ATTRITION PERIOD PRODUCTION COSTS**
10 **TO INCORPORATE ITS EXCESS WATER LOSS?**

11 **A65.** No.

12 *G. Excess Chemicals*

13 **Q66. PLEASE TURN TO YOUR ADJUSTMENT TO CHEMICAL COSTS AND**
14 **EXPLAIN THIS ADJUSTMENT.**

15 **A66.** The purpose of this adjustment is identical to that of the adjustment to Purchased Power,
16 to eliminate costs over the NRW factor applied in PCOP filings. The reduction in attrition
17 period costs is \$190,816, as reflected in Exhibit DND-8. The 91.73%

18 *H. Elimination of Charitable Costs*

19 **Q67. PLEASE TURN TO THE ADJUSTMENT SET OUT IN EXHIBIT DND-9.**
20 **DESCRIBE THE NATURE OF THE ADJUSTMENT AND WHY IT IS**
21 **NECESSARY.**

1 A67. The adjustment set out in Exhibit DND-9 removes \$108,820 in test period Community
2 Partnership costs. These costs benefit the community and generate goodwill for the
3 Company but are unrelated to water service provision and should not be built into base
4 rates. The attrition period version of this adjustment is \$122,340, derived from account
5 52514700 within the Link Out tab of the Company's Miscellaneous Expense file.

6 **Q68. PROVIDE AN EXAMPLE OF THE COMMUNITY PARTNERSHIP COSTS YOU**
7 **BELIEVE SHOULD BE EXCLUDED FROM THE REVENUE REQUIREMENT.**

8 A68. A general description of these costs may be found in Mr. Evitts testimony.²⁹ The Response
9 to Consumer Advocate DR No. 1-40 describes specific community partnership activities.
10 These activities include environmental grants, elementary school science Olympiad
11 sponsorship, support for scholarship and academic programs, and grants to fifteen fire
12 departments.

13 **Q69. DO YOU BELIEVE IT APPROPRIATE FOR THE COMPANY TO RECEIVE**
14 **REIMBURSEMENT FROM A THIRD PARTY – ITS CUSTOMERS – FOR**
15 **CHARITABLE AND CIVIC ENDEAVORS?**

16 A69. No. Customers may make charitable and civic contributions they may do so from their
17 own personal funds and should not be forced to do so through their water utility bills.
18 Attempting to recover such costs from customers, while simultaneously benefitting in the
19 goodwill from such contributions is inappropriate. I recommend that going forward the
20 Commission direct the Company to record such costs to a non-operating expense account.
21 Further, the internal labor associated with the oversight and participation in such activities

²⁹ *Petition*, Direct Testimony of Grant Allen Evitts at 23:5 – 25:15.

1 should also be recorded as non-operating labor and excluded from any subsequent
2 proposed revenue requirement.

3 *I. Out of Test Period Property Taxes*

4 **Q70. CONTINUE WITH AN EXPLANATION OF THE ADJUSTMENT YOU ARE**
5 **SPONSORING TO THE COMPANY'S PROPERTY TAX EXPENSE. PLEASE**
6 **BEGIN BY PROVIDING SOME BACKGROUND ON THE COMPANY'S**
7 **CALCULATED ATTRITION PERIOD ADJUSTMENT.**

8 **A70.** The Company is sponsoring an adjustment to increase pro forma property tax expense
9 \$2,307,274 driven by a significant increase in the equalized assessment percentage. The
10 Company's attrition period property tax expense is derived from applying the estimated
11 assessed valuation to the equalized assessment percentage, and the product of those two
12 factors is then applied to the property tax rate to arrive at the property taxes for the attrition
13 period.

14 **Q71. WHAT ISSUE DO YOU HAVE WITH THEIR COMPUTATION?**

15 **A.71** The appraisal increase driving the significant increase in the attrition period property tax
16 increase will not be reflected as an expense on the books of TAWC until 2026, outside the
17 forecasted attrition period. I have eliminated the higher assessment rate, resulting in a
18 decrease in the Company's attrition period property tax of \$1,343,890 as reflected in
19 Exhibit DND-10. I wish to emphasize that despite the large reduction in O&M costs in the
20 attrition period, the property tax increase I am sponsoring in the attrition period is
21 approximately \$950,000 higher than the test period property tax reflected in Company
22 Exhibit 22A.2.

1 **Q72. WHAT IS THE BASIS FOR YOUR CONCLUSION THAT THE ASSESSMENT**
2 **WILL NOT IMPACT ATTRITION PERIOD COSTS?**

3 **A72.** Property tax recorded in a given year is based upon the plant in service as of the prior
4 year.³⁰ More importantly, the revised assessment will not be applicable until 2025,
5 reflected in 2026 property tax expense.³¹ The Commission should not apply a 2026
6 forecasted expense within the 2025 attrition period. Accepting this Company's proposal
7 would require customers to pay higher rates in 2025, while the Company would not incur
8 the cost until 2026.

9 *J. Elimination of Costs not Benefitting Customers*

10 **Q73. NOW TURN TO EXHIBIT DND-11, AND PLEASE SUMMARIZE THE NATURE**
11 **OF THE ADJUSTMENT YOU ARE SUPPORTING.**

12 **A73.** I'm proposing to eliminate Support Service costs totaling \$113,209 in the test period
13 allocated from AWSC, that either do not provide benefits to customers or are related to a
14 reasonable apportionment of lobbying charges. The adjustment is split into four different
15 categories:

- 16 • Elimination of 100% of corporate business development costs.
- 17 • Eliminate 20% of the External Affairs and Public Policy Department costs
18 allocated to TAWC. Eliminate 50% of the costs allocated to TAWC associated
19 with the Chief Inclusion, Diversity and Equity (ID&E) Officer and VP Talent
20 Acquisition
- 21 • Eliminate 100% of other ID&E costs from O&M.

³⁰ Company's Response to Consumer Advocate DR No. 1-11 (a).

³¹ Company's Response to Consumer Advocate DR No. 1-82, Attachment <DR-1-82 attachment.pdf>.

1 **Q74. PLEASE DISCUSS THESE INDIVIDUALLY BY FIRST ADDRESSING YOUR**
2 **PROPOSAL TO ELIMINATE ALLOCATED BUSINESS DEVELOPMENT COSTS**
3 **FROM THE TEST PERIOD.**

4 **A74.** The Company has failed to forecast any benefits associated with the Business Development
5 function during the attrition period. In summary, the Company has included the forecasted
6 costs of the Business Development function, but this discretionary expense is not offset by
7 any implied growth in the system that would provide cost benefits for customers. This
8 asymmetrical approach should be rejected by the Commission, and the \$72,052 in
9 departmental costs for Business Development should be eliminated from O&M.

10 **Q75. IS THE GROWTH IN THE CUSTOMER BASE A PRIORITY FOR THE**
11 **COMPANY?**

12 **A75.** Yes. Appendix 2 is an excerpt of the Company's most recent investor presentation dated
13 August 1, 2024. On page 7 of the slide deck, the Company identifies that regulated
14 acquisitions, targeted to increase customer counts by 2%, are one of the drivers in achieving
15 a long-term earnings per share growth rate of 7-9%. It is clear that Business Development
16 plays a key role in the Company's growth objectives. However, despite this, the Company
17 has requested the forecasted costs associated with this department while retaining all
18 forecasted benefits in the form of economies of scale associated with a growing
19 organization. The Commission should reject the one-sided ratemaking approach and
20 disallow Business Development departmental costs from the attrition period. This
21 component of the adjustment reduces test period costs \$72,052.

1 **Q76. NEXT, TURN TO YOUR PROPOSAL TO ELIMINATE A PORTION OF THE**
2 **ALLOCATED COSTS OF THE EXTERNAL AFFAIRS AND PUBLIC POLICY**
3 **GROUP.**

4 **A76.** I reviewed the job descriptions of all employees whose time is charged to the AWSC
5 External Affairs and Public Policy Department, provided in response to Consumer
6 Advocate DR No. 3-12. These descriptions indicate that a significant portion of the
7 responsibilities are related to shaping public opinion and overseeing the Company's
8 lobbying efforts. Out of seventeen positions, seven include responsibilities related to tasks
9 that do not benefit customers. I have summarized the portions of the job descriptions
10 supporting this conclusion, which are attached as Appendix 3.

11 For purposes of setting rates, lobbying should be more broadly defined to include the
12 indirect costs associated with influencing public opinion and policy. Lobbying should not
13 be defined as simply those costs paid to hired registered lobbyists but instead include all
14 the indirect costs, including time spent meeting internally to discuss corporate legislative
15 objectives, developing a strategy, communication with third-party lobbying contractors,
16 and meeting with government officials, both formally and informally. Identifying lobbying
17 costs should be based upon a fully distributed cost approach similar to how overhead costs
18 are capitalized to construction projects. In that context, internal labor costs associated with
19 the design and planning of construction projects are charged to the asset. Construction
20 costs are not limited to the labor directly involved in the physical installation of the asset.
21 In this same fashion, customers should not incur direct or indirect lobbying costs, which
22 should be considered in a fully distributed cost view, rather than a narrower incremental
23 cost approach.

1 **Q77. HAS THE COMPANY CHARGED ANY INTERNAL LABOR TO LOBBYING,**
2 **THUS REMOVING IT FROM THE REVENUE REQUIREMENT?**

3 **A77.** Yes. In Response to Consumer Advocate DR No. 1-72, the Company indicated it had
4 charged \$4,357 to lobbying, presumably removing it from the revenue requirement.

5 **Q78. DO YOU BELIEVE THIS IS AN ACCURATE MEASUREMENT OF COSTS THAT**
6 **SHOULD BE ASSIGNED TO THE LOBBYING FUNCTION?**

7 **A78.** No. In light of the significant references to lobbying and relate efforts contained in the job
8 descriptions provided in the Confidential Response to Consumer Advocate DR No. 3-12, I
9 do not believe this level of identified lobbying costs is reasonable.

10 **Q79. HOW DID YOU CALCULATE THE ADJUSTMENT TO REMOVE A PORTION**
11 **OF EXTERNAL AFFAIRS AND PUBLIC POLICY COSTS?**

12 **A79.** I have taken a conservative approach and assumed that twenty percent of the activity of the
13 department is associated with lobbying activities that should be removed from the test
14 period O&M costs. This is admittedly a subjective approach, however, the Company does
15 not have an incentive to provide a true measurement of these costs, so regulators are left
16 with making a subjective estimate of these internal costs. I have not attempted to attribute
17 any costs of office space to this adjustment. The twenty percent exclusion is likely too
18 small given the importance of public policy on the ability of the Company to meet its
19 aggressive financial targets. The twenty percent exclusion of these departmental costs
20 charged to lobbying results in a test period O&M cost reduction of \$29,705.

1 **Q80. NOW TURN TO THE THIRD COMPONENT OF YOUR ADJUSTMENT**
2 **RELATED TO THE COSTS ASSOCIATED WITH THE INCLUSION DIVERSITY**
3 **AND EQUITY (“ID&E”) OFFICER.**

4 **A80.** I recommend removing 50% of the costs associated with this position, resulting in an
5 adjustment of \$3,458, as reflected in Exhibit DND-11. The ID&E focus reflects a corporate
6 goal, but not one that is essential in the provision of monopoly water service. The partial
7 exclusion reflects that the position was modified in 2024 to a dual role as both an ID&E
8 officer and the VP of Talent Acquisition. Information for this adjustment was provided in
9 Response to Consumer Advocate DR No. 3-4.

10 **Q.81 TURN TO THE LAST COMPONENT OF THIS ADJUSTMENT AND EXPLAIN**
11 **WHY IT IS NECESSARY.**

12 **A81.** The Response to Consumer Advocate DR No. 3-4 identifies two additional positions
13 associated with AWSC’s ID&E function. I am recommending the removal of these costs
14 totaling \$7,968, as they are not necessary in the provision of jurisdictional water service.

15 **Q82. WHAT IS THE ATTRITION PERIOD TOTAL OF THE ADJUSTMENT**
16 **SPONSORED IN EXHIBIT DND-11?**

17 **A82.** In the event the Commission rejects the inflation adjustment sponsored by Mr. Bradley, the
18 appropriate attrition period adjustment for the items discussed above is \$121,493 as set out
19 in Exhibit DND-11.

20 *K. Eliminate TAWC Lobbying*

21 **Q83. BEGIN BY EXPLAINING THE ADJUSTMENT YOU ARE SPONSORING TO**
22 **REMOVE TAWC LOBBYING COSTS.**

1 A83. The Company provided certain job descriptions on a confidential basis in Response to
2 Consumer Advocate DR No. 2-13. The job description of the Manager of External Affairs

3 [REDACTED]
4 [REDACTED]

5 While the assignment of lobbying is necessarily subjective, some assignment to the
6 lobbying function must be made to ensure customers do not incur lobbying costs. [REDACTED]
7 [REDACTED], resulting in the removal of
8 \$38,303 in attrition period costs as outlined in Exhibit DND-12.

9 L. To Recognize Omitted Credits on State Excise Tax Calculation

10 Q84. PLEASE EXPLAIN THE ADDITIONAL ADJUSTMENT YOU ARE PROPOSING
11 TO STATE EXCISE TAXES.

12 A84. A review of the state excise tax return provided in the Minimum Filing Guidelines, question
13 47, attachment 6 indicates the Company has access to the “Industrial Machinery and
14 Research and Development Tax Credit.” However, such credit was omitted from the
15 Company’s attrition period excise tax calculation. The Company has acknowledged the
16 omission in Response to Consumer Advocate DR No. 2-10 and has indicated the attrition
17 period adjustment should be \$210,827. This adjustment is identified in Exhibit DND-13
18 and reflected in the Consumer Advocate attrition period tax calculation referenced as
19 Schedule 11.

20 IV. Cash Working Capital

21 Q85. WHAT CASH WORKING CAPITAL (“CWC”) BALANCE ARE YOU
22 SUPPORTING IN THIS PROCEEDING?

1 **A85.** I am supporting a CWC balance of (\$366,485) as reflected on Schedule 5 of the Consumer
2 Advocate Exhibits. This compares with \$4,503,000 supported by the Company.³² My
3 adjustment to Cash Working capital reflects the elimination of certain non-cash elements
4 of the calculation supported by the Company, the modification of the revenue lag, the
5 modification of the Support Service Expense lead, and the incorporation of the effects of
6 Consumer Advocate’s revenue requirement components into the calculation, which I will
7 discuss later in this section of testimony.

8 **Q86. PLEASE PROVIDE AN OVERVIEW OF CWC, HOW IT IS DETERMINED AND**
9 **HOW IT IMPACTS THE DETERMINATION OF A UTILITIES REVENUE**
10 **REQUIREMENT.**

11 **A86.** CWC is a measurement of the amount of cash a company requires to have on hand to fund
12 day-to-day operations. The most precise method of determining CWC is through the use
13 of a lead-lag study, such as the one presented by TAWC witness Harold Walker III. A CWC
14 study measures the timing between when revenue is earned and when it is received, when
15 cash expenses are incurred and when they are paid. These measurements are netted to
16 determine the amount of funding required for the provision of utility services. This level
17 of funding, or investment, is appropriately included as a component of the rate base. The
18 level of CWC in Rate Base may be positive or negative depending upon the outcome of
19 the study.

³² *Petition*, File <TAWC 2024 Rate Case – Cash Working Capital Exhibit.xlsx>, Tab “Working Capital – Pro Forma” (Petitioner’s Exhibit RB-4-Cash Working Capital-DD).

1 **Q87. BEGIN THE DISCUSSION OF YOUR ADJUSTMENTS TO CWC BY**
2 **IDENTIFYING THOSE ELEMENTS OF THE CALCULATION THAT YOU HAVE**
3 **REMOVED.**

4 **A87.** The Company has included Deferred Taxes, Depreciation/Amortization, and Net Income
5 as components of expenses subject to the calculation of lead-lag. The company has applied
6 zero days of lag to them within the calculation, but that does not completely remove the
7 impact of these items from the calculation. These amounts are incorporated within the total
8 balances, which are then subject to computing a daily average. The Commission has
9 previously indicated that non-cash items should be removed altogether from the CWC
10 calculation.³³ The Company's inclusion of these items is an attempt to modify a CWC
11 calculation to provide some measurement of regulatory lag instead. However, measuring
12 regulatory lag is not the goal of a lead-lag study, which instead is intended to measure the
13 amount of cash required (or provided by customers) in the provision of utility service.

14 The non-cash expenses are outside the scope of a cash working capital analysis. As implied
15 by its name, the goal is to measure the company's cash needs (if any). There is no outflow
16 of cash related to depreciation expense nor the net income the company generates.

17 **Q88. NEXT DESCRIBE THE MODIFICATIONS YOU ARE SUPPORTING TO ADJUST**
18 **LEAD/LAG COMPONENTS WITHIN THE CALCULATION.**

19 **A88.** The Consumer Advocate requested that the Company reconcile revenues per its pro-forma
20 test period with the revenues used within its cash working capital calculation in its DR No.
21 1-51. In its response, the Company acknowledged an error in the revenue value used in

³³ *Order*, pp. 47-49, TPUC Docket No. 18-00017, (January 11, 2019).

1 the calculation. Correcting this issue results in modifying the overall revenue lag from
2 44.9 days to 44.46 days. While this change may seem slight, it is material to the CWC
3 calculation. The support for this modification is shown on Exhibit DND-14

4 The second adjustment to the lead/lag component is to modify the Support Service lag days
5 of negative (5) days of the Company to instead use the lag for Salaries and Wages of 10.5
6 days. The negative five days used implies that TAWC is paying for affiliate charges before
7 such charges are actually incurred. This is not the type of payment structure that would
8 occur between two unaffiliated entities, nor should customers be expected to prepay for
9 affiliate charges. These corporate services charges incur a large measure of labor charges,
10 so I have imputed the lag associated with TAWC labor as the appropriate lead time
11 associated with affiliate support services.

12 Finally, I have incorporated the Consumer Advocate-supported attrition period O&M costs
13 into the calculation to arrive at the CWC value of (\$366,485). The negative value reflects
14 that customers are providing excess funds necessary to finance TAWC daily operations.

15 **V. Modification of the Revenue Conversion Factor**

16 **Q89. ARE YOU RECOMMENDING THE ELIMINATION OF TWO COMPONENTS**
17 **TO THE COMPANY'S REVENUE CONVERSION FACTOR?**

18 **A89.** Yes. I am recommending that the Company's inclusion of the TRA utility fee factor and
19 Gross Income (Receipts) factor be eliminated within the gross-up calculation.³⁴ The TRA
20 (TPUC) fee will not increase or decrease until 2026 associated with this rate change, and

³⁴ Mr. Novak is supporting modifications to the Bad Debt Ratio and inclusion of the forfeited discounts factor.

1 thus, it should not be considered within the context of the 2025 attrition period results under
2 consideration in this proceeding.

3 Secondly, the Company's most recent Gross Receipts Tax Return was supplied in response
4 to Minimum Filing Guideline Question 47, Attachment 1. A review of this filing indicates
5 that the Excise Tax and Franchise Tax payments are direct credits to the amount of Gross
6 Receipts tax due. As a result it would be inappropriate to include both factors in the gross-
7 up calculation. I have eliminated the Gross Receipts gross-up factor consistent with the
8 Commission determined the factor in TPUC Docket No. 18-00017.³⁵

9 **VI. Modification to the PCOP Rider**

10 **Q90. PROVIDE AN OVERVIEW OF THE COMPANY'S PROPOSAL TO EXPAND THE**
11 **PCOP RIDER.**

12 **A90.** The Company seeks to expand its PCOP rider to include the incremental (or decremental)
13 costs associated with its Pension and OPEB costs and recovery of its Regulatory Costs.³⁶
14 Mr. Novak is addressing the recovery of the Company's regulatory costs. I will focus on
15 addressing the Company's proposal to include pension and OPEB cost variations within
16 the PCOP rider, compared with those recovered in this base rate proceeding.

17 **Q91. PLEASE RESPOND TO THE COMPANY'S PROPOSAL.**

18 **A91.** First, the Company could request the adoption of an Annual Review Mechanism ("ARM")
19 pursuant to Tenn. Code Ann. Section 65-5-103(d)(6), which would address the annual
20 volatility of all TAWC costs. I do not believe the Commission should authorize a new,

³⁵ *Order*, p, 103 TPUC Docket No. 18-00017 (January 11, 2019).

³⁶ *Petition*, Direct Testimony of Robert Lane at 20-24.

1 duplicative mechanism to one it already has available. The Commission should avoid the
2 expansion of piecemeal regulation, which allows the utility to determine which
3 components can be updated annually and which cannot.

4 Secondly, the Company's proposal would eliminate its risk of under-earning resulting from
5 volatility in pension and OPEB costs. However, there has been no offsetting reduction in
6 its proposed ROE to reflect this risk reduction, so the Company's proposal is one-sided. It
7 is apparent from the Company's testimony that it would enjoy a reduction in the inherent
8 risk from achieving its authorized return on equity.³⁷ However, the company has ignored
9 this obvious outcome in the requested return on equity.

10 Thirdly, while there are many factors influencing the annual Pension and OPEB costs,
11 many of which are outside the Company's control, the Company has the discretion to make
12 changes to these employee benefit plans, and in fact has made plan changes in the past few
13 years.³⁸

14 For these reasons, I recommend that the Commission reject the expansion of the existing
15 PCOP mechanism.

16 **Q92. DOES THIS CONCLUDE YOUR TESTIMONY?**

17 **A92.** Yes, but I reserve the right to modify my testimony if additional information becomes
18 available.

³⁷

Id.

³⁸

Company's Responses to Consumer Advocate DR Nos. 1-31 and 1-32.

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

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

AFFIDAVIT

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

David N. Dittmore
DAVID N. DITTEMORE

Sworn to and subscribed before me

This 9th day of September, 2024.

Terra Allen
NOTARY PUBLIC



My Commission Expires: 1/31/2027

David Dittmore

Experience

Areas of Specialization

Approximately thirty-years experience in evaluating and preparing regulatory analysis, including revenue requirements, mergers and acquisitions, utility accounting and finance issues and public policy aspects of utility regulation. Presented testimony on behalf of my employers and clients in natural gas, electric, telecommunication and transportation matters covering a variety of issues.

Self-Employed; **Consultant July 1 - Current**; Responsible for providing evaluation of utility ratemaking issues on behalf of clients. Prepare analysis and expert witness testimony.

Tennessee Attorney General's Office; **Financial Analyst September, 2017 – June 2021**; Responsible for evaluation of utility proposals on behalf of the Attorney General's office including water, wastewater and natural gas utility filings. Prepare analysis and expert witness testimony documenting findings and recommendations.

Kansas Gas Service; **Director Regulatory Affairs 2014 - 2017; Manager Regulatory Affairs, 2007 - 2014**

Responsible for directing the regulatory activity of Kansas Gas Service (KOS), a division of ONE Gas, serving approximately 625,000 customers throughout central and eastern Kansas. In this capacity I have formulated strategic regulatory objectives for KOS, formulated strategic legislative options for KOS and led a Kansas inter-utility task force to discuss those options, participated in ONE Gas financial planning meetings, hired and trained new employees and provided recommendations on operational procedures designed to reduce regulatory risk. Responsible for the overall management and processing of base rate cases (2012 and 2016). I also played an active role, including leading negotiations on behalf of ONE Gas in its Separation application from its former parent, ONEOK, before the Kansas Corporation Commission. I have monitored regulatory earnings, and continually determine potential ratemaking outcomes in the event of a rate case filing. I ensure that all required regulatory filings, including surcharges are submitted on a timely and accurate basis, I also am responsible for monitoring all electric utility rate filings to evaluate competitive impacts from rate design proposals.

Strategic Regulatory Solutions; 2003 -2007

Principal; Serving clients regarding revenue requirement and regulatory policy issues in the natural gas, electric and telecommunication sectors

Williams Energy Marketing and Trading; 2000-2003

Manager Regulatory Affairs; Monitored and researched a variety of state and federal electric regulatory issues. Participated in due diligence efforts in targeting investor owned electric utilities for full requirement power contracts. Researched key state and federal rules to identify potential advantages/disadvantages of entering a given market.

MCI WorldCom; 1999 - 2000

Manager, Wholesale Billing Resolution; Manage a group of professionals responsible for resolving Wholesale Billing Disputes greater than \$500K. During my tenure, completed disputes increased by over 100%, rising to \$150M per year.

Kansas Corporation Commission; 1984- 1999

Utilities Division Director - 1997 - 1999; Responsible for managing employees with the goal of providing timely, quality recommendations to the Commission covering all aspects of natural gas, telecommunications and electric utility regulation; respond to legislative inquiries as requested; sponsor expert witness testimony before the Commission on selected key regulatory issues; provide testimony before the Kansas legislature on behalf of the KCC regarding proposed utility legislation; manage a budget in excess of \$2 Million; recruit professional staff; monitor trends, current issues and new legislation in all three major industries; address personnel issues as necessary to ensure that the goals of the agency are being met; negotiate and reach agreement where possible with utility personnel on major issues pending before the Commission including mergers and acquisitions; consult with attorneys on a daily basis to ensure that Utilities Division objectives are being met.

Asst. Division Director - 1996 - 1997; Perform duties as assigned by Division Director.

Chief of Accounting 1990 - 1995; Responsible for the direct supervision of 9 employees within the accounting section; areas of responsibility included providing expert witness testimony on a variety of revenue requirement topics; hired and provided hands-on training for new employees; coordinated and managed consulting contracts on major staff projects such as merger requests and rate increase proposals;

Managing Regulatory Auditor, Senior Auditor, Regulatory Auditor 1984 - 1990; Performed audits and analysis as directed; provided expert witness testimony on numerous occasions before the KCC; trained and directed less experienced auditors on-site during regulatory reviews.

Amoco Production Company 1982 - 1984

Accountant Responsible for revenue reporting and royalty payments for natural gas liquids at several large processing plants.

Education

- B.S.B.A. (Accounting) Central Missouri State University
- Passed CPA exam; (Oklahoma certificate # 7562) - Not a license to practice



2024 Second Quarter Earnings Conference Call

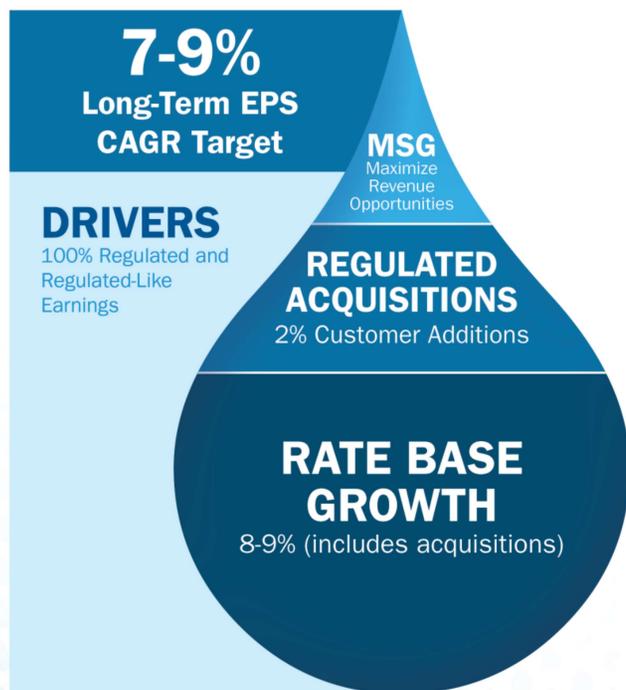
August 1, 2024

Long-Term Targets Affirmed

Strong and Sustainable Growth Outlook for the Future



EPS GROWTH OUTLOOK



LONG-TERM FINANCIAL TARGETS

Drivers of Sustainable Shareholder Return			
EPS Growth 7-9%	Dividend Per Share Growth 7-9%	Customer Affordability +	ESG Leadership +

Additional Supportive Targets	
Dividend Payout Ratio 55-60%	Debt to Capital <60%

Appendix 3

Supporting Adjustment DND-11

Source: Excerpts from response to Consumer Advocate3 – 12 – Job Descriptions

Director Communication and External Affairs – Job duties include responsibility for external affairs, community relations, and government affairs.

Director National Regulatory Affairs – Responsible for identifying opportunities for thought leadership at a national level; NARUC, MACRUC, MARC, SEARUC, FRI, NASUCA. Responsible for managing any external lobbyists/consultants specific to regulatory affairs support. Build coalitions with trade associations to accomplish regulatory strategy objectives. Develop white papers and coordinates the company's response to national regulatory/government policy initiatives with the External Communications team. Developing relationships with key external regulatory policymakers and corresponding staff. Coordinates the utilization by various lines of business within the company for each of the memberships and works with membership staff to drive company agenda and reputation.

Government and Regulatory Affairs Specialist – This role will interpret, review and monitor legislation and administrative regulations affecting the company in coordination with state government affairs leadership, senior management, corporate regulatory, and legal departments. Work with Government Affairs staff on strategizing, designing and implementing advocacy efforts in support of key projects and initiatives. Establish and maintain relationships with key government officials.

Manager Corporate and Foundation Relations – Responsible for American Water Charitable Foundation giving programs

Sr Manager External Communications – Provides counsel on matters affecting policy, politics, and key relationships; Works with the state president and team to effectively communicate and build relationships with elected officials and key stakeholders and will also monitor and measure communication plan outcomes and drive for continuous improvement in customer and overall stakeholder (legislative/regulatory/media) engagement.

Senior Vice President Communications and External Affairs – Responsibility for the internal and external communication strategy that engages current and potential customers, public officials, investors, shareholders and employees. Manage and oversee contracted vendors in the area of external affairs. Manage the Company's national memberships to ensure maximum benefits. The

role will ensure that the interest of American Water and its leadership (both Corporate and State/Division leadership) are appropriately represented as part of interactions with the Administration, Congress, and all relative federal departments (EPA). One of the key primary roles will be to directly engage and help ensure a clear policy direction for our external industry association, the National Association of Water Companies (NAWC). This role will be responsible for managing and leading policy initiatives in conjunction with NAWC.

Vice President National Gov't and Regulatory Affairs – One of the key primary roles will be to directly engage and help ensure a clear policy direction for our external industry association, the National Association of Water Companies (NAWC). This role will be responsible for managing and leading policy initiatives in conjunction with NAWC. Coordinate with all corporate functions including State Presidents, to implement federal policies that support overall company growth goals. Ensure the company is fully utilizing its National Memberships to implement its business objectives.

Table 1

Exhibit Reference	Item	Revenue Req. Category	Amount
Exhibit DND-1	CA - Pro forma Income Statement	N/A	N/A
Exhibit DND-2	Federal and State Income Tax Expense	Income Tax Exp/ADIT	\$ (3,641,589)
Exhibit DND-3	Labor, Benefits and Payroll Taxes	Labor Related	\$ (1,200,409)
Exhibit DND-4	TAWC Direct Charged Incentive Compensation	Labor	\$ (287,613)
Exhibit DND-5	Allocated Incentive Compensation	Support Services	\$ (802,962)
Exhibit DND-6	Non-Recurring Legal Charges	Contract Services	\$ (121,869)
Exhibit DND-7	Purchased Power Costs	Production Costs	\$ (253,309)
Exhibit DND-8	Purchased Water/Chemical Costs	Production Costs	\$ (190,816)
Exhibit DND-9	Charitable Costs	Miscellaneous	\$ (108,820)
Exhibit DND-10	Property Tax Expense	General Taxes	\$ (1,343,890)
Exhibit DND-11	Costs not benefitting customers	Support Services	\$ (113,209)
Exhibit DND-12	TAWC Lobbying	Labor	\$ (38,303)
Exhibit DND-13	To Reflect Impact of State Tax Credit	Income Tax Exp	\$ (210,827)
Exhibit DND-14	Cash Working Capital	Rate Base	\$ (366,485)

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Exhibit DND-1

CA Income Statement Adjustments

Description	2025 *	2025 *	2025 *	2023	2023	2025	2025	2023	2025	2023	2023	2025
	Flow-Through Repair Deduction Exhibit DND-2	Remove Labor Cc Associated with Vacancies Exhibit DND-3	To Eliminate a TAWC Direct Incentive Compensation Exhibit DND-4	To Eliminate AWSC Allocated Incentive Compensation Exhibit DND-5	To Eliminate Non-Recurring Legal Costs Exhibit DND-6	To Normalize Purchased Purchased Power Costs for Non- Revenue Water Exhibit DND-7	To Normalize Chemical Costs for Non-Revenue Water Exhibit DND-8	Elimination of Charitable Exp Community Partnerships Exhibit DND-9	Normalize Property Tax Expense Exhibit DND-10	Eliminate AWSC Below the Line Items Exhibit DND-11	Eliminate TAWC Lobbying Costs Exhibit DND-12	Recognize omitted state tax credit Exhibit DND-13
Operating Revenues												
Operating Expense												
Operation and Maintenance:												
Purchased Water												
Purchased Power						(253,309)						
Chemicals							(190,816)					
Waste Disposal												
Labor		\$ (908,022)	\$ (287,613)								(26,804)	
Group Insurance		(151,376)									(6,551)	
Other Benefits		(\$78,002)									(2,629)	
Support Services				(802,962)						(113,209)		
Contracted Services					\$ (121,869)							
Pensions												
Regulatory Expense												
Insurance Other Than Group												
Customer Accounting												
Uncollectibles												
Rents												
Telecommunications												
Transportation												
Miscellaneous										(108,820)		
Maintenance Expense												
Total Operation and Maintenance Expense (Total)	\$ -	\$ (1,137,400)	\$ (287,613)	\$ (802,962)	\$ (121,869)	\$ (253,309)	\$ (190,816)	\$ (108,820)	\$ -	\$ (113,209)	\$ (35,984)	
Depreciation Expense												
Amortization												
General Taxes		(63,009)										
State Income Taxes	(905,695)								(1,343,890)		(2,319)	(210,827)
Federal Income Taxes	(2,735,894)											
Total Operating Expenses (Line 27 + Lines 30-34)	\$ (3,641,589)	\$ (1,200,409)	\$ (287,613)	\$ (802,962)	\$ (121,869)	\$ (253,309)	\$ (190,816)	\$ (108,820)	\$ (1,343,890)	\$ (113,209)	\$ (38,303)	\$ (210,827)
Utility Operating Income (Line 1 less Line 36):	\$ 3,641,589	\$ 1,200,409	\$ 287,613	\$ 802,962	\$ 121,869	\$ 253,309	\$ 190,816	\$ 108,820	\$ 1,343,890	\$ 113,209	\$ 38,303	\$ 210,827

Tennessee American Water Company
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Exh DND-2

**Calculation of Income Tax Expense and ADIT Implications of Flow-Through of Repair
Deduction**

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>	<u>Source</u>
1	Repair Deduction	\$ (13,933,763)	TAWC Deferred Tax File;Book-Tax Dff Tab; "Repairs"
2	State Income Tax Effect	<u>6.50%</u>	
3	Reduction in State Tax Expense/Reduction in ADIT - State	\$ (905,695)	Line 1 * Line 2
4	Reduction in Net Income Subject to Federal Tax	\$ (13,028,068)	Line 1 - Line 3
5	Federal Tax Rate	<u>21%</u>	
6	Reduction in Federal Tax/Reduction in ADIT - Federal	<u>\$ (2,735,894)</u>	Line 4 * Line 5
7	Reduction in Income Tax Expense/Reduction in ADIT	<u>\$ (3,641,589)</u>	Line 3 + Line 6

Public Version

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Exhibit DND-3

Calculation of Pro-Forma Labor

Line No	Item	Tab	Excel Cell Source	Source for CA Proforma: CA Response 2-5 Confidential Attachment		Adjustment (Col C)
				CA Pro Forma Exp (Col. A)	TAWC Pro-Forma Labor (Col. B)	
1	Salaries & Wages					
2	Union					
3	Base Wages	Union	Sum: AW 6:71	\$3,082,171	\$3,335,856	(\$253,685)
4	Shift Premiums	Union	Sum: AX 6:71	\$3,961	3,961	\$0
5	Overtime	Union	Sum: AY 6:71	\$358,302	372,703	(\$14,401)
6	Annual Performance Plan	Union	Sum: AZ 6:71	\$92,477	100,088	(\$7,611)
7	Subtotal: Union Salaries & Wages			<u>\$3,536,911</u>	<u>\$3,812,608</u>	<u>(\$275,697)</u>
8	Non-Union Hourly					
9	Base Wages	NU Hourly	Sum AU 6:19	\$825,110	\$964,723	(\$139,613)
10	Overtime	NU Hourly	Sum AV 6:19	\$52,990	57,614	(\$4,624)
11	Annual Performance Plan	NU Hourly	Sum AW 6:19	\$61,503	71,276	(\$9,773)
12	Subtotal: Non-Union Hourly Salaries & Wages			<u>\$939,603</u>	<u>\$1,093,613</u>	<u>(\$154,010)</u>
13	Non-Union Salaried					
14	Base Wages	NU Stry	Sum: AT 6: 26	\$1,279,797	\$1,654,752	(\$374,955)
15	Annual Performance Plan	NU Stry	Sum: AU 6: 26	210,215	267,926	(\$57,711)
16	Long Term Performance Plan	NU Stry	Sum: AV 6: 26	87,306	105,679	(\$18,373)
17	Subtotal: Non-Union Salaried Salaries & Wages			<u>\$1,577,318</u>	<u>\$2,028,357</u>	<u>(\$451,039)</u>
18	Plus: Recognition of Severance Costs			-	27,276	(27,276)
19	Total Expensed Salaries & Wages Pro Forma		Lines 7 + 12 + 17	<u>\$6,053,832</u>	<u>\$6,961,854</u>	<u>1/ (\$908,022)</u>
20	Payroll Taxes					
21	Union			Pro Forma Exp	Pro Forma Exp	Adjustment
22	FICA	Union	Sum: BC 6: 71 + Sum BD 6: 71	\$270,562	\$291,651	(\$21,089)
23	SUTA	Union	Sum BE 6:71	532	571	(\$39)
24	FUTA	Union	Sum BF 6:71	1,805	1,944	(\$139)
25	Subtotal: Union Payroll Taxes		Lines 22+23+24	<u>\$272,899</u>	<u>\$294,166</u>	<u>(\$21,267)</u>
26	Non-Union Hourly			Pro Forma Exp	Pro Forma Exp	
27	FICA	NU Hourly	Sum: AZ 6: 19 + Sum BA 6: 19	\$71,878	\$83,660	(\$11,782)
28	SUTA	NU Hourly	Sum: BB 6:19	141	168	(\$27)
29	FUTA	NU Hourly	Sum: BC 6:19	483	575	(\$92)
30	Subtotal: Non Union Hourly Payroll Taxes		Lines 27+28+29	<u>\$72,502</u>	<u>\$84,403</u>	<u>(\$11,901)</u>
31	Non-Union Salaried			Pro Forma Exp	Pro Forma Exp	
32	FICA	NU Stry	Sum: AY 6: 26 + AZ 6: 26	\$107,424	\$137,089	(\$29,665)
33	SUTA	NU Stry	Sum: BA 6:26	139	178	(\$39)
34	FUTA	NU Stry	Sum: BB 6:26	477	614	(\$137)
35	Subtotal: Non Union Salaried Payroll Taxes		Lines 32+33+34	<u>\$108,040</u>	<u>\$137,881</u>	<u>(\$29,841)</u>
36	FICA		Lines 22+27+32	\$449,864	\$512,400	(\$62,536)
37	SUTA		Lines 23+28+33	812	917	(\$105)
38	FUTA		Lines 24+29+34	2,765	3,133	(\$368)
39	Total Expensed Payroll Taxes Pro Forma		Lines 36+37+38	<u>\$453,441</u>	<u>\$516,450</u>	<u>2/ (\$63,009)</u>
40	Group Insurance			Pro Forma Exp	Pro Forma Exp	
41	Union	Union	Sum: BU 6:71	\$854,495	\$919,163	(\$64,668)
42	Non-Union Hourly	NU Hourly	Sum: BQ 6:19	101,255	119,916	(\$18,661)
43	Non-Union Salaried	NU Stry	Sum: BP 6:26	222,834	290,881	(\$68,047)
44	Subtotal Expensed Group Insurance			\$1,178,584	\$1,329,960	(\$151,376)
45	Less: Attrition Period OPEB Costs			(\$848,277)	(\$848,277)	\$0
46	Plus: Attrition Period H.S.A. costs included in TAWC Pro forma			\$9,780	\$9,780	\$0
46	Total Group Insurance - Attrition Period			<u>\$340,087</u>	<u>\$481,683</u>	<u>3/ (\$151,376)</u>
45	401(k)			Pro Forma Exp	Pro Forma Exp	
46	Union	Union	Sum BI 6:71	\$100,222	\$109,366	(\$9,144)
47	Non-Union Hourly	NU Hourly	Sum BF 6:19	27,874	32,822	(\$4,948)
48	Non-Union Salaried	NU Stry	Sum BE 6:26	49,183	63,082	(\$13,899)
49	Total Expensed 401(k) Pro Forma			<u>\$177,279</u>	<u>\$205,270</u>	<u>4/ (\$27,991)</u>
50	DCP			Pro Forma Exp	Pro Forma Exp	
51	Union	Union	Sum: BJ 6:71	\$150,382	\$166,753	(\$16,371)
52	Non-Union Hourly	NU Hourly	Sum BG 6:19	43,318	50,648	(\$7,330)
53	Non-Union Salaried	NU Stry	Sum BF: 6:26	54,481	73,566	(\$19,085)
54	Total Expensed DCP Pro Forma			<u>\$248,181</u>	<u>\$290,967</u>	<u>5/ (\$42,786)</u>
55	Retiree Medical (VEBA)			Pro Forma Exp	Pro Forma Exp	
56	Union	Union	Sum BK 6:71	\$18,430	\$20,983	(\$2,553)
57	Total Expensed Retiree Medical Pro Forma			<u>\$18,430</u>	<u>\$20,983</u>	<u>6/ (\$2,553)</u>
58	ESPP					
59	Union	Union	Sum BL 6:71	\$1,755	\$4,091	(\$2,336)
60	Non-Union Hourly	NU Hourly	Sum BH 6:19	2,084	2,960	(\$876)
61	Non-Union Salaried	NU Stry	Sum BG 6:26	10,148	11,608	(\$1,460)
62	Total Expensed ESPP Pro Forma			<u>\$13,987</u>	<u>\$18,659</u>	<u>7/ (\$4,672)</u>
			Lines 19+25+30+35+39+46+49+54 +57+62	\$7,305,237	\$9,012,316	(\$1,200,409)
			Total Less Payroll Taxes	\$6,851,796		

Reference to TAWC Proforma Amounts
1/ TAWC Exhibit 5
2/ TAWC Exhibit 22B
3/ TAWC Exhibit 6
4/ TAWC Exhibit 7 A
5/ TAWC Exhibit 7 B
6/ TAWC Exhibit 7 D
7/ TAWC Exhibit 7 C
Note: TAWC Exhibit 7 Contains other Employee Benefits, but is not affected by employee vacancies and thus is not referenced in this Exhibit.

Tennessee American Water Company
Docket No. 24-00032
Consumer Advocate

Exhibit DND-4

Adjustment to Remove TAWC Direct Incentive Compensation
2025 Values

Line No.	Item	Short Term Incentive (APP)		Long-Term Incentive Compensation	
1	TAWC Direct				
2	Union	\$	92,477	1/	\$ -
3	Non-Union Hourly		61,503	1/	-
4	Exempt		210,215	1/	87,306
5	Subtotal	\$	364,195	\$	87,306
6	Exclusion Percentage		55%		100%
7	Reduction to O&M Expenses	\$	(200,307)	\$	(87,306)
8	Total Reduction to O&M	\$	<u>(287,613)</u>		

9	CA 1-21; Analysis of APP Goals - 2024	Recoverable	Non-Recoverable
10	Growth - Earnings Per Share		50.00%
11	Customer Satisfaction	15.00%	
12	Safety - OSHA Injury Rate	5.00%	
13	Safety - DART Rate	10.00%	
14	Environmental Leadership - Drinking Water Compliance	5.00%	
15	Environmental Leadership - Drinking Water Quality	10.00%	
16	People - Women Representation		2.50%
17	People - Ethnic and Racial Diversity		2.50%
18	Total	<u>45.00%</u>	<u>55.00%</u>

1/ Exhibit DND-3

Tennessee American Water Company
Docket No. 24-00032
Consumer Advocate

Exhibit DND-5

Adjustment to Remove Allocated Incentive Compensation

Support Services

Line No.		Short Term Incentive (APP)		Long-Term Incentive Compensation	
1	2023 Values				
2	AWSC Allocated	621,676	1/	479,718	1/
3	Less: Incentive Compensation portion of Business Development Exclusion in Ex DND-11	(10,140)	1/	(7,508)	1/
4	Less: Incentive Compensation Portion of External Affairs Exclusion in Ex DND-11 @ 20%	15,028	1/		
5	% External Affairs Exclusion	<u>20%</u>			
		(3,006)			
6	Less: External Affairs Exclusion in Ex DND-xx @ 20%	19,697	1/		
7	% External Affairs Exclusion	<u>20%</u>			
				\$ (3,939)	
8	Subtotal	<u>608,530</u>		<u>468,271</u>	
9	Exclusion Percentage	<u>55%</u>		<u>100%</u>	
10	Reduction to O&M Expenses	(334,692)		(468,271)	
11	Total Reduction to O&M	<u>(802,962)</u>			
12	2025 Values				
13	AWSC Allocated	668,657	1/	586,192	1/ 2/
14	Less: Incentive Compensation portion of Business Development Exclusion in Ex DND-11	(10,907)	1/	(8,075)	1/
15	Less: Incentive Compensation Portion of External Affairs Exclusion in Ex DND-11 @ 20%	16,165	1/		
16	% External Affairs Exclusion	<u>20%</u>			
		(3,233)			
17	Less: External Affairs Exclusion in Ex DND-xx @ 20%	21,186	1/		
18	% External Affairs Exclusion	<u>20%</u>			
				(4,237)	
19	Unadjusted subtotal Incentive Costs	<u>654,517</u>		<u>573,880</u>	
20	Exclusion Percentage	<u>55%</u>		<u>100%</u>	
21	Reduction in O&M	\$ (359,984)		\$ (573,880)	
22	Total Reduction to O&M	<u>(933,864)</u>			

1/ Confidential Response to CA 1-90 Corrected; pivot table-GL Account tab; Adjustments Data Tab; confirmed with council the information above is not confidential

2/ Revised LTPP per response to CA 3-18

**Tennessee American Water Company
Docket No. 24-00032
Consumer Advocate**

Exhibit DND-6

**Elimination of Non-Recurring Legal Costs
Legal Billings Associated with Docket No. 19-00103**

Contracted Services

Source: Response to Consumer Advocate Request 1-74

<u>Line No.</u>	<u>Firm</u>	<u>2023 Billing Period</u>	<u>Amount</u>
1	Butler Snow	January	14,764
2	Butler Snow	February	8,813
3	Butler Snow	March	6,619
4	Butler Snow	April	10,764
5	Butler Snow	May	24,804
6	Butler Snow	June	17,209
7	Butler Snow	July	9,568
8	Butler Snow	August	10,608
9	Butler Snow	September	9,100
10	Butler Snow	October	2,496
11	Butler Snow	November	3,172
12	Butler Snow	December	3,952
13	Total Legal Costs - 19-00103	Total	\$ 121,869
14	Adjustment to O&M to eliminate non-recurring legal costs		<u>\$ (121,869)</u>
15	Application of 2024 Inflation Factor	2.54% 1/	\$ 124,964
16	Application of 2025 Inflation Factor	2.54% 1/	<u>\$ 128,139</u>
17	Attrition Period Adjustment		<u>\$ 128,139</u>
18	1/ TAWC Response 1-82		

Tennessee American Water Company
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Consumer Advocate

Exhibit DND-7

To Recalculate Purchased Power Expense Relying upon Non-Water Revenue Factor

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>	<u>Source</u>
1	2025 TAWC Purchased Power Costs	\$ 3,062,540	TAWC Exp-2.2
2	Recoverable Costs	91.7%	Line 18
3	2025 Attrition Period Pro-Forma Costs	<u>\$ 2,809,231</u>	Line 5 * Line 6
4	Reduction in pro-forma purchased poiwer costs	\$ (253,309)	Line 7 - Line 5
5	Total Adjustment - 2025 Amounts	<u><u>\$ (253,309)</u></u>	Line 4 + Line 8
6	Recoverable % for Production Costs	For the 12 Months Ending 12/31/2023	
7	Water Sales	98,863,364	1/
8	System Delivery	128,847,783	1/
9	Non-Revenue-Unaccounted for Water % [1 - (Line 13 / Line 14)]	23.27%	
10	Non-Revenue-Unaccounted for Water % Authorized	15.0%	
11	Variance (If Line 15 > Line 16 then Line 15 - Line 16)	8.27%	
12	Recoverable % (1 - Line 17)	<u><u>91.73%</u></u>	
13	1/ 2024 TAWC MFG Q022_Attachment.xlsx, tab "Total TNAW"; Note - the response is related to Q022, however is labeled as Q024.		

**Tennessee American Water Company
Docket No. 24-00032
Consumer Advocate**

Exhibit DND-8

To Recalculate Chemical Expense Relying upon Non-Water Revenue Factor

<u>Line No.</u>	<u>Item</u>	<u>Chemicals</u>	<u>Source</u>
1	1 Pro forma 2025 costs	\$2,307,000	TAWC Exp-3.1
2	Recoverable Costs	91.7%	Line 12
3	2025 Pro-Forma Chemical Costs	<u>\$ 2,116,184</u>	Line 5 * Line 6
4	Reduction in pro-forma Chemical costs	<u>\$ (190,816)</u>	Line 7 - Line 5
5	Reduction in 2025 Chemical Costs	<u><u>\$ (190,816)</u></u>	Line 4 + Line 8
6	Total Adjustment to 2024 Values		

<u>Recoverable % for Production Costs</u>	<u>For the 12 Months Ending 12/31/2023</u>	
7	Water Sales	98,863,364 1/
8	System Delivery	128,847,783 1/
9	Non-Revenue-Unaccounted for Water % [1 - (Line 13 / Line 14)]	23.27%
10	Non-Revenue-Unaccounted for Water % Authorized	15.0%
11	Variance (If Line 15 > Line 16 then Line 15 - Line 16)	8.27%
12	Recoverable % (1 - Line 17)	<u><u>91.73%</u></u>

1/ 2024 TAWC MFG Q022_Attachment.xlsx, tab "Total TNAW"; Note - the response is related to Q022, however is labeled as Q024.

Tennessee American Water Company
Docket No. 24-00032
Consumer Advocate

Exhibit DND-9

Elimination of Community Partnership Costs
Miscellaneous Expense

Source:
TAWC Exp- 18.1
CA Response 1-40

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>	<u>Source</u>
	Account 52514700 - Test Period Community Partnerships - TAWC 2023		
1	Normalized	\$ 108,820	TAWC Exp-18.1
2	2024-2025 Adjustments	\$ 13,520	TAWC Exp-18.1
3	Attrition Period Adjustment	<u>\$ 122,340</u>	
4	Adjustment to O&M to Eliminate 2023 Community Partnership costs	<u>\$ (108,820)</u>	
5	Attrition Period Adjustment	<u>\$ 122,340</u>	

**Tennessee American Water Company
Docket No. 24-00032
Consumer Advocate**

Exhibit DND-10

Adjustment to Normalize Property Tax Expense

Source: TAWC Exhibit 22A.2

Line No.	Description	2023 Test Period	2025 Attrition Year*	CA Proforma Attrition Year
1				
2	Utility Plant in Service & CWIP Total	\$444,447,881	\$548,880,674	\$548,880,674
3				
4	Assessed Value	90,000,000	111,147,477	111,147,477
5				
6	Equalized Assessment %	67.31%	97.03% 1/	70.53% 2/
7				
8	Equalized Assessment	60,578,641	107,848,094	78,392,316
9				
10	Property Tax Rate	4.31%	4.56%	4.56%
11				
12	Property Taxes	<u>\$2,613,187</u>	<u>\$4,920,461</u>	<u>\$3,576,571</u>
13				
14	Attrition Period Adjustment			<u>\$ (1,343,890)</u>

15 1/ The Hamilton County assessment of 100% will first apply to 12/31/25 plant balances, recorded as 2026 Expense.

16 2/ TAWC Response 1-82

17 CA 1-11(a) indicates 2023 expenses were based upon 12/31/22 plant balances.

*The forecasted equalized assessment incorporates
Hamilton County Equalized increasing back to 100%.
18 The rate decreased to 70.53% for years 2023 and 2024

**Tennessee American Water Company
Docket No. 24-00032
Consumer Advocate**

Exhibit DND-11

To Remove Corporate Lobbying and Business Development Costs

Line No.	Item	2023 Amount	Exclusion Percentage	Test Period Adjustment
1	2023 Business Development Costs	\$ 72,052	1/ 100%	\$ (72,052)
2	2023 External Affairs and Public Policy	148,524	1/ 20%	\$ (29,705)
3	Chief ID&E Officer and VP Talent Acquisition	\$ 6,969	3/ 50%	\$ (3,485)
4	Director, ID&E/ID&E Business Partner	\$ 7,968	3/ 100%	<u>\$ (7,968)</u>
5	Adjustment to O&M to eliminate non-recoverable Support Services costs			<u>\$ (113,209)</u>
6	2025 Costs			
7	Application of 2024 Inflation Factor		3.59% 4/	\$ (117,278)
8	Application of 2025 Inflation Factor		3.59% 4/	\$ (121,493)
9	Attrition Period Adjustment			<u>\$ (121,493)</u>

10	Composite Support Service Growth Factor Proposed by TAWC			
11	2023 Support Service Costs - As adjusted	\$ 8,047,803	TAWC Schedule EXP-8.2	
12	2025 Support Service Costs	<u>\$ 8,636,676</u>	TAWC Schedule EXP-8.2	
13	Compound Annual Growth Rate	3.59%		

- 14 1/ TAWC Exhibit 8 Support Services - Workpaper Tab and Response to CA 1-90 Corrected; pivot table-GL Account tab; Adjustments Data Tab;
- 15 2/ Conclusions drawn from Attachment 3-12
- 16 3/ CA Response 3-4
- 17 4/ Petitioner's Inflation Exhibit - Professional Services Schedule 1.8

Tennessee American Water Company
 Docket No. 24-00032
 Consumer Advocate

Exhibit DND-12

To Remove TAWC Lobbying Costs

CONFIDENTIAL

Line No.	Item	2023 Amount	Exclusion Percentage	Test Period Adjustment
1	2025 Costs			
2	Salary	\$ 104,816 2/	25%	\$ 26,204
3	Cap Credits Salary	\$ 2,402 2/	25%	\$ 600
4	Incentive Comp (APP) (55%)	\$ -	25%	\$ -
5	Incentive Comp Capital Credits (APP) (55%)	\$ -	25%	\$ -
6	Payroll Taxes	\$ 9,275 2/	25%	\$ 2,319
7	Other Benefits	\$ 10,514 2/	25%	\$ 2,629
8	Group Insurance	\$ 26,803 2/	25%	\$ 6,701
9	Group Insurance Capital Credits	\$ (599)	25%	\$ (150)
10	Total 2025 O&M Costs	\$ 162,097	25%	\$ 38,303
11	Reduction to O&M Costs			\$ (38,303)
12	1/ CA Confidential Response 2-13, Amount Excludes Incentive Comp.			
13	2/ TAWC 2024 Rate Case File - Labor Exhibit - Confidential - NU Stry tab, line 13			

Tennessee American Water Company
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Consumer Advocate

Exhibit DND-13

To Reflect State Excise Tax Credit Omitted from TAWC Calculation

The Company has indicated it omitted the Industrial Machinery and Research and Development Tax Credit from the attrition period State Tax Expense. Since state income tax expense is deductible for purposes of computing Federal Income Tax Expense, the reduction in State Tax Expense would result in an increase in Federal Tax Expense.

Source: Response to CA 2-10.

<u>Line No.</u>	<u>Item</u>	<u>Amounts</u>	<u>Source</u>
1	State Tax Credit - Industrial Machinery and Research and Development Tax Credit	\$ (210,827)	Response to CA 2-10, Attachment
2	Reduction in State Tax Expense	<u>\$ (210,827)</u>	

Tennessee American Water Company
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Consumer Advocate

Exh DND-14

Calculation of Revenue Lag Days

Line No.	Item	TAWC	CA
1	Sum of Daily Accounts Receivable Balance in a Year	\$ 1,558,085,413	\$ 1,558,085,413
2	Less: Uncollectibles Deducted From A/R Balance	<u>(382,661)</u>	(382,661)
3	Sum of Daily Accounts Receivable Balance	<u>1,557,702,752</u>	<u>1,557,702,752</u>
4	Beginning Accounts Receivable Balance	4,143,784	4,143,784
5	Ending Accounts Receivable Balance	<u>3,875,354</u>	<u>3,875,354</u>
6	Change in Accounts Receivable for the Test Year	(268,430)	(268,430)
7	Sum of Daily Revenue for the Test Year	\$ 66,087,192	\$ 66,087,192
8	Add Back - Other Revenues - TAWC Removed twice	<u>1,180,215</u>	<u>1,180,215</u> 1/
9	Revised Daily Revenues	66,087,192	67,267,407
10	Less: Change in Accounts Receivable for the Test Year	(268,430)	(268,430)
11	Sum of Daily Receipts in the Test Year	\$ 66,355,622	\$ 67,535,837
12	Sum of Daily Accounts Receivable Balance in Test Year	1,557,702,752	1,557,702,752
13	Divided by the Sum of Daily Receipts in Test Year	66,355,622	\$ 67,535,837
14	Total Service Period Collection Lag - Revised per Response to CA 1-51	23.50	23.06
15	Plus: Service Period and Billing Lag Days	<u>21.40</u>	<u>21.40</u>
16	Total Revenue Lag Days	<u>44.90</u>	<u>44.46</u>
17	Sources:		
18	TAWC: Schedule HW-2; pages 1-3		
19	1/ CA: TAWC Information and where difference from TAWC; Response to CA 1-51		

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

IN RE:

**TENNESSEE-AMERICAN WATER
COMPANY'S 2025 INCREMENTAL
CAPITAL RECOVERY RIDER TARIFF
PETITION**

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DOCKET NO. 25-00016

DIRECT TESTIMONY OF

DAVID N. DITTEMORE

April 28, 2025

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1 **I. BACKGROUND**

2 **Q1. PLEASE STATE YOUR NAME AND OCCUPATION FOR THE RECORD.**

3 **A1.** My name is David N. Dittmore. I am a self-employed consultant working in the utility
4 regulatory sector, representing clients in various jurisdictions.

5 **Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND**
6 **PROFESSIONAL EXPERIENCE.**

7 **A2.** I received a Bachelor of Science Degree in Business Administration from the University
8 of Central Missouri in 1982. I am a Certified Public Accountant licensed in Oklahoma
9 (#7562). I was previously employed by the Kansas Corporation Commission (“KCC”) in
10 various capacities, including Managing Auditor, Chief Auditor, and Director of the
11 Utilities Division. I was self-employed as a utility regulatory consultant for approximately
12 four years, primarily representing the KCC staff in regulatory issues. I also participated in
13 proceedings in Georgia and Vermont, evaluating issues involving electricity and
14 telecommunications regulatory matters.

15 Additionally, during this time frame, I performed a consulting engagement for Kansas Gas
16 Service (“KGS”), my subsequent employer. For eleven years, I served as Manager and
17 subsequently Director of Regulatory Affairs for KGS, the largest natural gas utility in
18 Kansas, serving approximately 625,000 customers. KGS is a division of One Gas, a natural
19 gas utility serving about two million customers in Kansas, Oklahoma, and Texas. I joined
20 the Tennessee Attorney General's Office in September 2017 as a Financial Analyst. In July
21 2021, I began my consulting practice.

22 I have been a Board Member of the Financial Research Institute (University of Missouri),
23 a member of the NARUC Subcommittee on Accounting, the Vice-Chair of the Accounting

1 Committee of the National Association of State of Utility Consumer Advocates
2 (“NASUCA”), and an active participant in NASUCAs’ Natural Gas and Water
3 Committees.

4 Overall, I have thirty-five years of experience in public utility regulation and have
5 presented testimony as an expert witness on many occasions. A detailed background
6 overview is attached to my testimony as Exhibit DND-1. A listing of cases I’ve provided
7 testimony since 2014 is provided within Exhibit DND-2.

8 **Q3. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

9 **A3.** I am testifying on behalf of the Consumer Advocate Division (“Consumer Advocate”) of
10 the Office of the Tennessee Attorney General.

11 **Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

12 **A4.** The purpose of my testimony is to present the position of the Consumer Advocate within
13 the present Docket. I have analyzed the Company’s Testimony and Exhibits to prepare for
14 this testimony. I have also drafted and reviewed discovery responses associated with the
15 filing.

16 **II. EXECUTIVE SUMMARY AND RECOMMENDATIONS**

17 **Q5. PLEASE STATE YOUR RECOMMENDATIONS.**

18 **A5.** My recommendations and findings regarding the Company’s Incremental Capital Rider
19 Revenue Requirement (“ICRRR”) filing include the following:

- 20 • The Commission should find that the ICRRR calculation in this proceeding
21 is (\$597,200).
- 22 • The Commission should find that the Company earned a regulated return
23 on equity in 2024 of 10.83%, incorporating the impact of a regulatory
24 adjustment to remove excess costs associated with non-revenue water. This

1 translates to an excess Net Income of \$1,321,134, and an excess revenue
2 requirement of \$1,788,580.

- 3 • The existing tariff provisions are irrelevant in 2025 and must be modified
4 or suspended. The Commission should consider the legal implications of
5 applying tariff provisions retroactively.
- 6 • The Commission should suspend the ICRRR Tariff for one year, and its
7 provisions should apply to ICRRR qualifying investments made after
8 December 31, 2025. This recommendation is consistent with the
9 Commission’s order in TPUC Docket No. 24-00032.
- 10 • In the event the Commission rejects the proposal to suspend the application
11 of the ICRRR tariff for one year, the Commission should rule that the
12 ICRRR tariff provisions are no longer applicable and require the parties to
13 meet to adopt new ICRRR tariff language within 90 days of the
14 Commission’s order in this proceeding, permitting a negative ICRRR credit
15 if supported by the facts of the case.
- 16 • If the Commission affirms that the current tariff shall remain in place, it
17 should also require the Company to establish a deferred liability for
18 \$597,200 to offset future ICRRR surcharges.
- 19 • The Commission should take note of specific TAWC operating results when
20 considering whether continuation of the ICRRR surcharge is in the public
21 interest.

22 **III. TAWC ICRRR PROPOSAL AND ROE RESULTS**

23 **Q6. WHAT WAS THE COMPANY’S ICRRR CALCULATION INCLUDED IN THIS**
24 **FILING?**

25 **A6.** The Company’s filing supported a negative ICRRR of (\$1,174,067).¹

26 **Q7. WHAT CAUSED THE NEGATIVE ICRRR FACTOR?**

27 **A7.** The negative ICRRR was driven by property tax adjustments made in 2024 to correct over-
28 accrued property taxes in 2023 and 2024. The Company is recovering \$3.1 million in base
29 rates, plus \$2 million through the legacy capital rider surcharge for a total collection of

¹ *Petition*, File <Petitioner Exhibit TAWC 2025 ICRRR & ROE Test Calculation.xlsx>, Tab “2025 ICRR Calc.”

1 over \$5.1 million. This compares with the Company’s total actual property tax recording
2 in 2024 of \$1.9 million.²

3 **Q8. SUMMARIZE THE COMPANY’S ICRR PROPOSAL IN THIS PROCEEDING.**

4 **A8.** The Company is proposing an ICRRR surcharge rate of zero based upon its ICRRR
5 calculation, coupled with the results of its ROE calculation.

6 **Q9. DOES THE TARIFF SPECIFICALLY PROVIDE FOR A NEGATIVE ICRRR**
7 **FACTOR?**

8 **A9.** In my opinion, the tariff does not provide that a negative ICRRR would result in a credit
9 back to the Company’s customers.

10 **Q10. HOW DOES THE ROE TEST FACTOR INTO THE ICRRR CALCULATION?**

11 **A10.** An ICRRR positive surcharge may only be collected if the Company’s test period earnings
12 are less than its authorized return on equity. To the extent that the ROE deficiency is less
13 than the calculated ICRRR, the ICRRR would be limited by the ROE deficiency.

14 **Q11. WHAT IS THE COMPANY’S SUPPORTED RETURN ON EQUITY RESULT?**

15 **A11.** The Company reports an actual return on equity of 10.56%.³

² All property tax amounts may be found in the Petition, File <Petitioner Exhibit TAWC 2025 ICRRR & ROE Test Calculation.xlsx>, Tab “2025 ICRRR Calc.”

³ *Id.* at Tab “2024 ROE Test Calc.”

1 **IV. CA SPONSORED ADJUSTMENTS TO ICRRR**

2 **Q12. ARE YOU SPONSORING ADJUSTMENTS TO THE COMPANY'S ICRRR**
3 **CALCULATION?**

4 **A12.** Yes. I am sponsoring two adjustments to the Company's ICRRR, both reducing the
5 negative ICRRR. These revisions were set out in the Company's response to Consumer
6 Advocate DR No. 1-22. I have incorporated that response as Exhibit DND-3.

7 **Q13. PLEASE DESCRIBE THE ICRRR ADJUSTMENTS YOU ARE SPONSORING.**

8 **A13.** The first adjustment I am sponsoring inserts the Acquisition Adjustment rate base
9 component of (\$935,260) as identified in the Company's response to Consumer Advocate
10 DR No. 1-1. The Company mistakenly omitted this adjustment within the established
11 ICRRR calculation.

12 The second adjustment corrects the depreciation rates used by the Company within the
13 ICRRR calculation. The original depreciation rates omitted the removal cost component.
14 The company provided support for this adjustment in response to Consumer Advocate DR
15 No. 1-22 (informal) which I have included as Exhibit DND-3.

16 **Q14. WHAT IS THE ADJUSTED ICRRR BASED ON THESE TWO ADJUSTMENTS?**

17 **A14.** The revised ICRRR is (\$597,200).

18 **V. CA SPONSORED ADJUSTMENTS TO THE ROE TEST**

19 **Q15. ARE YOU SPONSORING ANY ADJUSTMENTS TO THE COMPANY'S ROE**
20 **CALCULATION?**

21 **A15.** Yes.

1 **Q16. PLEASE DESCRIBE THAT ADJUSTMENT.**

2 **A16.** The one adjustment to the ROE calculation that I am sponsoring eliminates excess
3 purchased power and chemical costs identified by Mr. William H. Novak in TPUC Docket
4 No. 25-00002. This adjustment is necessary to conform to the methodology consistently
5 used in prior PCOP filings. Perhaps more importantly, this methodology was confirmed
6 by the Commission in its recent order in TPUC Docket No. 24-00032.⁴

7 TAWC argued that the 15% NRW standard proposed by the Consumer
8 Advocate is punitive, and attempted to distinguish the term NRW from the 15%
9 “lost and unaccounted for water” standard set in the Company’s 2008 rate case.
10 However, these terms have been used interchangeably at the Commission by
11 the Consumer Advocate and the Company.⁵⁸ The Company previously has
12 defined “unaccounted for water” as an all-encompassing umbrella term before
13 the Tennessee Court of Appeals without a distinction for NRW.⁵⁹ To be clear,
14 the Commission is not implementing a new standard, but rather is continuing to
15 apply the 15% standard for lost and unaccounted for water first adopted in the
16 2008 rate case, affirmed by the Tennessee Court of Appeals, and adopted again
17 in the Company’s 2010 rate case.

18 While the Company strongly opposes the NRW methodology within the PCOP filing, it
19 has not challenged Mr. Novak’s calculation of the NRW%. Mr. Lane addressed this issue
20 in his Rebuttal Testimony in TPUC Docket No. 25-00002:⁵

21 DO YOU ACCEPT MR. NOVAK’S CALCULATION OF THE NRW %
22 PRESENTED IN HIS PRE-FILED TESTIMONY?
23 I accept Mr. Novak’s calculation of 25.67% NRW% but not for use in this
24 proceeding. TAWC continues to disagree that the Commission established a
25 15% NRW standard in TPUC Docket No. 08-00039. Hence, I do not support a
26 15% NRW% limitation as a reasonable or supportable interpretation or
27 application of the Commission’s establishment of a 15% unaccounted-for water
28 standard in TPUC Docket No. 08-00039.

29 **Q17. WHAT IS THE IMPACT OF THE NRW ADJUSTMENT ON THE COMPANY’S**
30 **ADJUSTED ROE?**

⁴ *Order Setting Utility Rates*, pp. 20-23, TPUC Docket No. 24-00032 (April 21, 2025).

⁵ *Rebuttal Testimony of Robert Lane* at 4:5-11, TPUC Docket No. 25-00002 (April 22, 2025).

1 **A17.** The adjustment to reduce purchased power and chemical costs by \$573,517 produces an
2 increase in net income of \$423,628. The underlying calculations are provided in Exhibit
3 DND-4.

4 **Q18. WHAT IS THE AMOUNT OF EXCESS EARNINGS IN 2024?**

5 **A18.** The resulting Excess Net Income is \$1,321,134, translating to an excess revenue
6 requirement of \$1,788,580. These amounts are identified in Exhibit DND-5.

7 **VI. IMPLICATIONS OF EXCESS EARNINGS ON PIPELINE REPLACEMENTS**

8 **Q19. WHAT IS THE IMPLICATION OF THE EXCESS EARNINGS ON THE**
9 **COMPANY'S ICRRR?**

10 **A19.** First, the excess earnings prohibit the collection of an ICRRR. In this instance, since the
11 ICRRR was negative, the fact that the Company has excess earnings is a moot point from
12 the standpoint of defining the ICRRR. However, I think it is important for the Commission
13 to understand the earnings position of the Company.

14 **Q20. HAVE YOU DETERMINED WHAT ADDITIONAL LEVEL OF CAPITAL**
15 **EXPENDITURES COULD HAVE BEEN MADE THAT EQUATES TO THE**
16 **LEVEL OF EXCESS EARNINGS?**

17 **A20.** Yes. The revenue requirement associated with excess earnings translates to an equivalent
18 level of capital expenditures of approximately \$15 million, as calculated on Exhibit DND-
19 5. By this, I mean, the Company could have incurred an additional \$15 million in capital
20 expenditures and still earned its authorized return on equity.

1 **Q21. CAN YOU EXPAND ON YOUR CONCLUSION THAT THE COMPANY COULD**
2 **HAVE SPENT ADDITIONAL CAPITAL EXPENDITURES IN 2024 TO THE**
3 **BENEFIT OF TAWC CUSTOMERS?**

4 **A21.** I computed this level of capital expenditures by first identifying the excess Net Income by
5 comparing the Company's pro-forma adjusted Net Income of \$17,328,906 with the Net
6 Income that would have been earned if the Company had earned no more than its 10%
7 authorized return on equity. Next, I grossed up the excess Net Income for Taxes,
8 translating to an excess Revenue Requirement of \$1,788,580. Then, I developed an
9 estimated Revenue Requirement Equivalent Ratio by summing the required pre-tax rate of
10 return, depreciation (using the rate associated with Mains) and an estimated Property Tax
11 factor. Dividing the Excess Revenue Requirement by the Revenue Requirement
12 Equivalent Ratio yields the equivalent level of capital expenditures that could have been
13 closed to match the Excess Revenue Requirement. The result is an approximate \$15
14 million in capital expenditure.

15 **Q22. WHAT IS THE COMPANY'S PUBLIC POSITION ON THE NEED FOR**
16 **ADDITIONAL CAPITAL EXPENDITURES ACROSS THE STATE OF**
17 **TENNESSEE?**

18 **A22.** The Company recently issued a press release calling for more investment in water
19 infrastructure across the state of Tennessee, included here as Exhibit DND-6. The
20 Company clearly had earnings headroom in 2024 to follow its own advice to make inroads
21 to addressing its own aging infrastructure. Instead, the Company made minimal progress
22 in replacing its galvanized steel and cast iron mains as discussed below, while retaining
23 these excess earnings for its shareholders.

1 **VII. APPLICABILITY OF THE EXISTING ICRRR TARIFF**

2 **Q23. DO YOU BELIEVE THE CURRENT TAWC ICRR TARIFF IS APPLICABLE FOR**
3 **2025 OPERATIONS?**

4 **A23.** No.

5 **Q24. PLEASE EXPLAIN WHY YOU DO NOT BELIEVE THE EXISTING ICRRR**
6 **TARIFF LANGUAGE CAN BE APPLIED TO 2025 OPERATIONS.**

7 **A24.** The existing ICRRR tariff indicates that a qualifying investment is eligible for recovery
8 within the ICRRR surcharge, subject to certain limitations, including the ROE test. The
9 forecasted level of investments is already being recovered from TAWC customers within
10 its base rates adopted by the Commission in TPUC Docket No. 24-00032.

11 **Q25. WHY IS 2025 UNIQUE AS IT RELATES TO THE ICRRR?**

12 **A25.** The company's 2024 rate case had implications on the ICRRR tariff that were not
13 envisioned or addressed within the tariff. The Company did not address the implications
14 of the rate case on its ICRR tariff within the rate case. Forecasted 2025 investments,
15 inclusive of ICRRR eligible capital projects are already being recovered from ratepayers.

16 **Q26. DOES THE CURRENT TARIFF RECOGNIZE THE LEVEL OF 2025 ICRRR**
17 **QUALIFYING CAPITAL EXPENDITURES CURRENTLY INCLUDED IN THE**
18 **RATE BASE UPON WHICH EXISTING RATES WERE DETERMINED?**

19 **A26.** No.

20 **Q27. WHAT HAS BEEN THE COMPANY'S STANCE TOWARDS MODIFYING THE**
21 **TARIFF?**

1 **A27.** The Consumer Advocate questioned the Company’s view on the need to modify its tariff
2 in Consumer Advocate DR Nos. 2-5 through 2-9. In its response, the Company referenced
3 Mr. Lane’s Supplemental Rebuttal testimony in TPUC Docket No. 24-00011.⁶ Mr. Lane
4 stated that it is not the Company’s intent to recover an ICRRR surcharge for investments
5 already recovered in base rates.⁷ He supported the notion that to the extent that the actual
6 ICRRR expenditures exceed forecasted ICRRR included in Rate Base, it should be eligible
7 for surcharge recovery.⁸ It appears that the Company believes the tariff does not provide
8 for a negative ICRRR.⁹ Thus, for 2025 investment levels the Company believes it has the
9 potential upside of collecting a positive surcharge if actual ICRRR investments exceed the
10 forecasted ICRRR investments, while having none of the downside risk if actual ICRRR
11 investments are less than the forecasted ICRRR included in Rate Base. In other words, the
12 Company supports an asymmetrical approach in reconciling 2025 ICRRR qualifying
13 investment.

14 Importantly, Mr. Lane stated that; “[t]he parties do not have a crystal ball and while Mr.
15 Dittmore’s desire to address future issues is admirable, how the tariff works for a filing
16 made in 2026, looking back at 2025 historic year is best dealt with in an ICRR filing to be
17 made in 2026.”¹⁰

⁶ The Company’s Response to Consumer Advocate DR Nos. 2-5, 2-7, 2-8 and 2-9.

⁷ *Supplemental Rebuttal Testimony of Robert Lane* at 11:7-9 and 12:22-23, TPUC Docket No. 24-00011 (June 4, 2024).

⁸ *Supplemental Rebuttal Testimony of Robert Lane* at 12:14-16 and 12:21-22, TPUC Docket No. 24-00011 (June 4, 2024).

⁹ The Company’s Responses to Consumer Advocate DR Nos. 2-5 through 2-9 and *Supplemental Rebuttal Testimony of Robert Lane* at 12:9 – 13:1, TPUC Docket No. 24-00011 (June 4, 2024).

¹⁰ *Supplemental Rebuttal Testimony of Robert Lane* at 15:11-14, TPUC Docket No. 24-00011 (June 4, 2024).

1 **Q28. DO YOU AGREE WITH THE COMPANY THAT IT IS APPROPRIATE TO**
2 **IMPLEMENT A TARIFF CHANGE IN 2026 THAT APPLIES TO 2025 RESULTS?**

3 **A28.** No. This proposal to modify the terms of a tariff and apply such modifications to a historic
4 period is an example of retroactive rate making and is prohibited by law, as discussed
5 below.

6 **Q29. DOES THE COMPANY HAVE ANY MOTIVATION TO MODIFY THE TARIFF**
7 **TO PERMIT A NEGATIVE ICRR IN NEXT YEAR'S FILING?**

8 **A29.** No, it does not.

9 **Q30. DO YOU BELIEVE THE PARTIES COULD RESOLVE HOW THE ONE-OFF**
10 **ICRRR CALCULATION APPLICABLE TO INVESTMENT IN 2025 SHOULD BE**
11 **CALCULATED?**

12 **A30.** No. The Company has no reason to move off the current tariff provisions that do not
13 provide for a negative ICRRR. The Consumer Advocate would object to any provision
14 that would allow for any actual 2025 ICRRR qualifying investments greater than those
15 included in base rates to be recovered, while simultaneously preventing any customer
16 credits if actual ICRRR investments were less than those included in base rates.

17 **VIII. IMPLICATIONS OF TARIFF PROVISIONS**

18 **Q31. CAN YOU PROVIDE ANY CITATIONS TO CASES SUPPORTING YOUR**
19 **CONTENTION THAT A CHANGE IN THE TAWC ICRRR TARIFF IN 2026**
20 **COULD CONSTITUTE RETROACTIVE RATEMAKING?**

21 **A31.** Yes. I will cite two cases that I believe are on point in this regard. The first involves a
22 case involving Oklahoma Gas and Electric Company in a proceeding before the Federal

1 Energy Regulatory Commission (“FERC”).¹¹ In this case, the D.C. Circuit upheld the
2 FERC decision denying the Southwest Power Pool (“SPP”) a retroactive waiver of its
3 tariff’s one-year billing adjustment limit.¹² The court emphasized that even non-rate terms,
4 such as billing limitations, are integral to the filed rate and cannot be altered retroactively.¹³
5 The court stated that the filed rate doctrine “binds parties to the terms in the filed tariff”¹⁴
6 regardless of whether those terms pertain directly to rates or to other provisions like billing
7 timelines.

8 The next case involves a U.S. Supreme Court decision involving American Telephone and
9 Telegraph Company.¹⁵ The U.S. Supreme Court held that the filed rate doctrine bars state
10 law claims seeking to enforce terms that differ from those in the filed tariff.¹⁶ In this case,
11 a customer alleged that AT&T had promised services not specified in the tariff. The Court
12 ruled that such claims, whether framed in contract or tort, are precluded because they
13 effectively seek a rate or service different from the filed tariff.¹⁷

14 **Q32. HAS THE TPUC ADDRESSED THE ISSUE OF RETROACTIVE RATEMAKING?**

15 **A32.** Yes. The Commission effectively prohibited the retroactive application of a special
16 contract rate and instead adopted the rate commensurate with the approval date of the
17 order.¹⁸

18 Finally, the Consumer Advocate recommends the Contract
19 be modified by deleting Paragraph 33, which would make the contract
20 rates effective upon the filing of the Petition in this docket through a

11 *Oklahoma Gas and Electric Co. v FERC*, 11F.4th 821 (D.C. Cir. 2021).

12 *Id.* at pp. 824-825; 833.

13 *Id.* at p. 830.

14 *Id.*

15 *American Telephone & Telegraph Co. v. Central Office Telephone, Inc.*, 524 U.S. 214 (1998).

16 *Id.* at p. 228.

17 *Id.*

18 *Joint Request of Chattanooga Gas Company and Kordsa, Inc. for Approval of Special Contract*, p. 14, TPUC Docket No. 21-00094 (May 13, 2022).

1 one-time credit to Kordsa. CGC and Kordsa characterize the application
2 of the one-time credit as a “true-up” of the contract rate. However, the
3 calculation in the Contract is differentiated from the type of “true-up”
4 occurring in an ARM, capital recovery rider, or other various alternative
5 regulatory and deferred accounting programs, in that these true-ups are
6 calculated according to methodologies established by rule or tariff
7 approved by the Commission for prospective application, whereas the
8 one-time credit contemplates a retroactive application. Notwithstanding
9 the retroactive ratemaking concern, the special contract rule requires a
10 regulated utility to charge a customer the tariffed rate until a special
11 agreement has been filed and approved upon review by the
12 Commission. The application of the one-time credit seeks to
13 circumvent this sound ratemaking policy by establishing a non-tariff
14 rate applicable to a period of time occurring prior to the Commission's
15 approval of a special contract rate. Therefore, the panel voted
16 unanimously that the approval of the Contract should be made
17 contingent upon removal of the one-time credit provision contained in
18 Paragraph 33, making Contract rates effective concurrent with the
19 Commission's approval.

20 **IX. 2025 ICRRR TARIFF RECOMMENDATION**

21 **Q33. DO YOU HAVE A RECOMMENDATION THAT WOULD RESOLVE THE**
22 **CURRENT TARIFF DILEMMA?**

23 **A33.** Yes. I recommend that the Commission determine that the ICRRR tariff be suspended for
24 one year, covering the 2025 period. The subsequent ICRRR filing would be made in 2027,
25 covering the 2026 ICRRR investment, pursuant to the terms of the existing ICRRR tariff.

26 **Q34. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

27 **A34.** The ICRRR qualifying investment has been forecasted and included in Rate Base.
28 Suspending the tariff for one year would essentially remove the asymmetrical aspect of the
29 current tariff, as it relates to the unique situation in 2025. Suspension of the tariff for one
30 year would place the Company and its customers on equal footing regarding the extent to
31 which its forecasted 2025 ICRRR capital expenditures in base rates are either under-/or
32 overstated. Suspending the tariff for one year would also eliminate the need to address the

1 problematic aspects of the current tariff related to 2025, thereby saving administrative costs
2 for all parties that would otherwise occur in both modifying the tariff as well as the
3 preparation, review and litigation aspects of the Company's 2026 ICRRR filing.

4 **Q35. IS YOUR PROPOSAL PUNITIVE TO THE COMPANY IN ANY WAY?**

5 **A35.** No. It's essential to consider the context of this recommendation to suspend provisions of
6 the tariff for one year. First, the Company is clearly in an over-earning situation as
7 discussed above. Second, in addition to its over-earning status in 2024, the Company was
8 authorized to increase its base rates, effective January 1, 2025, by just over \$1 million in
9 TPUC Docket No. 24-00032. Third, the Company is already recovering costs associated
10 with its forecasted ICRRR investment in base rates. The only scenario where the Company
11 would be harmed in this situation is if its actual 2025 ICRRR qualifying investments were
12 significantly greater than the forecasted ICRRR contained in base rates, coupled with a
13 determination that the Company failed to meet its authorized return on equity in 2025.

14 **Q36. IS YOUR PROPOSAL PUNITIVE TO TAWC'S CUSTOMERS?**

15 **A36.** No. In theory, there would be an equal chance that the Company's actual ICRRR
16 expenditures would be greater than those forecasted and included in base rates, versus that
17 the Company's actual ICRRR expenditures would be less than those forecasted (in which
18 case a customer credit should be owing).¹⁹ Forgoing a 2026 ICRRR filing covering 2025
19 capital expenditures does not disadvantage current customers.

¹⁹ I recognize that an ICRRR credit is not included in the current tariff. However, as a matter of equity as it relates to the unique 2025 situation a credit should otherwise be owed to customers if the ICRRR forecasted investment is greater than actual 2025 investment.

1 **Q37. IS YOUR RECOMMENDATION TO SUSPEND THE COMPANY’S ICRRR**
2 **TARIFF FOR ONE YEAR CONSISTENT WITH THE COMMISSIONS’ ORDER**
3 **IN TPUC DOCKET NO. 24-00032?**

4 **A37.** Yes. the Commission states:²⁰

5 In addition, the capital investments recovered through the Capital Riders
6 have been included in the rate base authorized in this proceeding, with
7 related costs being recovered through base rates. Accordingly, the Capital
8 Riders, which are designed to recover certain costs of capital investments
9 made between general rate cases, will be reset and may be used to recover
10 the costs of eligible investments made after the Attrition Year.

11 In this passage, the Commission makes no reference to the need to allow for a 2025 ICRRR
12 surcharge. The Commission’s phrasing that limits cost recovery to eligible investments
13 made after the attrition period is critical. My recommendation to suspend the tariff
14 provisions for one year are entirely consistent with the Commission’s statement contained
15 in the order, meeting the Commission’s stated objective. The Commission does not foresee
16 additional revenue recovery associated with the 2025 ICRRR investment.

17 **Q38. IF THE COMMISSION REJECTS YOUR POSITION THAT THE ICRRR**
18 **SHOULD BE SUSPENDED FOR ONE YEAR, WHAT ARE THE IMPLICATIONS**
19 **OF SUCH A DETERMINATION ON THE CURRENT FILING?**

20 **A38.** If the Commission continues to accept the existing version of the TAWC ICRRR tariff and
21 concludes that it is acceptable to modify the tariff within the subsequent ICRRR proceeding
22 in 2026, applying such provisions to 2025 operations, it then stands to reason that the
23 current TAWC provisions may be modified in this proceeding and applied to 2024
24 operations, as appropriate. Both examples would constitute retroactive ratemaking, clearly

²⁰ *Order Setting Utility Rates*, p. 86, TPUC Docket No. 24-00032 (April 21, 2025).

1 prohibited by existing case law, as discussed above. However, if retroactive ratemaking is
2 permitted in this situation, I would have a contingent recommendation as a result of the as-
3 adjusted ICRRR calculation.

4 **Q39. IF THE COMMISSION FINDS IT ACCEPTABLE TO MODIFY TARIFF**
5 **PROVISIONS AND APPLY SUCH A CHANGE TO THE PRIOR PERIOD, HOW**
6 **WOULD THAT MODIFY YOUR RECOMMENDATION IN THIS**
7 **PROCEEDING?**

8 **A39.** If the Commission rejects my proposal to suspend the tariff for one year, I recommend
9 establishing a regulatory liability of \$597,200 to offset future positive surcharges, given
10 the results of the current ICRRR.

11 **X. THE ICRRR AND THE PUBLIC INTEREST**

12 **Q40. HAS THE COMMISSION CONSISTENTLY DETERMINED THAT THE ICRRR**
13 **IS IN THE PUBLIC INTEREST?**

14 **A40.** Yes. In its most recent ICRRR order in TPUC Docket No. 24-00011, it states: ²¹

15 The panel further found the Capital Recovery Rider programs continue
16 to serve the public interest by benefitting both consumers and the
17 Company.

18 **Q41. DO YOU BELIEVE THE ICRRR CONTINUES TO BE IN THE PUBLIC**
19 **INTEREST?**

20 **A41.** I do. However, there are several aspects of the Company's operations that warrant
21 monitoring.

²¹ TPUC Order, Docket 24-00011, dated November 8, 2024, page 12.

1 First, as discussed above, the Company was in an overearning situation in 2024. This is
2 not an unusual occurrence as it over-earned in 2023.²² These financial results prove that
3 the Company is extracting monopoly rents from customers.

4 Second, the Company's replacement rate of Cast Iron and Galvanized Steel Mains remains
5 quite low. The Company indicated that it replaced 2.65 miles of Cast Iron and Galvanized
6 Mains²³ out of a total inventory of 688.1 miles.

7 Third, the Company has seen an increase in its Galvanized and Cast Iron Main breaks from
8 219 in 2023 to 284 in 2024, a nearly 30% increase.²⁴ The Company indicates it is
9 addressing the main breaks by replacing Cast Iron and Galvanized Main. However, at the
10 rate replacements occurred in 2024, it would take 260 years for such pipe to be replaced.²⁵

11 In summary, the Company could have made significantly more progress in replacing
12 problematic pipe in 2024, but instead, elected a much more conservative approach to main

²² The Company's filing supported an ROE of 10.76%. *Petition*, File <Petitioner Exhibit TAWC 2025 ICRRR & ROE Test Calculation.xlsx>. This aspect was not reviewed by the Consumer Advocate given the excess earnings precluded recovery of an ICRRR surcharge. A review may have revealed the company's stated ROE to be greater than 10.76%.

²³ The Company's Response to Consumer Advocate DR No. 2-14.

²⁴ The Company described the reason for the increase in Main breaks in its response to Consumer Advocate DR No. 2-15:

The increase in main breaks can be partially attributed to non-typical weather events in 2024. In January 2024, an extended period of cold weather was observed during which the daily low temperature averaged 15°, ranging from 11° to 21° between January 16, 2024 and January 22, 2024, with three days where the high temperature did not get above 32° during that time period. Chattanooga's normal coldest temperature range is from a low of 32° low to a high of 51° that are typically found in mid-January. As temperatures drop and stay colder for longer, soil can shift and cause unusual stresses on water pipes, which leads to breaks. Although not as extreme as in January 2024, extended colder weather conditions were observed in early December where low temperatures averaged 23.5°, ranging from 22° to 26°, from December 4, 2024 to December 7, 2024. Another factor affecting main breaks in 2024 was the extreme drought during the summer of 2024. Low rainfall was observed throughout the summer. The drought classification for southeast Tennessee reached a classification level D3 (Extreme Drought) in September 2024. Soil shrinkage in clayey soils typically found in southeast Tennessee can cause unusual stress on pipes and cause main breaks. The steps that TAW is taking to minimize these occurrences is to replace aging galvanized and cast iron water mains.

²⁵ This figure was calculated by dividing 688.1 miles of inventory by 2.65 replacement miles (688.1 ÷ 2.65).

1 replacement, resulting in excess earnings accruing to the benefit of its shareholders. This
2 contradicts the Company's plea for increased spending in statewide water infrastructure.²⁶

3 **Q42. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 **A42.** Yes.

²⁶

Exhibit DND-6.

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:

TENNESSEE-AMERICAN WATER
COMPANY'S 2025 INCREMENTAL
CAPITAL RECOVERY RIDER TARIFF
PETITION

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DOCKET NO. 25-00016

AFFIDAVIT

I, David N. Dittmore, 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.

David N. Dittmore

DAVID N. DITTEMORE

Sworn to and subscribed before me

This 22nd day of April, 2025.

Terra Allen
NOTARY PUBLIC



My Commission Expires: 1/31/2027

David Dittimore

Exhibit DND-1

Utility Regulatory Experience (Listing of Testimony provided from 2015 – current is attached)

Principal – Blue River Consulting – July 2021 – Current

Provide expert witness testimony on behalf of clients in the areas of utility revenue requirement, regulatory policy, tariff provisions, and civil litigation.

Tennessee Attorney General’s Office; Financial Analyst 2017 – July 2021

Developed recommendations on behalf of the TN AG’s office representing retail customers in matters before the Tennessee Public Utility Commission. Responsible for preparing expert witness testimony and pre-filed exhibit as well as responding to cross-examination questions in contested technical hearings before the Commission. In this position I also spend a significant amount of time explaining technical regulatory issues to attorneys and other AG Staff.

Kansas Gas Service, Division of One Gas (OGS); Director Regulatory Affairs 2014 – 2017; Manager Regulatory Affairs, 2007 - 2014

Responsible for directing the regulatory activity of Kansas Gas Service (KGS), a division of ONE Gas, serving approximately 625,000 customers throughout central and eastern Kansas. In this capacity I formulated strategic regulatory objectives for KGS, formulated strategic legislative options for KGS and led a Kansas inter-utility task force to discuss those options, participated in ONE Gas financial planning meetings, hired and trained new employees and provided recommendations on operational procedures.

Principal Strategic Regulatory Solutions; 2003 -2007

Serving clients regarding revenue requirement and regulatory policy issues in the natural gas, electric and telecommunication sectors.

Kansas Corporation Commission; 1984- 1999

Utilities Division Director - 1997 - 1999; Responsible for managing employees with the goal of providing timely, quality recommendations to the Commission covering all aspects of natural gas, telecommunications and electric regulation; respond to legislative inquiries as requested; sponsor expert witness testimony before the Commission on selected key regulatory issues; provide testimony before the Kansas legislature on behalf of the KCC regarding proposed utility legislation; manage a budget in excess of \$2 Million; recruit professional staff; monitor trends, current issues and new legislation in all three major utility industries; address personnel issues as necessary to ensure that the goals of the agency are being met; negotiate and reach agreement where possible with utility personnel on major issues pending before the Commission including mergers and acquisitions.

Asst. Division Director - 1996 - 1997; Perform duties as assigned by Division Director.

Exhibit DND-1

Chief of Accounting 1990 - 1995; Responsible for the supervision of employees within the accounting section; areas of responsibility included providing expert witness testimony; hired and provided hands-on training for new employees; coordinated and managed consulting contracts on major staff projects such as merger requests and rate increase proposals;

Managing Regulatory Auditor, Senior Auditor, Regulatory Auditor 1984 - 1990; Performed audits and analysis as directed; provided expert witness testimony on numerous occasions before the KCC; trained and directed less experienced auditors on-site during regulatory reviews.

Education

- B.S.B.A. (Accounting) Central Missouri State University
- Passed CPA exam; (Oklahoma certificate # 7562) – Not a license to practice

Other

- Board Member – Financial Research Institute 2007 – 2017
- Vice Chair – NASUCA Accounting Committee, active member NASUCA Natural Gas and Water Committees

	Jurisdiction - Docket/Case Number	Employee - E Consultant - C	Client/Employer	Utility
Tennessee				
1	17-00014 Integra Water CCN	E	Tennessee Attorney General	Integra Water Utility
2	17-00108 Tennessee Water Service Emergency Rate Relief	E	Tennessee Attorney General	Tennessee Water Service
3	17-00138 Piedmont Natural Gas Integrity Management Rider	E	Tennessee Attorney General	Piedmont Natural Gas
4	17-00124 Tennessee American Water Company Capital Rider	E	Tennessee Attorney General	Tennessee American Water
5	17-00143 Kingsport Power Company Capital Rider Mechanism	E	Tennessee Attorney General	Kingsport Power Company
6	18-00022 Tennessee American Water Company Capital Rider	E	Tennessee Attorney General	Tennessee American Water
7	18-00067 Atmos Energy Corporation Annual Review Mechanism	E	Tennessee Attorney General	Atmos Energy Company
8	18-00097 Atmos Energy Corporation Annual Review Mechanism	E	Tennessee Attorney General	Atmos Energy Company
9	18-00017 Chattanooga Natural Gas Company Base Rate Case	E	Tennessee Attorney General	Chattanooga Gas Company
10	18-00034 Atmos Energy Corporation - Tax Cuts and Jobs Act	E	Tennessee Attorney General	Atmos Energy Company
11	18-00038 Kingsport Power Company Tax Cuts and Jobs Act	E	Tennessee Attorney General	Kingsport Power Company
12	18-00039 Tennessee American Water Tax Cuts and Jobs Act	E	Tennessee Attorney General	Tennessee American Water
13	18-00040 Piedmont Natural Gas - Tax Cuts and Jobs Act	E	Tennessee Attorney General	Piedmont Natural Gas
14	19-00007 Piedmont Natural Gas Integrity Management Rider	E	Tennessee Attorney General	Piedmont Natural Gas
15	19-00018 Atmos Energy Company - Annual Review Mechanism	E	Tennessee Attorney General	Atmos Energy Company
16	19-00031 Tennessee American Water Capital Rider Reconciliation	E	Tennessee Attorney General	Tennessee American Water
17	19-00057 Navitas Natural Gas Company LLC	E	Tennessee Attorney General	Navitas Natural Gas Company
18	19-00062 Aqua/Limestone Acquisition	E	Tennessee Attorney General	Aqua Utility/Limestone Water Operating Company
19	19-00071 Sontara Old Hickory CCN	E	Tennessee Attorney General	Sontara Old Hickory
20	19-00097 Cartwright Creek Capital Surcharge	E	Tennessee Attorney General	Cartwright Creek LLC
21	19-00105 Tennessee American Water Capital Rider Reconciliation	E	Tennessee Attorney General	Tennessee American Water Company
22	19-00106 Kingsport Power Company Capital Rider Mechanism	E	Tennessee Attorney General	Tennessee American Water Company
23	20-00128 Tennessee American Water Capital Rider Reconciliation	E	Tennessee Attorney General	Tennessee American Water Company
24	20-00049 Chattanooga Gas Company - Annual Review Mechanism	E	Tennessee Attorney General	Chattanooga Gas Company
25	20-00086 Piedmont Natural Gas Base Rate Case	E	Tennessee Attorney General	Chattanooga Gas Company
26	20-00126 Tennessee American Water Regulatory Asset	C	Tennessee Attorney General	Tennessee American Water
27	20-00139 CGC Performance Based Ratemaking	C	Tennessee Attorney General	Chattanooga Gas Company
28	21-00135 Piedmont Annual Review Mechanism	C	Tennessee Attorney General	Piedmont Natural Gas
29	21-00107 Kingsport Base Rate Case	C	Tennessee Attorney General	Kingsport Power Company
30	21-00048 CGC Annual Review Mechanism	C	Tennessee Attorney General	Chattanooga Gas Company
31	21-00053 Limestone and Cartwright Creek Acquisition	C	Tennessee Attorney General	Central States Water Company
32	21-00107 Kingsport Base Rate Case	C	Tennessee Attorney General	Kingsport Power Company
33	22-00004 CGC Tariff Amendments	C	Tennessee Attorney General	Chattanooga Gas Company
34	22-00072 Tennessee American Water Capital Rider Reconciliation	C	Tennessee Attorney General	Tennessee American Water
35	22-00087 Superior Base Rate Case	C	Tennessee Attorney General	Superior Wastewater Company
36	22-00010 Atmos Annual Review Mechanism	C	Tennessee Attorney General	Atmos Energy Company
37	22-00021 Tennessee American Water Capital Rider Reconciliation	C	Tennessee Attorney General	Tennessee American Water
38	23-00018 Tennessee American Water Capital Rider Reconciliation	C	Tennessee Attorney General	Tennessee American Water
39	23-00035 Piedmont Annual Review Mechanism	C	Tennessee Attorney General	Piedmont Natural Gas
40	24-00011 Tennessee American Water Capital Rider Reconciliation	C	Tennessee Attorney General	Tennessee American Water
41	24-00032 Tennessee American Water Base Rate Case	C	Tennessee Attorney General	Tennessee American Water
42	24-00036 Piedmont Annual Review Mechanism	C	Tennessee Attorney General	Piedmont Natural Gas
Iowa				
43	24-0002 Iowa American Water Company - Base Rate Case (two additional cases contracted for but did not file testimony)	C	Iowa Office of Consumer Advocate	Iowa American Water Company
Kansas				
44	23-FRPG-461-RTS-CON - Contract/Base Rate Approval	C	Freedom Pipeline	Freedom Pipeline
45	16-KGSG-491-RTS KGS Base Rate Case	E	Kansas Gas Service	Kansas Gas Service, a Division of ONE Gas
46	23-KGSG-719-TAR Kansas Gas Service Tariff Proposal	C	Kansas Corporation Commission Staff	Kansas Gas Service, a Division of ONE Gas
47	14-ANGG-119-COM Contract Litigation	C	Freedom Pipeline	Freedom Pipeline/Anadarko Petroleum
Kentucky				
48	22-000432 Bluegrass Water	C	Kentucky Attorney General	Central States Water Company
49	2021-00183 Columbia Natural Gas Base Rate Case	C	Kentucky Attorney General	Columbia Natural Gas Company
Massachusetts (Testimony not Filed)				
DPU 23-08 Aquarion Water Company/Pinehills Water Company				
50	Acquisition	C	Massachusetts Attorney General	Acquarion Water Company
51	DPU 23-64 Whitinsillve Water Company	C	Massachusetts Attorney General	Whittinsville Water Company
Ohio				
52	23-549-EL-RDR Duke Energy Distribution Capital Rider	C	Ohio Consumer's Counsel	Duke Energy
53	23-895-GA-ALT Dominion Energy Ohio - Alternative Regulatory Plan	C	Ohio Consumer's Counsel	Dominion Energy Ohio

TENNESSEE-AMERICAN WATER COMPANY
2024 Incremental Capital Rider Revenue Requirement ("ICRRR")
Comparison of Original and Revised Filings
For the Twelve Months Ending December 31, 2024

Exhibit DND-3

Source: TAWC Response to CA Request 1-22

Line No.	Description	Source	A As Filed	B DR Response to CAD DR 1-01	C Response to DR 1-22 Revised
Section A Return					
Determining Capital Rider Rate Base and Rate of Return					
1	TAWC 13-Month Average Rate Base		\$ 291,704,080	\$ 291,704,080	\$ 291,704,080 [A]
2	Eligible Capital Rider Rate Base		175,045,070	175,045,070	175,069,224
3	Plus:				
4	Authorized Rate Base	Rate Order 12-00049	132,015,472	132,015,472	132,015,472
5	Acquisition Rate Base		0	(935,260)	(935,260)
6	Eligible Capital Rider Rate Base Plus	Line 2 + Line 4 + Line 5	307,060,542	306,125,282	306,149,436
7	Lower of the Rate Base Calculation	Lower of Line 1 or Line 6	\$291,704,080	\$291,704,080	\$291,704,080
8	Eligible Rate Base	Line 7 Less Lines 4 and 5	159,688,608	160,623,868	160,623,868
9	Less: Previously Recovered CR Rate Base		149,037,001	149,037,001	149,037,001
10	Incremental CRR Investment	Line 8 Less Line 9	10,651,606	11,586,867	11,586,867
11	Pre-Tax Return	12-00049	8.45%	8.45%	8.45%
12	Pre-Tax Revenue Deficiency on ICR Investment	Lines 10 * 11	900,215	979,259	979,259
13	Lag Weighted Return Factor - Pre-Tax	Regulatory Lag Factor	1.1056	1.1056	1.1056
14	Return on Rate Base Revenue Deficiency w/ Regulatory Lag	Line 12 * Line 13	\$ 995,317	\$ 1,082,711	\$ 1,082,711
Section B: Depreciation					
Determining Depreciation Expense					
15	TAWC Depreciation Expense	PSC--3.06	\$ 12,554,288	\$ 12,554,288	\$ 12,554,288
16	Minus:				
17	Authorized Depreciation Expense	Rate Order 12-00049	6,090,861	6,090,861	6,090,861
18	Acquisition Depreciation Expense		-	24,878	24,878

A Friedman doctrine-- The Social Responsibility of Business Is to Increase Its Profits

By Milton Friedman

Sept. 13, 1970

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September 13, 1970, Section SM, Page 17 [Buy Reprints](#)



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WHEN I hear businessmen speak eloquently about the “social responsibilities of business in a free-enterprise system,” I am reminded of the wonderful line about the Frenchman who discovered at the age of 70 that he had been speaking prose all his life. The businessmen believe that they are defending free enterprise when they declaim that business is not concerned “merely” with profit but also with promoting desirable “social” ends; that business has a “social conscience” and

takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers. In fact they are—or would be if they or any one else took them seriously—preaching pure and unadulterated socialism. Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades.

The discussions of the “social responsibilities of business” are notable for their analytical looseness and lack of rigor. What does it mean to say that “business” has responsibilities? Only people can have responsibilities. A corporation is an artificial person and in this sense may have artificial responsibilities, but “business” as a whole cannot be said to have responsibilities, even in this vague sense. The first step toward clarity in examining the doctrine of the social responsibility of business is to ask precisely what it implies for whom.

Presumably, the individuals who are to be responsible are businessmen, which means individual proprietors or corporate executives. Most of the discussion of social responsibility is directed at corporations, so in what follows I shall mostly neglect the individual proprietor and speak of corporate executives.

IN a free-enterprise, private-property system, a corporate executive is an employe of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom. Of course, in some cases his employers may have a different objective. A group of persons might establish a corporation for an eleemosynary purpose—for example, a hospital or school. The manager of such a corporation will not have money profit as his objective but the rendering of certain services.

In either case, the key point is that, in his capacity as a corporate executive, the manager is the agent of the individuals who own the corporation or establish the eleemosynary institution, and his primary responsibility is to them.

Needless to say, this does not mean that it is easy to judge how well he is performing his task. But at least the criterion of performance is straightforward, and the persons among whom a voluntary contractual arrangement exists are clearly defined.

Of course, the corporate executive is also a person in his own right. As a person, he may have many other responsibilities that he recognizes or assumes voluntarily—to his family, his conscience, his feelings of charity, his church, his clubs, his city, his country. He may feel impelled by these responsibilities to devote part of his income to causes he regards as worthy, to refuse to work for particular corporations, even to leave his job, for example, to join his country's armed forces. If we wish, we may refer to some of these responsibilities as “social responsibilities.” But in these respects he is acting as a principal, not an agent; he is spending his own money or time or energy, not the money of his employers or the time or energy he has contracted to devote to their purposes. If these are “social responsibilities,” they are the social responsibilities of individuals, not of business.

What does it mean to say that the corporate executive has a “social responsibility” in his capacity as businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers. For example, that he is to refrain from increasing the price of the product in order to contribute to the social objective of preventing inflation, even though a price increase would be in the best interests of the corporation. Or that he is to make expenditures on reducing pollution beyond the amount that is in the best interests of the corporation or that is required by law in order to contribute to the social objective of improving the environment. Or that, at the expense of corporate profits, he is to hire “hard core” unemployed instead of better qualified available workmen to contribute to the social objective of reducing poverty.

In each of these cases, the corporate executive would be spending someone else's money for a general social interest. Insofar as his actions in accord with his “social responsibility” reduce returns to stock holders, he is spending their money. Insofar

as his actions raise the price to customers, he is spending the customers' money. Insofar as his actions lower the wages of some employees, he is spending their money.

The stockholders or the customers or the employees could separately spend their own money on the particular action if they wished to do so. The executive is exercising a distinct “social responsibility,” rather than serving as an agent of the stockholders or the customers or the employees, only if he spends the money in a different way than they would have spent it.

But if he does this, he is in effect imposing taxes, on the one hand, and deciding how the tax proceeds shall be spent, on the other.

This process raises political questions on two levels: principle and consequences. On the level of political principle, the imposition of taxes and the expenditure of tax proceeds are governmental functions. We have established elaborate constitutional, parliamentary and judicial provisions to control these functions, to assure that taxes are imposed so far as possible in accordance with the preferences and desires of the public— after all, “taxation without representation” was one of the battle cries of the American Revolution. We have a system of checks and balances to separate the legislative function of imposing taxes and enacting expenditure programs and from the executive function of collecting taxes and administering expenditure programs and from the judicial function of mediating disputes and interpreting the law.

Here the businessman—self-selected or appointed directly or indirectly by stockholders—is to be simultaneously legislator, executive and jurist. He is to decide whom to tax by how much and for what purpose, and he is to spend the proceeds—all this guided only by general exhortations from on high to restrain inflation, improve the environment, fight poverty and so on and on.

The whole justification for permitting the corporate executive to be selected by the stockholders is that the executive is an agent serving the interests of his principal. This justification disappears when the corporate executive imposes taxes and spends the proceeds for “social” purposes. He becomes in effect a public employe, a

civil servant, even though he remains in name an employe of private enterprise. On grounds of political principle, it is intolerable that such civil servants—insofar as their actions in the name of social responsibility are real and not just window-dressing—should be selected as they are now. If they are to be civil servants, then they must be selected through a political process. If they are to impose taxes and make expenditures to foster “social” objectives, then political machinery must be set up to guide the assessment of taxes and to determine through a political process the objectives to be served.

This is the basic reason why the doctrine of “social responsibility” involves the acceptance of the socialist view that political mechanisms, not market mechanisms, are the appropriate way to determine the allocation of scarce resources to alternative uses.

ON the grounds of consequences, can the corporate executive in fact discharge his alleged “social responsibilities”? On the one hand, suppose he could get away with spending the stockholders’ or customers’ or employes’ money. How is he to know how to spend it? He is told that he must contribute to fighting inflation. How is he to know what action of his will contribute to that end? He is presumably an expert in running his company—in producing a product or selling it or financing it. But nothing about his selection makes him an expert on inflation. Will his holding down the price of his product reduce inflationary pressure? Or, by leaving more spending power in the hands of his customers, simply divert it elsewhere? Or, by forcing him to produce less because of the lower price, will it simply contribute to shortages? Even if he could answer these questions, how much cost is he justified in imposing on his stockholders, customers and employes for this social purpose? What is his appropriate share and what is the appropriate share of others?

And, whether he wants to or not, can he get away with spending his stockholders, customers’ or employes’ money? Will not the stockholders fire him? (Either the present ones or those who take over when his actions in the name of social responsibility have reduced the corporation's profits and the price of its stock.) His customers and his employes can desert him for other producers and employers less scrupulous in exercising their social responsibilities.

This facet of “social responsibility” doctrine is brought into sharp relief when the doctrine is used to justify wage restraint by trade unions. The conflict of interest is naked and clear when union officials are asked to subordinate the interest of their members to some more general social purpose. If the union officials try to enforce wage restraint, the consequence is likely to be wildcat strikes, rank-and-file revolts and the emergence of strong competitors for their jobs. We thus have the ironic phenomenon that union leaders—at least in the U.S. —have objected to Government interference with the market far more consistently and courageously than have business leaders.

The difficulty of exercising “social responsibility” illustrates, of course, the great virtue of private competitive enterprise — it forces people to be responsible for their own actions and makes it difficult for them to “exploit” other people for either selfish or unselfish purposes. They can do good—but only at their own expense.

Many a reader who has followed the argument this far may be tempted to remonstrate that it is all well and good to speak of government's having the responsibility to impose taxes and determine expenditures for such “social” purposes as controlling pollution or training the hard-core unemployed, but that the problems are too urgent to wait on the slow course of political processes, that the exercise of social responsibility by businessmen is a quicker and surer way to solve pressing current problems.

Aside from the question of fact—I share Adam Smith's skepticism about the benefits that can be expected from “those who affected to trade for the public good”—this argument must be rejected on grounds of principle. What it amounts to is an assertion that those who favor the taxes and expenditures in question have failed to persuade a majority of their fellow citizens to be of like mind and that they are seeking to attain by undemocratic procedures what they cannot attain by democratic procedures. In a free society, it is hard for “good” people to do “good,” but that is a small price to pay for making it hard for “evil” people to do “evil,” especially since one man's good is another's evil.

I HAVE, for simplicity, concentrated on the special case of the corporate executive, except only for the brief digression on trade unions. But precisely the same argument applies to the newer phenomenon of calling upon stockholders to require corporations to exercise social responsibility (the recent G.M. crusade, for example). In most of these cases, what is in effect involved is some stockholders trying to get other stockholders (or customers or employes) to contribute against their will to “social” causes favored by the activists. Insofar as they succeed, they are again imposing taxes and spending the proceeds.

The situation of the individual proprietor is somewhat different. If he acts to reduce the returns of his enterprise in order to exercise his “social responsibility,” he is spending his own money, not someone else's. If he wishes to spend his money on such purposes, that is his right, and I cannot see that there is any objection to his doing so. In the process, he, too, may impose costs on employes and customers. However, because he is far less likely than a large corporation or union to have monopolistic power, any such side effects will tend to be minor.

Of course, in practice the doctrine of social responsibility is frequently a cloak for actions that are justified on other grounds rather than a reason for those actions.

To illustrate, it may well be in the long-run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government. That may make it easier to attract desirable employes, it may reduce the wage bill or lessen losses from pilferage and sabotage or have other worthwhile effects. Or it may be that, given the laws about the deductibility of corporate charitable contributions, the stockholders can contribute more to charities they favor by having the corporation make the gift than by doing it themselves, since they can in that way contribute an amount that would otherwise have been paid as corporate taxes.

In each of these—and many similar—cases, there is a strong temptation to rationalize these actions as an exercise of “social responsibility.” In the present climate of opinion, with its widespread aversion to “capitalism,” “profits,” the

“soulless corporation” and so on, this is one way for a corporation to generate goodwill as a by-product of expenditures that are entirely justified in its own self-interest.

It would be inconsistent of me to call on corporate executives to refrain from this hypocritical window dressing because it harms the foundations of a free society. That would be to call on them to exercise “social responsibility”! If our institutions, and the attitudes of the public make it in their self-interest to cloak their actions in this way, cannot summon much indignation to denounce them. At the same time, can express admiration for those individual proprietors or owners of closely held corporations or stock holders of more broadly held corporations who disdain such tactics as approaching fraud.

WHETHER blameworthy or not, the use of the cloak of social responsibility, and the nonsense spoken in its name by influential and prestigious businessmen, does clearly harm the foundations of a free society. I have been impressed time and again by the schizophrenic character of many businessmen. They are capable of being extremely far-sighted and clear-headed in matters that are internal to their businesses. They are incredibly short sighted and muddle-headed in matters that are outside their businesses but affect the possible survival of business in general. This short sightedness is strikingly exemplified in the calls from many businessmen for wage and price guidelines or controls or incomes policies. There is nothing that could do more in a brief period to destroy a market system and replace it by a centrally controlled system than effective governmental control of prices and wages.

The short-sightedness is also exemplified in speeches by business men on social responsibility. This may gain them kudos in the short run. But it helps to strengthen the already too prevalent view that the pursuit of profits is wicked and immoral and must be curbed and controlled by external forces. Once this view is adopted, the external forces that curb the market will not be the social consciences, however highly developed, of the pontificating executives; it will be the iron fist of Government bureaucrats. Here, as with price and wage controls, business men seem to me to reveal a suicidal impulse.

The political principle that under lies the market mechanism is unanimity. In an ideal free market resting on private property, no individual can coerce any other, all cooperation is voluntary, all parties to such cooperation benefit or they need not participate. There are no “social” values, no “social” responsibilities in any sense other than the shared values and responsibilities of individuals. Society is a collection of individuals and of the various groups they voluntarily form.

The political principle that under lies the political mechanism is conformity. The individual must serve more general social interest— whether that be determined by church or a dictator or a majority. The individual may have a vote and a say in what is to be done, but if he is overruled, he must conform. It is appropriate for some to require others to contribute to a general social purpose whether they wish to or not.

Unfortunately, unanimity is not always feasible. There are some respects in which conformity appears unavoidable, so I do not see how one can avoid the use of the political Mechanism altogether.

But the doctrine of “social responsibility” taken seriously would extend the scope of the political mechanism to every human activity. It does not differ in philosophy from the most explicitly collectivist doctrine. It differs only by professing to believe that collectivist ends can be attained without collectivist means. That is why, in my book “Capitalism and Freedom,” I have called it a “fundamentally subversive doctrine” in a free society, and have said that in such a society, “there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”

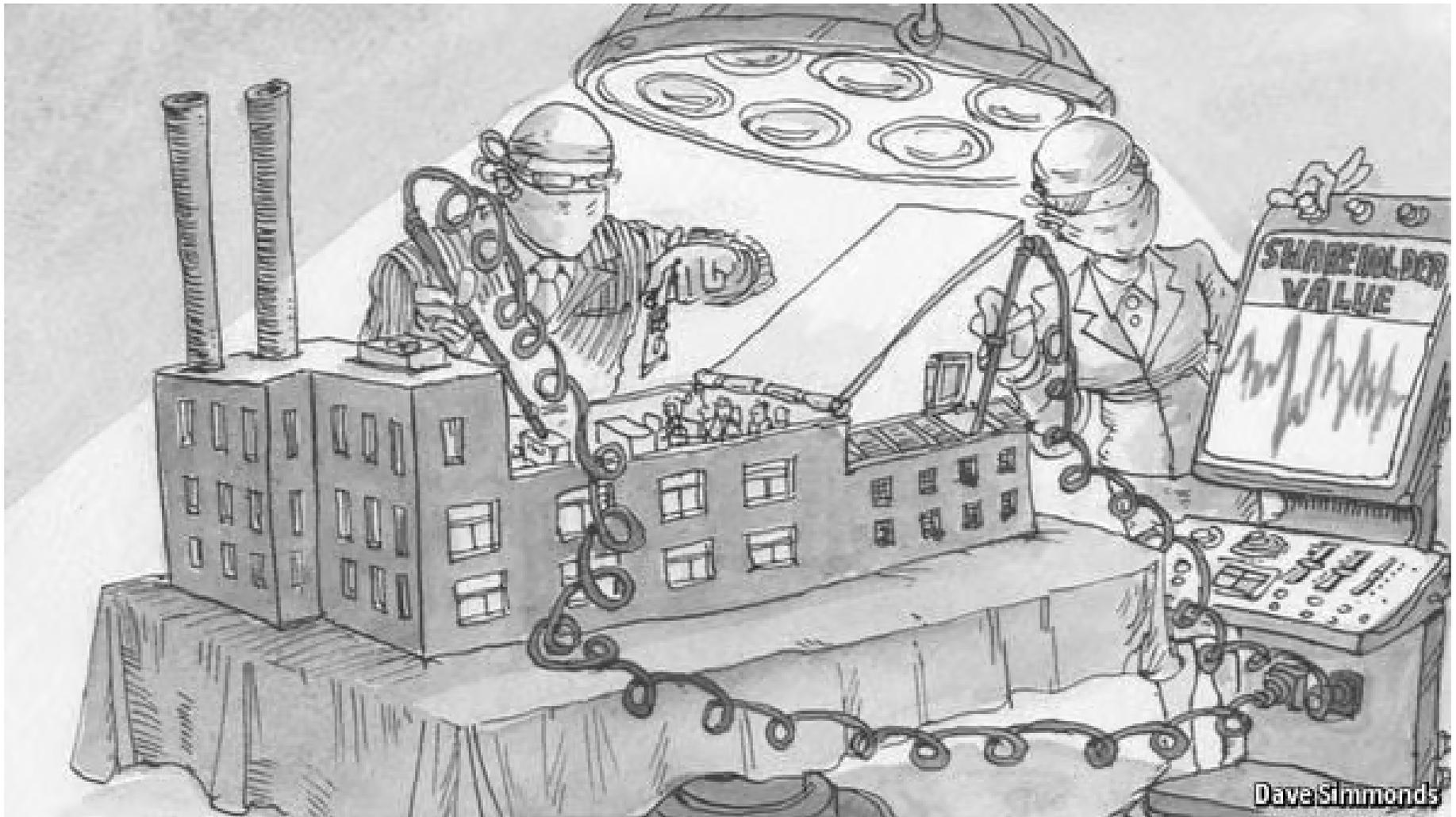
Business | Shareholder value

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The enduring power of the biggest idea in business

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Mar 31st 2016 | 6 min read

WHAT is the most influential contemporary book about the world economy? An obvious choice is “Capital in the Twenty-First Century”, a 696-page analysis of inequality by Thomas Piketty, a French economist. There is another candidate: “Valuation”, a 825-page manual on corporate finance and shareholder value. Some 700,000 copies of it encumber the bookshelves of MBA students, investors and chief executives around the globe.

Inequality and shareholder value are linked in the minds of many folk, who blame investors and managers for stagnant wages and financial crises. Ruthless corporations are a big theme in America’s election campaign. The near-collapse of Valeant, a drugs firm, seems to illustrate a toxic business culture. Its shares have fallen by 73% this year. It is restating its accounts and is in negotiations with its lenders and under investigation by regulators. Valeant describes itself as “bringing value to our shareholders”. While there is no indication of fraudulent or illegal practice, the company could end up joining a pantheon of corporate fiascos that includes Enron (which pledged to “create significant value for our shareholders”), Lehman Brothers, (“maximising shareholder value”) and MCI WorldCom (“a proven record of shareholder value creation”).

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Yet the sixth edition of “Valuation”*, published last year, a quarter of a century after the first, is a reminder of why shareholder value is still the most powerful idea in business and why many criticisms thrown at it are unfair. The origins of the doctrine lie in the 1950s and 1960s, when Franco Modigliani and Merton Miller, two scholars, showed that a firm’s value is independent of its capital structure and dividend policy. That inspired a new framework for analysis, popularised in the 1980s by Joel Stern, a consultant, Alfred Rappaport, another scholar, and McKinsey & Co, a consultancy, among others.

Company analysis was antediluvian until then. Models were scribbled on paper covered in correction fluid. Profits were cheered, without much regard to the book-cooking done, risks taken and capital used to achieve them. The worth of a firm was estimated by placing its profits or book value on a multiple, whose value was best decided after a three-Martini lunch.

“Valuation” and a few books like it, offered new tools. Cashflow, not easy-to-manipulate accounting profit, mattered. An activity only made sense if capital employed by it made a decent return, judged by its cashflow relative to a hurdle rate (the risk-adjusted return its providers of capital expected). Two newish spreadsheet programs, Lotus 123 and Microsoft Excel, let analysts forecast firms’ long-term cashflows and gauge their present value today.

This breathed fresh life into an old idea—that shareholders had the whip hand. Technically, shareholders do not own a company: the firm is a legal person and a share represents a bundle of entitlements to dividends and voting powers. But a doctrine of “shareholder primacy” had been outlined in 1919, when a Michigan

the pursuit of that goal. Managers realised that by working out where firms employed capital and using it more efficiently they could increase their value. Outsiders had a methodology with which to second-guess incompetent managers.

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These ideas lit up corporate America first. In the late 1980s and 1990s, profits relative to GDP were at historic lows and global competition intensified. Managers used the methodology of shareholder value to break up conglomerates and ditch weak business lines. The financial industry was deregulated, creating an army of number-crunchers to scrutinise firms.

By the turn of the century, big European firms were on board. Germany's system of cross-shareholdings between financial and industrial firms was unwound: investors could buy the same exposure and did not need companies tying up capital. The jewels of French industry were privatised and their bosses obliged to think of profitability as well as impressing politicians.

Today shareholder value rules business. Abenomics, the plan to revive Japan's economy, involves prodding firms to use capital better. Fosun, a private Chinese firm, devotes a page of its annual report to calculating the value it claims to have

return on capital and buzz for more tea.

Value cremation

Yet at this moment of ascendancy in the business world, shareholder value is under fierce attack beyond it, fuelled by a sense that Western economies are not delivering rising prosperity to most people. The criticism falls into two categories. The first is that shareholder value is a licence for bad conduct, including skimping on investment, exorbitant pay, high leverage, silly takeovers, accounting shenanigans and a craze for share buy-backs, which are running at \$600 billion a year in America.

These things happen, but none has much to do with shareholder value. A premise of “Valuation” is that there is no free lunch. A firm’s worth is based on its long-term operating performance, not financial engineering. It cannot boost its value much by manipulating its capital structure. Optical changes to accounting profits don’t matter; cashflow does (a lesson WorldCom and Enron ignored). Leverage boosts headline rates of return but, reciprocally, raises risks (as Lehman found). Buy-backs do not create value, just transfer it between shareholders. Takeovers make sense only if the value of synergies exceeds the premium paid (as Valeant discovered). Pay packages that reward boosts to earnings-per-share and short-term share-price pops are silly.

Outbreaks of madness in markets tend to happen because people are breaking the rules of shareholder value, not enacting them. This is true of the internet bubble of 1999-2000, the leveraged buy-out boom of 2004-08 and the banking crash. That such fiascos occur is a failure of governance and human nature, not of an idea

just shareholders. In a trite sense the goals of equity-holders and others are aligned. A firm that sufficiently annoys customers, counterparties and staff cannot stay in business. Some bosses, such as Paul Polman of Unilever, and Joe Kaeser at Siemens, say that pursuing social and financial objectives is consistent. But it is disingenuous to pretend conflicts do not arise. A firm with a loss-making factory cannot shut it without destroying jobs.

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The trouble is identifying a goal that could replace the pursuit of shareholder value. If firms had to promote employment they would be less productive and riskier borrowers, as China is discovering. The objective of maximising wealth is deeply embedded in the global savings system, with asset managers obliged to protect clients' money. Asking firms to adopt objectives to solve inequality loads a giant problem on their shoulders.

For these reasons shareholder value—properly defined—will remain the governing principle of firms. It is still drawing recruits. In August Larry Page, the co-founder and boss of Alphabet (Google's parent), reorganised the firm, partly to “rigorously handle capital allocation” and make a “return above the benchmark”. But

tougher antitrust policing, more regulation and more rules to protect jobs. How firms respond is an issue for the next bestseller to tackle.

**“Valuation. Measuring and Managing the Value of Companies”, by McKinsey & Company, Tim Koller, Marc Goedhart, David Wessels*

This article appeared in the Business section of the print edition under the headline “Analyse this”



From the April 2nd 2016 edition

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IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:)
)
)
)
PETITION OF TENNESSEE-)
AMERICAN WATER TO MODIFY)
TARIFF, CHANGE AND INCREASE) DOCKET NO. 24-00032
CHARGES, FEES, AND RATES, AND)
FOR APPROVAL OF A GENERAL)
RATE INCREASE)

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 Tennessee 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 and Victoria Glover, on June 25, 2024 at 2:00 p.m. (Central Time).

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.

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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 on the basis of 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

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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

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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. Refer to the *Testimony of Charles B. Rea* at 4:17 – 19 and respond to the following

questions:

- a. Regarding Mr. Rea’s reference to declining water usage, discuss the extent to which Mr. Rea believes price elasticity factors into the reduction in water usage referenced in this passage; and
- b. Describe the extent to which the affordability analysis considered the specific Chattanooga area costs for lodging, utilities, food, taxes, etc;

RESPONSE:

1-2. Refer to the *Testimony Charles B. Rea* at 9, Charts 1, 2 and respond to the following

questions:

- a. Provide a copy of the Excel file with cell references intact that support the two charts;
- b. Provide the underlying supporting information demonstrating that the 2023 median household income in the Company’s service area exceeds \$70,000; and
- c. Does the average residential bills reflected in Chart 1 include the impact of the Company’s Capital Rider Surcharge during the period the surcharge has been in effect?

RESPONSE:

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- 1-3. Refer to the *Testimony of Dominic Degrazia* at 11:12-17 and Petitioner’s Exhibit EXP-21-Amortization-DD. This exhibit reflects an adjustment of \$1,116, which relates to deferred AFUDC debt. However, the title of the EXP-21 schedule is Pro Forma Adjustment of Depreciation and Cost of Removal Expense. Regarding this adjustment, provide the following:
- a. Confirm that the \$1,116 adjustment relates to deferred AFUDC Debt;
 - b. If part (a) is confirmed, explain how this cost component was incurred and why it is appropriate to include it as an expense in the revenue requirement; and
 - c. If part (a) is not confirmed, describe the nature of the adjustment and how it was calculated.

RESPONSE:

- 1-4. Refer to the *Testimony of Dominic DeGrazia* at 12:1-10 and respond to the following:
- a. What is meant by “closed accounts” as is used in testimony; and
 - b. How were quantities of Purchase Power and Fuel expense correlated with the level of forecasted sales revenue in the attrition period? If revenue Purchase Power and Fuel expenses were not correlated with the company’s proposed revenue requirement, explain why such an analysis was not performed.

RESPONSE:

- 1-5. Refer to the *Testimony of Dominic DeGrazia*, File <TAWC 2024 Rate Case – Purchased Power Exhibit.xlsx>, Tab “Exhibit” (Petitioner’s Exhibit EXP-2-Purchased Power-DD) and respond to the following:
- a. Discuss the nature and timing of recent efforts to control Purchased Power expenses; and
 - b. Identify any capital expenditures incurred from January 1, 2023, through the most recent period available that increased efficiency and are expected to impact future Purchase Power costs. Explain the nature of the capital expenditure and its intended impact on Purchased Power costs.

RESPONSE:

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- 1-6. Refer to the *Testimony of Dominic DeGrazia*, File <TAWC 2024 Rate Case – Chemicals Exhibit.xlsx>, Tab “Exhibit” (Petitioner’s Exhibit EXP-2-Purchased Power-DD) and respond to the following:
- a. Provide support the 3% rate change applied to EPB charges in computing 2024 EPB Purchased Power costs; and
 - b. Provide support the 7.68% rate change assumed in computing 2025 Purchased Power costs.

RESPONSE:

- 1-7. Refer to the *Testimony of Dominic DeGrazia*, File <TAWC 2024 Rate Case – Purchased Power Exhibit.xlsx>, Tab “Exhibit” (Petitioner’s Exhibit EXP-3-Chemicals-DD) and respond to the following:
- a. Provide a copy of any contracts governing the purchase of Chemicals identified in these workpapers;
 - b. Provide a copy of purchase orders for 2023 and 2024 for the following Chemical families at Plant P701:
 - i. Chemicals-Other;
 - ii. Sodium Hypochlorite; and
 - iii. Phosphates.
 - b. Provide a general discussion supporting the assumption that 2025 Chemical-related prices will increase by 5% when 2024 pricing has had significant price decreases; and
 - c. Provide the actual monthly quantities of chemicals used at the P701 Plant by Chemical Family for January 2023 – March 2024 related to general ledger recordings. Indicate in the response whether there is a lag between the period in which actual consumption occurs, and the month when such consumption is reflected in the general ledger.

RESPONSE:

- 1-8. Refer to the *Testimony of Dominic DeGrazia*, File <TAWC 2024 Rate Case – Purchased Power Exhibit.xlsx>, Tab “Workpaper” (Schedule EXP-3.2). Provide the actual January 2024 – March 2024 costs in the format contained in the Workpaper tab.

RESPONSE:

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1-9. Refer to the *Testimony of Dominic DeGrazia*, File <TAWC 2024 Rate Case – Waste Disposal Exhibit.xlsx>, Tab ‘Exhibit’ (Petitioner’s Exhibit Exp-4-Waste Disposal-DD)

and respond to the following questions:

- a. Confirm that there are thirteen monthly entries associated with Denali Water Solutions and that removing the first line item associated with November 2022 usage is appropriate to arrive at a normalized test period level of costs. If this is not confirmed, justify the level of Denali Water Solutions costs, including an explanation of why thirteen monthly entries are appropriate within the Waste Disposal calculation;
- b. Confirm that the cost information in the Tab “Marion Environmental” includes twelve months’ of activity. If this is not confirmed, provide an annual level of base year costs from this vendor;
- c. Explain the nature of the Accruals referenced in the Expense Summary and identify which systems these relate to;
- d. Provide the most recent months’ invoices from Denali Water Solutions and Interceptor Sewer Systems; and
- e. Provide a copy of all invoices received from Marion Environmental for general ledger postings after December 26, 2023.

RESPONSE:

1-10. Refer to the *Testimony of Dominic DeGrazia*, File <TAWC 2024 Rate Case – Purchased Water Exhibit.xlsx>, Tabs Marion Gas & Water” (Schedule EXP-1.6) and “Waldens Ridge” (Schedule EXP-1.7). Respond to the following:

- a. Confirm that the consumption data associated with charges from Marion Gas & Water are in excess of 365 days;
- b. Provide annual consumption data for the years 2020 – 2022 for Marion Gas & Water;
- c. Provide actual invoices from Marion Gas & Water for the period January – March 2024;
- d. Provide consumption data for accounts 111421 and 111599 from Waldens Ridge Utility District for the years 2020 – 2022; and
- e. Provide invoices from Waldens Ridge Utility District for the months of January – March 2024 for each of the two accounts.

RESPONSE:

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- 1-11. Refer to the *Testimony of Dominic Degrazia* at 14:14 – 15:2, and respond to the following:
- a. Identify the effective date of the plant in service corresponding to the Property Tax Expense recorded in 2023;
 - b. Identify the balance of accrued property tax expense reflected on the Company's books as of December 31, 2023; and
 - c. Provide the underlying calculation supporting the 97.03% Equalized Assessment Percentage in the Attrition Year.

RESPONSE:

- 1-12. Refer to the *Testimony of Dominic DeGrazia*, File <TAWC 2024 Rate Case – Other General Taxes Exhibit.xlsx>, Tab “Franchise Tax” (Schedule EXP-22.2). Provide a comprehensive explanation of the implication the Tennessee Franchise Tax legislation will have on the Company's Franchise Tax Expense on a going forward basis and discuss the appropriate regulatory treatment.

RESPONSE:

- 1-13. Refer to the *Testimony of Dominic DeGrazia*, File <TAWC 2024 Rate Case – Other General Taxes Exhibit.xlsx>, Tab “Franchise Tax” (Schedule EXP-22.2.). Provide the following:
- a. A copy of the Company's 2023 Franchise Tax filing with the Tennessee Department of Revenue. If the 2023 filing has not been completed, provide a copy of the 2022 filing and submit the 2023 filing when it is submitted;
 - b. The supporting work papers for the percentage assigned to Tennessee;
 - c. The rationale for the add-in line “Adjustment for Rentals;”
 - d. A copy of the Company's Gross Receipts Tax filing for 2023 operations. If the 2023 filing has not been completed, provide a copy of the 2022 filing and submit the 2023 filing when it is submitted; and
 - e. A copy of the Company's TPUC Inspection Fee filing for 2023 operations. If the 2023 filing has not been completed, provide a copy of the 2022 filing and submit the 2023 filing when it is submitted.

RESPONSE:

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1-14. Refer to the *Testimony of Dominic Degrazia* at 16:12-17. Provide a comprehensive explanation justifying the use of a three-year average for Maintenance Expenses in arriving at the Test Year Adjustment prior to applying the inflation factors.

RESPONSE:

1-15. Refer to the *Testimony of Grady Stout* at 18-26 describing the Company's proposal to implement a lead line service replacement program. Provide a graphic representation of the portion of the service line described by Mr. Stout that aligns with the Company's proposal to include a representation of the portion of the service line that the Company would replace.

RESPONSE:

1-16. Refer to the *Testimony of Grady Stout* at 18: 16-18. Mr. Stout describes the Company's historical practice of replacing their portion of lead service lines. Discuss whether the Company intends to replace the lead service lines of customers who declined the option of replacing their service line at their expense under this proposal. If so, discuss the priority level of this type of replacement relative to the replacement of service lines as a component of a more comprehensive main line replacement project. Does the Company know with certainty whether, upon notification by the Company of the presence of a lead in their service line, customers replaced their service line?

RESPONSE:

1-17. Refer to the *Testimony of Grady Stout* at 18: 11-16. The Company is requesting a modification of its Qualified Infrastructure Investment Program Rider ("QIIP"). Regarding the rider, address the effective date of the qualifying plant subject to recovery in the future rider filings identified below, given the Company's rate increase request in

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this Docket. This request seeks a general overview of the timing of cost deferrals and/or recovery true-ups the Company will seek recovery of in the following filings:

- a. March 2025 Filing;
- b. March 2026 Filing; and
- c. March 2027 Filing.

RESPONSE:

1-18. Refer to the *Testimony of Grady Stout* at 35: 5-7. Discuss how water usage associated with firefighting and training is measured.

RESPONSE:

1-19. Refer to the *Testimony of Grady Stout* at 36: 11-13. Provide a copy of the Company's Key Performance Indicators ("KPIs") results (reports) for January 2022 – April 2024.

RESPONSE:

1-20. Provide the month-end number of TAWC employees for the period January 31, 2020 – April 30, 2024, further split into the following categories:

- a. Union hourly employees;
- b. Non-union hourly employees; and
- c. Exempt employees.

Please identify the source for accumulating this data.

RESPONSE:

1-21. Refer to the *Testimony of Grady Stout* at 41, Table of APP goals. Provide and provide the following:

- a. Identify the 2021 and 2023 goals, targets, and weights in the same format as provided in this passage for 2024;
- b. For each target identified above, provide the associated achievement level and the resulting weighted average payment for each criterion for 2021 through 2023;

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- c. Identify the methodology used to accrue the Annual Performance Plan (“APP”) costs in 2024 along with monthly charges by account for the period January – April 2024; and
- d. Provide the amounts and accounts charged on the books of TAWC for direct APP costs for:
 - i. 2021;
 - ii. 2022; and
 - iii. 2024 (January through April).

RESPONSE:

1-22. Refer to the *Testimony of Grady Stout* at 41, Table of APP goals. Provide the following for

APP charged to TAWC from AWCC or any other affiliate entity:

- a. Identify the 2021 – 2024 goals, targets, and weights in the format provided in this passage for 2024 TAWC goals;
- b. For each target identified above, provide the associated achievement level and the resulting weighted average payment for each criterion for 2021 through 2023;
- c. Identify the methodology used to accrue for the Annual Performance Plan (APP) costs in 2024 along with monthly charges by account for the period January – April 2024; and
- d. Provide the amounts and accounts charged on the books of TAWC for allocated APP costs for:
 - i. 2021;
 - ii. 2022;
 - iii. 2023; and
 - iv. 2024 (January through April).

RESPONSE:

1-23. Provide the direct Long-Term Performance Plan (“LTPP”) costs incurred associated with

TAWC employees by year, by account for the following periods:

- a. 2021;
- b. 2022;
- c. 2023; and
- d. 2024 (January through April).

RESPONSE:

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- 1-24. Provide the allocated LTPP costs incurred associated with TAWC affiliate employees by year, by account for the following periods:
- a. 2021;
 - b. 2022;
 - c. 2023; and
 - d. 2024 (January through April).

RESPONSE:

- 1-25. Provide the following related to the Company's LTPP:

- a. Supply a copy of all plan documentation provided to employees describing how the mechanism will be computed applicable to (i) 2023 results and (ii) 2024 results;
- b. For each metric in the LTPP calculation, provide the annual target and actual performance for the years 2020 – 2023, including the underlying documentation supporting the actual results; and
- c. Identify the number of TAWC employees eligible for the LTPP.

RESPONSE:

- 1-26. Provide the following related to the Company's RSU/PSU program (Account 50171800):

- a. Supply a copy of all plan documentation provided to employees describing how the mechanism will be computed applicable to (i) 2023 results and (ii) 2024 results;
- b. For each metric in the RSU calculation, provide the target and actual performance for 2020 – 2023, including the underlying documentation supporting the actual results; and
- c. Identify the number of TAWC employees eligible for the RSU in 2023.

RESPONSE:

- 1-27. Refer to the *Testimony of Robert Mustich* at 2:1 – 3:9. Mr. Mustich explains that companies frequently engage his firm to evaluate the competitiveness of their compensation philosophy. Mr. Mustich has also submitted testimony before other state regulatory commissions. For this section of his testimony, respond to the following questions:

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- a. How many times has Mr. Mustich submitted testimony before state utility regulatory commissions? If the precise number of occasions is not readily known or available, provide the best estimated number of such engagements;
- b. Identify any engagement involving the submission of testimony in which Mr. Mustich determined that the subject utilities Target Total Direct Compensation was above the range of total compensation, as those terms are used in Mr. Mustich's testimony; and
- c. For any such testimony identified in part (b) above, provide a copy of such testimony if it is readily available, or provide the Docket (or Case) number and the jurisdiction in which it was submitted.

RESPONSE:

1-28. Refer to the *Testimony of Grady Stout* at 18:14-16 and the Company's proposed Revised Tariff. Reconcile the revised ICR tariff language found on "TPUC No. 20; Original Sheet No. 12-ICR-5" which states "Investments eligible for recovery under the ICR are subject to the conditions established by Commission Order in TPUC Docket No. 19-00103, with the request in Mr. Stout's testimony wherein he says, in part, "[a]s part of this case, the Company's is (sic) seeking approval to replace customer-owned lead service lines and to recover the cost through TAWC's Qualified Infrastructure Investment Program Rider (QIIP)".

RESPONSE:

1-29. Refer to the *Testimony of Robert Lane* at 10, Table BL-1. Provide the underlying calculations supporting the values in Table BL-1.

RESPONSE:

1-30. Refer to the *Testimony of Robert Lane* at 23, Pension & OPEB Tables. Provide a precise definition of the term "Actuals" within the Pension and OPEB table. Provide the documentation supporting the "Actuals" data contained in these two tables. Indicate

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whether these “Actuals” reflect only TAWC employee costs or include both direct TAWC employee costs and allocated costs.

RESPONSE:

1-31. Identify and describe any “plan” changes in the Company’s Pension plan that have occurred from January 1, 2015, through 2024 to date.

RESPONSE:

1-32. Identify and describe any “plan” changes in the Company’s OPEB plan from January 1, 2015, through 2024 to date.

RESPONSE:

1-33. Provide copies of actuarial reports used to record (a) TAWC direct pension costs and (b) the report underlying pension costs allocated to TAWC, both for 2021 and 2022.

RESPONSE:

1-34. Provide copies of actuarial reports used to record (a) TAWC direct OPEB costs and (b) the report underlying OPEB costs allocated to TAWC, both for 2021 and 2022.

RESPONSE:

1-35. Regarding cash contributions to pension plans made by the Company, provide the following:

- a. Identify the cash contributions to pension plans made on behalf of TAWC for the periods 2021 – 2022. To the extent that any portion of these contributions are attributable to a pro-rata portion of such contributions for non-TAWC employees, identify the annual amount and how such amounts were determined;
- b. Identify the basis for the annual cash contribution made for the period 2021-2023; and
- c. For each year for the period 2021 - 2023, provide the (a) minimum ERISA cash contribution required and (b) the maximum tax-deductible contribution.

RESPONSE:

1-36. **CONFIDENTIAL Request:

- a. **Confidential Subpart;
- b. ** Confidential Subpart;
- c. ** Confidential Subpart; and
- d. ** Confidential Subpart.

RESPONSE:

1-37. Regarding cash contributions to OPEB plans made by the Company, provide the following:

- a. Identify the cash contributions to OPEB plans made on behalf of TAWC, for the periods 2021 – 2023. To the extent that any portion of these contributions are attributable to a pro-rata portion of such contributions for non-TAWC employees, identify the annual amount and how such amounts were determined; and
- b. Further, for each year, identify the basis for the cash contribution.

RESPONSE:

1-38. Has the Company recorded Pension Expense on the books of TAWC in 2023 using the cash contribution method, or those recorded pursuant to Generally Accepted Accounting Principles (“GAAP”), accrued per the former SFAS 87? If such costs have been accrued per GAAP, have such costs been eliminated in the proposed revenue requirement? If so, identify where such costs have been removed.

RESPONSE:

1-39. Confirm that the credit offsetting depreciation costs the Company is deferring in 2024, pursuant to the Commission’s Order in TPUC Docket No. 19-00103, is being credited to Accumulated Depreciation. If this is not confirmed, identify the account used to record the credit associated with the deferred depreciation recorded as a regulatory asset.

RESPONSE:

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1-40. Refer to the *Testimony of Grant Allen Evitts* at 23:5 – 25:15. Mr. Evitts describes several Community Engagement Initiatives and Efforts in this section of his testimony. For each initiative described within this section, provide the following:

- a. Provide a more detailed description of the involvement of the Company in each of these initiatives;
- b. Identify the costs of each initiative, indicating the types of costs that were incurred and whether such costs include the assignment of TAWC labor costs associated with the time spent by TAWC employees either directly participating or managing the initiative; and
- c. Identify the account(s) charged with costs associated with each initiative.

RESPONSE:

1-41. Refer to the *Testimony of Harold Walker III* at 4:21 – 5:4. Provide a comprehensive discussion of the process by which the Company receives payments and records the resulting payments to accounts receivable. At what point in this process is the payment deemed “received”? This explanation should also include a discussion of the timing of when the cash is available for use by the Company relative to when the funds are recorded as a credit to the balance of Accounts Receivable.

RESPONSE:

1-42. Provide evidence of federal income tax payments made by TAWC to the U.S. Treasury for any 2023 federal income tax obligations.

RESPONSE:

1-43. Provide evidence of federal income tax payments made by American Water Works to the U.S. Treasury for any 2023 federal income tax obligations.

RESPONSE:

1-44. Provide a copy of the TAWC federal income tax return for 2022 if such a filing was made.

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RESPONSE:

1-45. Provide a copy of the American Water Works federal income tax return for 2022.

RESPONSE:

1-46. Refer to the *Testimony of Harold Walker III*, File <TN-AW 2024 Lead-Lag Workpapers>, Tab “Purchased Water” (Schedule HW-4). Provide the invoice and all supporting documentation to confirm the date the Company released funds for the following two purchased water charges:

Account	Document #	Paid Date	Amount	Service Period		Vendor
				From	To	
51010000	5000109304	11/28/2023	17,045.57	10/6/2023	11/7/2023	Marion Natural Gas System (Board of Wt
51010000	5000107215	9/25/2023	13,155.52	8/5/2023	9/6/2023	Marion Natural Gas System (Board of Wt

RESPONSE:

1-47. Refer to the *Testimony of Harold Walker III*, <TN-AW 2024 Lead-Lag Workpapers>, Tab “wk chemical” (Schedule HW-4). Provide the invoice and all supporting documentation to confirm the date the Company released funds for the following two chemical purchases:

Document #	Paid	Amount	Service Period		Vendor	month date	amt amt
			From	To			
5000106033	9/22/2023	42,100.80	8/10/2023	8/10/2023	Carus LLC US	09/30/23	\$42,100.80
5000107013	10/26/2023	23,022.72	9/11/2023	9/11/2023	CEDARCHEM LLC US	10/31/23	\$23,022.72

RESPONSE:

1-48. Refer to the *Testimony of Harold Walker III*, File <TN-AW 2024 Lead-Lag Workpapers>, “wk service co” tab. Refer to the proposed negative expense lead days associated with Service Company costs, whereby TAWC provides compensation to the Service Company before the mid-point of the service period as reflected in the “wk service co” tab. Provide a comprehensive discussion explaining why increasing the rate base for the cash working

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capital implications of this affiliate transaction is appropriate, which is outside the boundary of a normal expense lead for third-party contractor costs.

RESPONSE:

1-49. Refer to the *Testimony of Harold Walker III*, File<TN-AW 2024 Lead-Lag Workpapers>,

Tab “Gross Receipts Tax” (Schedule HW-28). Respond to the following:

- a. Provide documentation that the Company’s service period runs from July 1 through June 30;
- b. Provide documentation identifying the due date the Tennessee Department of Revenue has established for Gross Receipt Tax payments applicable to TAWC; and
- c. Provide documentation demonstrating that the \$1,023,554 payment made on July 26, 2023, as reflected on the “wk gross Rec tax tab” within the Lead-Lag Workpapers file was effectively a prepayment for the service period ending June 30, 2023.

RESPONSE:

1-50. Provide a copy of the documentation of all quarterly state excise tax (income) tax payments made by TAWC associated with its 2023 state income tax obligations.

RESPONSE:

1-51. Refer to the *Testimony of Harold Walker III*, File <TN-AW 2024 Lead-Lag workpapers.xlsx>, Tab “2 SCH Revenue Lag” (Schedule HW-2), regarding the overall revenue lag calculated within the cash working capital study. Respond to the following:

- a. Provide the source documentation identifying the Daily Accounts Receivable balances which were used to determine the Net Daily Accounts Receivable Balance as reflected in Schedule HW-2;
- b. Reconcile the Daily Revenues of \$66,087,192 as reflected in Schedule HW-2, with the Total Operating Revenue of \$69,304,200 as reflected in File <Exhibit Rev-1-Revenue Summary.xlsx> (Petitioner’s Exhibit Rev-1 Revenue Summary-HB);
- c. Explain how the Daily Revenues in Schedule HW-2 was determined; and

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- d. Provide a copy of all source documentation supporting the Service Period and Billing Lag Days of 21.4 reflected in Schedule HW-2.

RESPONSE:

1-52. Refer to the *Testimony of John M. Watkins* at 5:3-6. Provide a copy of the Service Company invoices supplied to TAWC for February and August 2023.

RESPONSE:

1-53. Refer to the *Testimony of John M. Watkins* at 5:20-21. Provide a copy of the estimated reports received from Willis Tower Watson (“WTW”) as referenced by Mr. Watkins. Further indicate the rationale for relying upon a report characterized as “estimated” to establish rates.

RESPONSE:

1-54. Provide a copy of the Cost Allocation Manual, which documents the allocation methodologies for allocating costs from the American Water Works Service Company (“AWWSC”) to TAWC.

RESPONSE:

1-55. Refer to the *Testimony of Patrick Baryenbruch*, Schedule PLB-1. In the 107 rate cases in which Mr. Baryenbruch has been engaged, provide the following:

- a. Identify the number of cases in which he found total affiliate transaction-related costs unreasonable;
- b. Identify the number of cases in which he found that affiliate transactions were not similar to those provided by service companies of other utility holding companies;
- c. Identify the number of cases in which the jurisdictional utility was not charged the lower cost or market for managerial services provided by the Service Company;
- d. Identify the number of cases in which he testified that any portion of services received by the jurisdictional utility were unnecessary; and

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- e. Identify the number of cases in which he testified that the governance practices applied to total Service Company expenses charged to the jurisdictional utility were inappropriate.

RESPONSE:

1-56. Provide a copy of all workpapers prepared by John M. Watkins or anyone under his supervision in his preparation for this proceeding.

RESPONSE:

1-57. Provide a copy of all workpapers prepared by Patrick L. Baryenbruch or anyone under his supervision in preparation for this proceeding.

RESPONSE:

1-58. Refer to the *Testimony of Patrick L. Baryenbruch*, Schedule PLB-2, p. 5. Provide a copy of the AWWSC month-end financial statements for December 31, 2022, December 31, 2023, and April 30, 2024, as referenced in the Market-to-Cost Comparison of Service Company Charges report.

RESPONSE:

1-59. Refer to the Minimum Filing Guidelines (1-86), Response to Q003, 2024 TAWC MFG Q003, Attachment 1, and 2024 TAWC MFG Q003_Attachment 2. Provide a copy of the following job descriptions for positions referenced in the Company's response to MFR Question 003:

- a. SVP Communications and External Affairs;
- b. EVP & COO;
- c. VP National Gov't (unreadable) and Regulatory Affairs; and
- d. All employees who directly report to VP National Gov't (unreadable) and Regulatory Affairs.

RESPONSE:

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- 1-60. Refer to the Minimum Filing Guidelines (1-86), Response to Q003, 2024 TAWC MFG Q003_Attachment 1, and 2024 TAWC MFG Q003_Attachment 2. For the following positions, provide the portion of costs charged to TAWC in 2023 split into the following compensation categories: (i) Base compensation, (ii) employee-related taxes, (iii) short-term incentive compensation, (iv) long-term incentive compensation, and (v) all other benefit costs:
- a. SVP Communications and External Affairs;
 - b. EVP & COO;
 - c. VP National Gov't (unreadable) and Regulatory Affairs; and
 - d. All employees who directly report to VP National Gov't (unreadable) and Regulatory Affairs.

RESPONSE:

- 1-61. Refer to the Minimum Filing Guidelines (1-86), Response to Q003, 2024 TAWC MFG Q003_Attachment 1, and 2024 TAWC MFG Q003_Attachment 2. A number of employee positions were completely redacted. Identify the positions and discuss why they were redacted.

RESPONSE:

- 1-62. Refer to the Minimum Filing Guidelines (1-86), Response to Q007. Respond to the following related to TAWC Employment Agreement costs:
- a. Identify the amount, month(s), and year in which the TAWC Employment Agreement costs were incurred; and
 - b. Provide a comprehensive explanation surrounding how such costs were incurred and whether such costs were relocation costs or employee retention costs. Identify the job title of the employees associated with these costs.

RESPONSE:

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- 1-63. Refer to the Minimum Filing Guidelines (1-86), Response to Q007. Respond to the following related to TAWC Separation and/or Severance Agreement costs:
- a. Identify the amount, month(s), and year(s) in which the TAWC Separation/Service Agreement costs were incurred; and
 - b. Provide a comprehensive explanation surrounding the nature of the costs. Identify the employees' job title(s) associated with these costs.

RESPONSE:

- 1-64. Refer to the Minimum Filing Guidelines (1-86), Response to Q007. Respond to the following related to Service Company Separation and/or Severance Agreement costs:
- a. Identify the amount recorded by TAWC by month(s), and year(s) in which the Service Company Separation/Service Agreement costs were incurred; and
 - b. Provide a comprehensive explanation surrounding the nature of the costs. Identify the employees' job title(s) associated with these costs.

RESPONSE:

- 1-65. Refer to the Minimum Filing Guidelines (1-86), Response to Q007 and Q009. Reconcile the Severance Expenses identified in Question 9 with the three-year total of Severance Expenses identified in Response 7.

RESPONSE:

- 1-66. Refer to the Minimum Filing Guidelines (1-86), Response to Q009. Provide responses to the following questions:
- a. Does the Company have a policy on when an employee is eligible for severance compensation? If so, provide a copy of the policy; and
 - b. Describe the nature of the severance compensation incurred in 2021, including the job title of the employee(s), how the compensation was determined, and the reason for the payment.

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1-67. Refer to the Minimum Filing Guidelines (1-86), Response to Q013 regarding the Business Development Department, and respond to the following:

- a. Provide a copy of all AWWC Business Development departmental reports or descriptions of department activities for 2023; and
- b. Provide the rationale supporting the recovery of Business Development costs in the revenue requirement of TAWC.

RESPONSE:

1-68. Refer to the Minimum Filing Guidelines (1-86), Response to Q013 regarding the External

Affairs and Public Policy Department, and respond to the following:

- a. Identify any costs allocated to TAWC and recorded in an above-the-line account that were removed to develop the revenue requirement in this proceeding. If such costs were removed, discuss how the adjustment was quantified;
- b. Identify the number of employees charging time in 2023 to cost centers (i) 332085 and (ii) 332086;
- c. Identify the labor charges, including benefits and employee taxes allocated to TAWC in 2023, included in cost centers (i) 332085 and (ii) 332086; and
- d. Identify any vendors whose costs charged to cost center (i) 332085 or (ii) 332086 exceeded \$5,000 on the books of TAWC. For each vendor meeting these criteria, identify the amount charged in 2023, the TAWC account charged, and the nature of the service provided.

RESPONSE:

1-69. Refer to the Minimum Filing Guidelines (1-86), Response to Q013 regarding the Legal Department, and respond to the following:

- a. Identify the charges directly assigned to TAWC from cost center 332015 in 2023;
- b. Provide all supporting documentation for any third-party costs that were direct charged to TAWC and whose costs were greater than \$10,000 in 2023. This response would include providing a copy of third-party invoices and contracts governing legal services;
- c. Identify the amount of any charges directly assigned to TAWC from cost center 336215 in 2023; and

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- d. Provide all supporting documentation for third-party costs directly charged to TAWC exceeding \$10,000 in 2023. This response would include a copy of third-party invoices and contracts governing legal services.

RESPONSE:

1-70. Refer to the Minimum Filing Guidelines (1-86), Response to Q013 requirements regarding the Legal Department, and respond to the following:

- a. Identify the charges allocated to TAWC from cost center 332015 in 2023;
- b. Provide all supporting documentation for any third-party costs allocated to TAWC in excess of \$10,000 in 2023. This response would include a copy of third-party invoices and contracts governing the provision of legal services;
- c. Identify the amount of any charges allocated to TAWC from cost center 336215 in 2023; and
- d. Provide all supporting documentation for any third-party costs allocated to TAWC over \$10,000 in 2023. This response would include a copy of third-party invoices and contracts governing the provision of legal services.

RESPONSE:

1-71. Refer to the Minimum Filing Guidelines (1-86), Response to Q013 regarding the cost center 332215, Legal Rates and Regulatory, and respond to the following:

- a. Provide the general ledger detail for the December 2023 activity charged to cost center 332215; and
- b. Provide a copy of all invoices from third-party vendors whose costs were charged (direct or allocated) to TAWC in December 2023 associated with cost center 332215.

RESPONSE:

1-72. Refer to the Minimum Filing Guidelines (1-86), Response to Q044, and respond to the following:

- a. Identify the amount of lobbying charges incurred by AWWSC by month in 2023 and identify such costs by type, such as direct labor, employee taxes, third-party contract services, assignment of office rent and office supplies, etc.;
- b. Provide a comprehensive explanation supporting how AWWSC determines the appropriate level of costs to identify as lobbying costs;

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- c. For any direct labor incurred by AWWSC in 2023 and charged to lobbying, identify the job title associated with such charges and the amount charged to lobbying in 2023; and
- d. Identify the employee’s job title whose responsibilities include oversight and supervision of the third-party contractor(s) providing lobbying services.

RESPONSE:

1-73. Identify the job title(s) of any AWWSC employee whose workstation is in Tennessee.

RESPONSE:

1-74. Identify and provide invoice support for all legal costs charged to TAWC in 2023 associated with TPUC Docket No. 19-00103.

RESPONSE:

1-75. Refer to the File <TAWC 2024 Rate Case – Customer Accounting Exhibit.xlsx>, Tab “Exhibit” (Petitioner’s Exhibit EXP-13-Customer Accounting-JW). Provide a copy of all invoices charged to Account No. 52510015 in the month of July 2023.

RESPONSE:

1-76. Provide a comprehensive discussion of the extent, if any, that the Corporate Alternative Minimum Tax impacts the revenue requirement. This would include an overview of any account balances recorded on the Company’s Balance Sheet as of December 31, 2023, or any recording to the Income Statement made in 2023.

RESPONSE:

1-77. Refer to the *Testimony of John Watkins*, File <TAWC 2024 Rate Case – IOTG Exhibit.xlsx>, Tab “Exhibit” (Petitioner’s Exhibit EXP-12-Insurance Other than Group-JW). Respond to the following:

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- a. Provide the basis for the projected annual policy increases associated with auto liability, worker’s compensation, property and excess liability;
- b. Provide a copy of the excess liability policies in effect in 2024, including documentation of the cost of such policies;
- c. Provide an overview of the need for ‘Aviation of Unmanned Vehicles’ coverage as identified within the Workpaper tab and explain why this type of insurance is necessary; and
- d. Discuss the nature of General Liability Adjustment Insurance Workers’ Compensation Cap Credits and how such amounts are determined.

RESPONSE:

1-78. Refer to the *Testimony of John Watkins*, File <TAWC 2024 Rate Case – Miscellaneous Expense Exhibit.xlsx>, and respond to the following:

- a. Tab “Exhibit” (Petitioner’s Exhibit EXP-18-Miscellaneous Expense-JW). Discuss the rationale for using a three-year average of costs in computing the test year amount of “Miscellaneous Expense;”
- b. Tab “Workpaper1” (Schedule Exp-18.2). Provide an overview of the costs charged to account “Trustee Fees,” Account No. 52579000; and
- c. Tab “Workpaper1” (Schedule Exp-18.2). Provide an overview of the costs charged to account “Discounts Available,” Account No. 5258000.

RESPONSE:

1-79. Refer to the Minimum Filing Guidelines (1-86), Response to Q008, regarding Other Taxes charged during 2023. Provide a copy of invoices associated with charges recorded to accounts 6852000, 68543000, and 68544000.

RESPONSE:

1-80. Refer to the *Testimony of Dominic DeGrazia*, File <TAWC 2024 Rate Case – Other General Taxes Exhibit.xlsx>, Tabs “Gross Receipts” (Schedule EXP-22.4) and “Link Out.” The test year recorded for account 6854400 within tab “Link Out” is \$985,923, while the 2023 gross receipts tax identified within tab “Gross Receipts Tax” is \$1,187,026. Provide a comprehensive discussion explaining why the Company’s 2023 Gross Receipts Tax

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expense amount differed greatly from the calculations reflected in the “2023 Amount” column, and provide the underlying calculations supporting the test period charges.

RESPONSE:

1-81. Provide the Company’s annual labor capitalization ratios for 2020 – 2023. This response should provide supporting labor distribution amounts by account.

RESPONSE:

1-82. Refer to the *Testimony of Dominic DeGrazia* at 14:14-21. Provide the underlying documentation supporting Mr. Degrazia's statement that the Hamilton Count Equalized Percentage is increasing back to 100%.

RESPONSE:

1-83. Refer to the *Testimony of Dominic DeGrazia* at 14:14-21. Provide any support for using the Company’s “forecasted” Property Tax rate as referenced in Mr. Degrazia’s testimony. Further, provide the historic Property Tax rates for 2022 and 2023.

RESPONSE:

1-84. Refer to the *Testimony of Robert J. Prendergast*, File<TAWC 2024 Rate Case – Rents Exhibit.xlsx>, Tab “Workpaper2” (Schedule EXP-15.3). Refer specifically to the 2021 activity in Account No. 54140014. The costs reflected in 2021 are approximately \$52,000, while 2022 and 2023 costs are under \$5k. Provide a comprehensive explanation describing the nature of the costs incurred in 2021 and address whether such costs are recurring.

RESPONSE:

1-85. Provide the year-end number of American Water Company’s regulated customers for 2020

– 2023.

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RESPONSE:

1-86. Refer to the *Testimony of Patrick Baryenbruch* at 6, Table 1, and File<TAWC 2024 Rate Case – Shared ServicesExhibit.xlsx>, Tab “Workpaper” (Schedule EXP-8.2), Column “Base Year Total Expense”. Reconcile the Table 1 2023 O&M balance for External Affairs of \$633, with the EXP-8 balance of External Affairs and Public Policy 2023 Total Expense of \$147,721.

RESPONSE:

1-87. Identify the docket/case number and state regulatory jurisdiction where testimony was filed by Patrick Baryenbruch that analyzes the reasonableness of (a) 2022 costs or (b) 2023 costs on behalf of a client.

RESPONSE:

1-88. Refer to the File <TAWC 2024 Rate Case – Shared Services Exhibit.xlsx>, Tab “Workpaper” (Schedule EXP-8.2) and provide the following:

- a. For each cost category contained in this schedule, identify the cost allocation methodology(ies) used to assign costs to TAWC in 2023. If multiple methodologies are embedded in the costs charged to any single account, identify the 2023 expense charged under each methodology;
- b. For each cost allocation methodology identified above, provide the underlying documentation supporting the numerator (TAWC data) and denominator (American Water data). Discuss the effective date of the information relied upon to develop the allocation ratios for 2023 costs; and
- c. For each cost allocation methodology identified in part (a) above, provide the TAWC allocation ratios used to allocate 2024 costs.

RESPONSE:

1-89. Refer to the File <TAWC 2024 Rate Case – Shared Services Exhibit.xlsx>, Tab “Workpaper” (Schedule 8.2) and respond to the following questions:

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- a. Provide the 2023 general ledger detail for all affiliate costs subject to allocation to TAWC associated with the non-labor portion of Customer Service Organization costs;
- b. Provide the 2023 general ledger detail for all affiliate costs subject to allocation to TAWC associated with the non-labor portion of Corporate Administration costs;
- c. Provide the 2023 general ledger detail for all affiliated costs subject to allocation to TAWC associated with the non-labor portion of Regulated Operations costs; and
- d. Describe the accounting giving rise to the \$171,635 credit recorded to “Corp Admin” in 2023.

RESPONSE:

1-90. Refer to the File <TAWC 2024 Rate Case – Shared Services Exhibit.xlsx>, Tab “Exhibit”

(Petitioner’s Exhibit EXP-8-Support Services-JW) and respond to the following:

- a. Provide a copy of all underlying documentation supporting the adjustments made on lines 5 – 13 of this schedule. This response should include a full description of the nature and justification for each adjustment;
- b. Provide a copy of all underlying documentation supporting the adjustments made on lines 21-23 of this schedule. This response should include a full description of the nature and justification for each adjustment; and
- c. Reconcile and/or differentiate the adjustments to labor reflected as Test Year Adjustments and Attrition Year adjustments within account 53401000 (\$151,159 and \$154,465, respectively) as reflected in the “Link Out” tab, to the “Apply Merit Increases and Inflation” through 2024 (\$303,912) and “Apply Merit Increases and Inflation” through 2025 (\$259,414) as reflected in the Exhibit tab.

RESPONSE:

1-91. Refer to the File <TAWC 2024 Rate Case – Shared Services Exhibit.xlsx>, Tab “Summary by Account” (Schedule EXP-8.1). Provide the costs incurred by TAWC for Support Services for the twelve-month period ended December 31, (a) 2021 and (b) 2022, by account number.

RESPONSE:

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1-92. Refer to the File <TAWC 2024 Rate Case – Shared Services Exhibit.xlsx>, Tab “Summary by Account” (Schedule EXP-8.1). The Attrition Period (excel column M) data contains hard-coded data. Provide all supporting documentation for this hard-coded data and a comprehensive explanation describing how the pro forma amounts were determined.

RESPONSE:

1-93. Refer to the attached Excel spreadsheet and provide the following for each sampled transaction:

- a. Provide an explanation of the nature of the charge; and
- b. Provide any supporting documentation received from applicable third parties that gave rise to the recording.

RESPONSE:

1-94. Does TAWC receive an expense allocation representing a return on shared service assets?

If so, respond to the following:

- a. Identify the 2023 charges and the TAWC account charged;
- b. Provide the underlying calculations that support the allocation, including the rate of return; and
- c. Provide the December 31, 2023, Balance Sheet of AWWSC Services by account, identifying the elements of the Balance Sheet that are incorporated into the calculation of the return on corporate service assets charged to affiliates, such as TAWC.

RESPONSE:

1-95. Regarding depreciation charges allocated from any affiliate to TAWC, provide the following:

- a. Provide the underlying calculations for Depreciation and Amortization expenses charged to TAWC in December 2023, including the depreciation/amortization rate by asset;
- b. Provide the associated Accumulated Depreciation/Amortization for each plant or intangible asset;

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- c. Identify the Accumulated Deferred Income Tax balance associated with these common assets and explain how such balances are maintained; and
- d. For each group of shared service assets providing service to TAWC, provide a brief explanation of the nature of the service provided.

RESPONSE:

1-96. Refer to the *Testimony of Robert Mustich* at p. 9, where he concludes that American

Water's performance compensation program is comparable to those of its utility peers.

Identify the companies within the (i) Large Utility Peer Group and (ii) Small Utility Peer

Group that provide long-term performance compensation to non-exempt employees.

RESPONSE:

1-97. Does the Company believe there is a correlation between the relative level of TAWC capitalized labor and the relative level of capital expenditures in a given year? In other words, does the Company believe that an increase in annual capital expenditures results in an increased labor capitalization ratio? If so, address how the Company has addressed that issue within its revenue requirement proposal.

RESPONSE:

1-98. Does the Company believe there is a correlation between the relative level of service company capitalized labor and the relative level of capital expenditures in a given year? In other words, does the Company believe that an increase in annual capital expenditures results in an increased level of service company capitalized labor and a reduction in allocated labor? If so, address how the Company has addressed that issue within its revenue requirement proposal.

RESPONSE:

1-99. **CONFIDENTIAL Request:

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- a. **Confidential Subpart; and
- b. **Confidential Subpart?

RESPONSE:

1-100. Provide the job titles of the four highest compensated non-TAWC employees based on costs allocated to TAWC. For each of these employees, provide the following:

- a. Provide a breakdown of the total compensation into the categories of base pay, incentive programs, and other compensation, including benefits;
- b. Provide the total amount of such costs identified in a) above allocated to TAWC in 2023;
- c. Provide the allocated payroll taxes charged to TAWC in 2023 associated with these four employees; and
- d. If the Company has made pro-forma adjustments to any of the compensation for the top four (4) executives, provide an additional work paper reflecting the pro-forma values included in the attrition period for these four employees by base compensation, incentive compensation, and other benefits, and employee taxes.

RESPONSE:

1-101. Provide a copy of the Company's 2022 and 2023 Tennessee Excise Tax Returns.

RESPONSE:

1-102. Refer to the File <TAWC 2024 Rate Case – Deferred Tax.xlsx>, Tab “2024 Plant Def” (Petitioner’s Exhibit RB-7-Deferred Taxes-DD). Provide support for item 1026, referenced as Fed-Tax Repairs, for both the Book Depreciation Amount (\$2,197,180) and the Tax Deduction amount (\$10,042,577).

RESPONSE:

1-103. For each year 2020 – 2022, identify the following TAWC federal income tax deductions:

- a. Repair Deductions; and
- b. Tax Depreciation.

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RESPONSE:

1-104. Refer to the *Testimony of Larry Kennedy*, Attachment, Concentric Energy Advisor's 2023 Depreciation Study, Section 8 Detailed Depreciation Calculations, Calculated Annual Accrual and Accrued Depreciation Schedule for Account #: 333 - Services (pdf pages 270 - 273 of 328). There are spikes in original cost data occurring in 1973 and 2001. For example, the original cost of installations of services in 1973 was 642% of those of 1974. Likewise, the 2001 data was 90 times greater than the 2002 data and 70 times as great as the 2003 data. Address whether the vintage data presented in this section of the study is accurate and the implications of such spikes in the study's results for services.

RESPONSE:

1-105. Refer to the *Testimony of Larry Kennedy*, Attachment, Concentric Energy Advisor's 2023 Depreciation Study, Section 8 Detailed Depreciation Calculations, Calculated Annual Accrual and Accrued Depreciation Schedule for Account #: 331.001 - Transmission and Distribution Mains (pdf pages 267 of 328). The study contains an original cost value of over \$7.6 million for 1964, an unusually large amount for that vintage year. In fact, this amount is by far the largest vintage cost until 2006. Discuss the extent to which Mr. Kennedy is confident in the accuracy of this vintage data amount for 1964.

RESPONSE:

1-106. Refer to the *Testimony of Larry Kennedy*, Attachment, Concentric Energy Advisor's 2023 Depreciation Study. Specifically, refer to the annual cost data and identify how this data was obtained and provide a list of assumptions necessary to compile this data.

RESPONSE:

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1-107. Refer to the *Testimony of Larry Kennedy*, Attachment, Concentric Energy Advisor’s 2023 Depreciation Study, Section 8 Detailed Depreciation Calculations, Calculated Annual Accrual and Accrued Depreciation Schedule for Account #: 331.001 - Transmission and Distribution Mains (pdf pages 267 of 328). Specifically, refer to the annual original cost data by year for Account No. 331.001 Transmission and Distribution Mains. Provide the quantity of Mains, in miles, corresponding to the Original Cost data supplied in this schedule.

RESPONSE:

1-108. Refer to TPUC Docket No. 24-00011, the Company’s Response to Consumer Advocate DR No. 1-3. The Company stated that 568.5 miles of 1,226.4 miles of main in Chattanooga was greater than fifty years old. Conceptually, reconcile this response with the vintage data provided in the analysis attached to Mr. Kennedy’s testimony for Account No. 331.001 indicating that the oldest vintage main in its system is 1958.

RESPONSE:

1-109. Provide data produced by the Company to manage and identify budgeted versus actual Income Statement results for TAWC for 2021 – 2023. Provide the information by quarter, if available; otherwise, provide annually.

RESPONSE:

1-110. For the 2025 capital expenditure forecast, split the estimated projects closed to Account 101, Plant in Service, split between ICR qualifying expenditures and non-ICR qualifying expenditures.

RESPONSE:

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1-111. Provide all written contracts between the Company and its affiliates. Provide a narrative description of any unwritten contracts between the Company and any affiliate, including all material terms.

RESPONSE:

1-112. Provide the annual percentage of overtime worked compared to the total hours worked for 2020 – 2023, including an explanation of how this information was derived.

RESPONSE:

1-113. Provide the number of main breaks by year for the period 2020 – 2023. Also, provide the annual number of overtime hours worked repairing mains during this period.

RESPONSE:

1-114. Provide a complete and detailed description of the methods the Service Company and Company used to reduce its health care costs.

RESPONSE:

1-115. Identify the amount of any owned airplane costs allocated to the Company in 2023. This total would include any allocation of depreciation expense, return on corporate-owned aircraft, maintenance fees, insurance costs, and labor costs.

RESPONSE:

1-116. Provide an itemized list of all membership fees directly incurred by the Company in 2023. Provide the name of the membership, the nature of the organization, and the related costs recorded in 2023.

RESPONSE:

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1-117. Provide an itemized list of all membership fees allocated to the Company in 2023. Provide the name of the membership, the nature of the organization and the related costs recorded in 2023.

RESPONSE:

1-118. Itemize by account and amount all advertising and media-related costs included in operations and maintenance expenses in 2023. Also include a copy of each advertisement and its cost.

RESPONSE:

1-119. Provide a list of all legal-suit-related charges allocated to TAWC in 2023. For each suit, provide the total costs allocated to TAWC, including any reserves established for the suit, as well as legal fees incurred, and a full description of the nature of the suit.

RESPONSE:

1-120. Identify any book/tax timing differences which are not normalized (i.e. are flowed-through) for purposes of calculating the TAWC Accumulated Deferred Income Tax (ADIT) balance.

RESPONSE:

1-121. Provide the annual amount of outside auditing fees reflected as an operating expense on the Company's books for the period 2020 – 2023.

RESPONSE:

1-122. Refer to the File <TAWC 2024 Rate Case – Pension Exhibit.xlsx>, and respond to the following:

- a. Tab “2024 Pension Contribution” (Schedule EXP 10.3). Provide the supporting data underlying the 1.66% allocation of Pension contributions to TAWC;

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- b. Tab “2024 Pension Allocation.” Define the term “valuation earnings” used within footnote 1 of the 2024 Pension Allocation tab and provide the rationale for using that particular ratio to allocate Pension Contributions to American Water Company affiliates; and
- c. Provide all documentation supporting the 2024 estimated American Water Company Pension contribution level.

RESPONSE:

1-123. Does American Water Company or its affiliates have a separate pension plan for executives, commonly referred to as a Supplemental Executive Retirement Plan (“SERP”) or Excess Retirement Plan? If so, respond to the following:

- a. What were the costs of such a plan allocated to TAWC in 2023, and where were such costs recorded?
- b. Are the actuarial results of such a plan contained in the CONFIDENTIAL Responses MFG Q017, MFG Q31, and MFG Q031 as provided in this case? If not, provide a copy of all such studies completed in 2023.
- c. Identify the portion, if any, of the estimated 2024 contributions attributed to the SERP (or similar plan) and provide the underlying documentation supporting this cost assignment.

RESPONSE:

1-124. Trial Balance. Refer to the Minimum Filing Guidelines (1-86), Response to Q010, File <2024 TAWC MFG Q010_Attachment.xlsx>, regarding the monthly trial balance for the last 2 fiscal years for TAWC. The Company’s response only includes schedules for the monthly assets and liabilities of TAWC for January 2022 through December 2023. Provide a supplement to this response that also includes the monthly revenue and expense activity by subaccount for this same period.

RESPONSE:

1-125. Trial Balance. Refer to the Minimum Filing Guidelines (1-86), Response to Q010, File <2024 TAWC MFG Q010_Attachment.xlsx>, regarding the monthly trial balance for the

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last two (2) fiscal years for TAWC. The Company's response only includes the trial balance for TAWC. The monthly trial balance for TAWC's parent and any other affiliate that allocates costs to TAWC was also requested. Provide a supplement to this response that includes the monthly assets, liabilities, equity, revenues and expenses for affiliates that allocate costs to TAWC for this same period.

RESPONSE:

1-126. Trial Balance. Refer to the Minimum Filing Guidelines (1-86), Response to Q010, File <2024 TAWC MFG Q010_Attachment.xlsx>, regarding the monthly trial balance for the last two (2) fiscal years for TAWC. Provide a supplement to this response that also includes the monthly assets, liabilities, equity, revenue, and expenses from January 2020 to December 2022.

RESPONSE:

1-127. Trial Balance. Refer to the Minimum Filing Guidelines (1-86), Response to Q010 and File <2024 TAWC MFG Q010_Attachment.xlsx>, regarding the monthly trial balance for the last 2 fiscal years for TAWC. Provide a supplement to this response that includes the monthly assets, liabilities, equity, revenues and expenses for affiliates that allocate costs to TAWC from January 2020 to December 2022.

RESPONSE:

1-128. Current Tariff. Refer to the File <Exhibit REV – 2_Revenue at Present and Proposed Rates.xlsx>, Tab “Exhibit Rev – 2”. Provide an official copy of the current tariff that supports the “Current Rate” used in the Company's calculations.

RESPONSE:

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1-129. Revenue Reconciliation. Refer to the File <TAWC - Exhibit REV - 2 Revenue at Present and Proposed Rates.xlsx> included with the Company's filing. Provide a reconciliation of revenues between the "Test Period at Present Rates" and the amounts recorded on the Company's ledger by customer class (Residential, Commercial, etc.), and by territory (Chattanooga, Lookout Mountain, etc.), and by determinant type (customer charges, usage charges, riders, other). In addition, provide a narrative explanation for revenue variances greater than 1%.

RESPONSE:

1-130. Reclassified Water Usage. Refer to the File <TAWC - Exhibit REV - 3 Revenue Forecast.xlsx> included with the Company's filing. Provide an analysis that restates the monthly usage for each customer class for the Company's Suck Creek, Whitwell-Inside City, Whitwell-Outside City, and Jasper Highlands territories into the usage steps that are used by Chattanooga, Lookout Mountain and Lakeview from January 2018 through December 2023.

RESPONSE:

1-131. Customer Aggregation. Refer to the File <TAWC - Exhibit REV - 3 Revenue Forecast.xlsx> included with the Company's filing. This spreadsheet provides the monthly forecasted bills for 2024 and 2025 for each customer class by geographic territory and by meter size. Provide the source and support for the 2024 and 2025 forecasted monthly number of bills for each customer class by month, geographic territory and by meter size.

RESPONSE:

1-132. Customer Aggregation. Refer to the File <TAWC - Exhibit REV - 3 Revenue Forecast.xlsx> included with the Company's filing. This spreadsheet provides the historic

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monthly bills for 2023 for each customer class by geographic territory and by meter size. Provide the historic monthly number of bills for each customer class by month, geographic territory and by meter size from January 2018 to December 2022 in the same format as Exhibit REV-3.

RESPONSE:

1-133. Usage Aggregation. Refer to the File <TAWC - Exhibit REV - 3 Revenue Forecast.xlsx> included with the Company's filing. This spreadsheet provides the monthly forecasted usage for 2024 and 2025 for each customer class by geographic territory and by usage billing step. Provide the source and support for the 2024 and 2025 forecasted monthly usage for each customer class by month, geographic territory and by usage billing step.

RESPONSE:

1-134. Usage Aggregation. Refer to the File <TAWC - Exhibit REV - 3 Revenue Forecast.xlsx> included with the Company's filing. This spreadsheet provides the historic monthly usage for 2023 for each customer class by geographic territory and by usage billing step. Provide the historic monthly usage for each customer class by month, geographic territory and by usage billing step from January 2018 to December 2022 in the same format as Exhibit REV-3.

RESPONSE:

1-135. 25 Largest Customers. Refer to the Minimum Filing Guidelines (1-86), Response to Q017 and the File <2024 TAWC MFG Q017_Attachment 1_CONFIDENTIAL.xls> and provide the following information:

- a. Provide the contact name, title, phone number and email address of the individual at each company that is most familiar with their water consumption;

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- b. Provide all correspondence with these customers from January 2023 through the most recent date regarding their historical and projected water consumption or any changes to this consumption; and
- c. Provide a copy of each customer's bill (all meter points) for December 2023.

RESPONSE:

1-136. Other Revenues. Refer to the File <TAWC - Exhibit REV - 3_Revenue Forecast.xlsx>,

Tab "Other Operating Revenues", included with the Company's filing. Specifically, refer to the test period billing determinants ("occurrences") of Other Operating Revenues included on this spreadsheet. Provide a reconciliation of the Test Period Other Operating Revenues ("Revenues") that are included on this spreadsheet and the amounts recorded on the Company's ledger. In addition, provide a narrative explanation for revenue variances greater than 1%.

RESPONSE:

1-137. Other Revenues. Refer to the File <TAWC - Exhibit REV - 3_Revenue Forecast.xlsx>,

Tab "Other Operating Revenues", included with the Company's filing. This spreadsheet provides the monthly forecasted determinants ("occurrences") for 2024 and 2025 for certain components of Other Operating Revenues. Provide the source and support for the 2024 and 2025 forecasted monthly billing determinants for the Other Operating Revenues components included on this spreadsheet.

RESPONSE:

1-138. Other Revenues. Refer to the File <TAWC - Exhibit REV - 3_Revenue Forecast.xlsx>,

Tab "Other Operating Revenues", included with the Company's filing. This spreadsheet provides the monthly historic determinants ("occurrences") for 2023 for certain components of Other Operating Revenues. Provide the historic monthly billing

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determinants for the Other Operating Revenues components included on this spreadsheet from January 2018 to December 2023 in the same format as Exhibit REV-3.

RESPONSE:

1-139. Other Revenues. Refer to the File <TAWC - Exhibit REV – 3_Revenue Forecast.xlsx>,

Tab “Other Operating Revenues”, included with the Company’s filing. Specifically, refer to the “Late Payment Charge” in the “Revenue” section of this spreadsheet and provide the following information:

- a. Provide the source and support for the 2024 and 2025 forecasted monthly late payment charges included on this spreadsheet; and
- b. Provide the Company’s monthly billed revenue and late payment charges from January 2018 to December 2023.

RESPONSE:

1-140. Other Revenues. Refer to the File <TAWC - Exhibit REV – 3_Revenue Forecast.xlsx>,

Tab “Other Operating Revenues”, included with the Company’s filing. Specifically, refer to the “Rent” in the “Revenue” section of this spreadsheet and provide the following information:

- a. Provide the source and support for the 2024 and 2025 forecasted monthly rent included on this spreadsheet;
- b. Provide a narrative of the source for this rental revenue as well as a copy of the lease agreements supporting the Company’s projections for Rent from Water Property; and
- c. Provide the monthly historic rental revenue from January 2018 to December 2023.

RESPONSE:

1-141. Weather Normalization. Refer to the file <TAWC - Exhibit CBR-3.xlsx>, Tab “Exhibit CBR-3”, included with the Company’s filing. This spreadsheet provides the weather normalization calculation for the residential customer class. Provide the source and support

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for the weather data (rainfall, heating degree days, and cooling degree days) included in Columns BJ, BM and BO of this spreadsheet.

RESPONSE:

1-142. Weather Normalization. Refer to the File <TAWC - Exhibit CBR-3.xlsx>, Tab “Exhibit CBR-3”, included with the Company’s filing. This spreadsheet provides the weather normalization calculation for the residential customer class. Admit or deny that the Company’s model does not consider “normal” weather (based on a 30-year average or any other average time basis) as part of this calculation.

RESPONSE:

1-143. Weather Normalization. Refer to the File <TAWC - Exhibit CBR-3.xlsx>, Tab “Exhibit CBR-3”, included with the Company’s filing. This spreadsheet provides the weather normalization calculation for the residential customer class. Provide a narrative explanation of the “Billing Adjustments” included in “Column AB” of this spreadsheet.

RESPONSE:

1-144. Weather Normalization. Refer to the File<TAWC - Exhibit CBR-4.xlsx>, Tab “Exhibit CBR-3”, included with the Company’s filing. This spreadsheet provides the weather normalization calculation for the commercial customer class. Provide a narrative explanation of the “Billing Adjustments” included in “Column AA” of this spreadsheet.

RESPONSE:

1-145. Weather Normalization. Refer to the File <TAWC - Exhibit CBR-5>, Tab “Exhibit CBR-3”, included with the Company’s filing. This spreadsheet provides the weather

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normalization calculation for the public authority customer class. Provide a narrative explanation of the “Billing Adjustments” included in “Column AA” of this spreadsheet.

RESPONSE:

1-146. Revenue Workpapers. Provide a copy of all revenue workpapers not included in the Company’s filing or the Minimum Filing Requirements.

RESPONSE:

1-147. Plant in Service. Provide an analysis that shows the monthly plant in service by plant account and by geographic territory consisting of the beginning balance, plant additions-regular, plant additions-investment projects, retirements, cost of removal, account transfers, and other adjustments from January 2020 through December 2023.

RESPONSE:

1-148. Corporate Plant in Service. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab “RB2 UPIS Balances” (Petitioner’s Exhibit RB-2-UPIS-DD), included with the Company’s filing. Specifically, refer to line number 176 of this spreadsheet which states “Chattanooga Total UPIS includes 2601 Corporate”. Provide the following information related to the “2601 Corporate” monthly amounts:

- a. Provide the monthly amounts by utility account and by geographic territory;
- b. Provide the source and support of these monthly amounts included in Plant in Service from January 2024 through December 2025; and
- c. Provide a narrative description of the corporate investment that is included in Tennessee Plant in Service along with the methodology for allocating these costs to Tennessee.

RESPONSE:

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1-149. Test Period Plant Balances. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx> included with the Company's filing. Provide the source and support for the "UPIS Balance Dec-23" amounts included in Column F of this spreadsheet by geographic territory and by utility plant account.

RESPONSE:

1-150. Plant Additions. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab "RB2 UPIS Balances" (Petitioner's Exhibit RB-2-UPIS-DD), included with the Company's filing. Specifically refer to the "Forecasted Capital Expenditures by Month, January 2024 - December 2025" amounts included in Columns AI through AO on this spreadsheet. Provide the source and support for the individual monthly amounts by utility account and geographic territory included on this spreadsheet which appear as unreferenced, hard-coded amounts.

RESPONSE:

1-151. Plant Retirements. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab "Monthly Retirements", included with the Company's filing. Specifically refer to the "Total 2022-2023 Retirements" amounts included in Columns C through F on this spreadsheet. Provide the source and support for the individual monthly amounts by utility account and geographic territory included on this spreadsheet which appear as unreferenced, hard-coded amounts.

RESPONSE:

1-152. Plant Retirements. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab "Monthly Retirements", included with the Company's filing. Specifically refer to Footnote 1 of this spreadsheet which states "Retirement amount

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adjusted”. Provide the source and support for all adjustments included in Footnote 1 along with a narrative explanation supporting the need for each such adjustment.

RESPONSE:

1-153. Plant Retirements. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab “Monthly Retirements”, included with the Company’s filing. Specifically refer to Footnote 2 of this spreadsheet which states “Monthly Retirements average excluded retirement in the calculation of the 2-year average due to a zero-asset balance remaining.” Provide the source and support for all adjustments included in Footnote 2.

RESPONSE:

1-154. Plant Retirements. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab “Monthly Retirements”, included with the Company’s filing. Provide the historical monthly plant retirements by plant account, by geographical territory and by year for 2020, 2021, 2022 and 2023.

RESPONSE:

1-155. Cost of Removal. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab “Monthly Cost of Removal”, included with the Company’s filing. Specifically refer to the “Total 2022-2023 Cost of Removals” amounts included in Columns B through E on this spreadsheet. Provide the source and support for the individual monthly amounts by utility account and geographic territory included on this spreadsheet which appear as unreferenced, hard-coded amounts.

RESPONSE:

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1-156. Cost of Removal. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab “Monthly Cost of Removal”, included with the Company’s filing. Provide the historical cost of removal by plant account, by geographical territory and by year for 2020, 2021, 2022 and 2023.

RESPONSE:

1-157. Test Period CWIP Balances. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab “RB2.3 InService Activity CWIP” (Exhibit-2.3-UPIS), included with the Company’s filing. Specifically refer to the “Inservice Date” and “CWIP Balance Dec-23” amounts included in Columns J and K on this spreadsheet. Provide the source and support for the “Inservice Date” and “CWIP Balance Dec-23” amounts included in this spreadsheet by geographic territory and by utility plant account.

RESPONSE:

1-158. Contributions in Aid of Construction. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab “RB9.1 CIAC Activity” (Exhibit RB-9.1 CIAC), included with the Company’s filing. Provide the source and support for the “CIAC Balance Dec-23” amounts included in Column F of this spreadsheet by geographic territory and by utility plant account.

RESPONSE:

1-159. Contributions in Aid of Construction. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab “RB9.1 CIAC Activity” (Exhibit RB-9.1 CIAC), included with the Company’s filing. Specifically refer to the “CIAC Activity by Month, January 2024 - December 2025” amounts included in Columns G through AD on this spreadsheet. Provide the source and support for the individual monthly amounts by utility

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account and geographic territory included on this spreadsheet which appear as unreferenced, hard-coded amounts.

RESPONSE:

1-160. Contributions in Aid of Construction. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab “RB9.1 CIAC Activity” (Exhibit RB-9.1 CIAC), included with the Company’s filing. Provide the monthly historical CIAC by plant account, by geographical territory from January 2020 through December 2023.

RESPONSE:

1-161. Customer Advances. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab “RB8.1 CAC Activity” (Exhibit RB-8.1-Customer Advances-DD), included with the Company’s filing. Provide the source and support for the “CAC Balance Dec-23” amounts included in Column F of this spreadsheet by geographic territory and by utility plant account.

RESPONSE:

1-162. Customer Advances. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab “RB8.1 CAC Activity” (Exhibit RB-8.1-Customer Advances-DD), included with the Company’s filing. Specifically refer to the “CAC Activity by Month, January 2024 - December 2025” amounts included in Columns G through AD on this spreadsheet. Provide the source and support for the individual monthly amounts by utility account and geographic territory included on this spreadsheet which appear as unreferenced, hard-coded amounts.

RESPONSE:

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1-163. Customer Advances. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab “RB8.1 CAC Activity” (Exhibit RB-8.1-Customer Advances-DD), included with the Company’s filing. Provide the monthly historical CAC by plant account, by geographical territory from January 2020 through December 2023.

RESPONSE:

1-164. Accumulated Depreciation. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab “RB6 Accumulated Depreciation” (Petitioner’s Exhibit RB-6-Accumulated Depreciation-DD), included with the Company’s filing. Provide the source and support for the “Dec-23” amounts included in Column F of this spreadsheet by geographic territory and by utility plant account.

RESPONSE:

1-165. Accumulated Depreciation. Refer to the File <TAWC 2024 Rate Case - Capital & Depreciation Workpaper.xlsx>, Tab “RB6 Accumulated Depreciation” (Petitioner’s Exhibit RB-6-Accumulated Depreciation-DD), included with the Company’s filing. Provide the monthly historical Accumulated Depreciation by plant account, by geographical territory from January 2020 through December 2023.

RESPONSE:

1-166. Materials & Supplies. Refer to the File <TAWC 2024 Rate Case - Materials and Supplies.xlsx>, Tab “RB3” (Petitioner’s Exhibit RB-3-Materials and Supplies-DD), included with the Company’s filing. Provide the monthly historical Materials and Supplies by plant account, by geographical territory from January 2020 through December 2023.

RESPONSE:

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1-167. Deferred Rate Case Expense. Refer to the File <TAWC 2024 Rate Case - Other Working Capital Exhibit.xlsx>, Tab “Deferred Rate Case Expense” (Petitioner’s Exhibit RB-5.2-Other Working Capital-DD), included with the Company’s filing. Specifically refer to Cell C10 of this spreadsheet which contains a value of \$1,554,000. Provide the source and support for this amount which appears as an unreferenced, hard-coded amount.

RESPONSE:

1-168. Unamortized Debt Cost. Refer to the File <TAWC 2024 Rate Case - Other Working Capital Exhibit.xlsx>, Tab “Unamortized Debt Balance” (Petitioner’s Exhibit RB-5.3-Other Working Capital-DD), included with the Company’s filing. Specifically refer to Cell C7 of this spreadsheet which contains a value of \$1,352,860. Provide the source and support for this amount which appears as an unreferenced, hard-coded amount.

RESPONSE:

1-169. Unamortized Debt Cost. Refer to the File <TAWC 2024 Rate Case - Other Working Capital Exhibit.xlsx>, Tab “Unamortized Debt Balance” (Petitioner’s Exhibit RB-5.3-Other Working Capital-DD), included with the Company’s filing. Specifically refer to Cells E8 to E31 which contain the forecasted balances of this account from January 2024 to December 2025. Provide the source and support for these amounts which appear as unreferenced, hard-coded values.

RESPONSE:

1-170. Unamortized Debt Cost. Refer to the File <TAWC 2024 Rate Case - Other Working Capital Exhibit.xlsx>, Tab “Unamortized Debt Balance” (Petitioner’s Exhibit RB-5.3-Other Working Capital-DD), included with the Company’s filing. Provide the monthly unamortized debt cost by account from January 2020 through December 2023.

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RESPONSE:

1-171. Incidental Collections. Refer to the File <TAWC 2024 Rate Case - Other Working Capital Exhibit.xlsx>, Tab “Unamortized Debt Balance” (Petitioner’s Exhibit RB-5.3-Other Working Capital-DD), included with the Company’s filing. Provide the monthly incidental collections for each account from January 2020 through December 2023.

RESPONSE:

1-172. Unamortized Investment Tax Credit. Refer to the File <TAWC 2024 Rate Case - Unamortized ITC Exhibit.xlsx>, Tab “Unamortized ITC” (Petitioner’s Exhibit RB-10-Unamort ITC-DD), included with the Company’s filing. Provide the monthly unamortized ITC balance by account from January 2020 through December 2023.

RESPONSE:

1-173. Jasper Highlands Regulatory Liability. Refer to the File <TAWC 2024 Rate Case - Jasper Highlands Reg Liability.xlsx>, Tab “Jasper Highlands Reg Liability” (Petitioner’s Exhibit RB-11-Jasper Highlands Reg Liab-DD) spreadsheet that was included with the Company’s filing and provide the following information:

- a. Provide the monthly unamortized Jasper Highlands Regulatory Liability balance from January 2020 through December 2023;
- b. Provide a copy of the initial entry recorded in the Company’s books that created this regulatory liability; and
- c. Provide a narrative explanation of the reasons for creating this regulatory liability.

RESPONSE:

Public Version

1-174. Jasper Highlands Acquisition Adjustment. Refer to the File <TAWC 2024 Rate Case - Jasper Highlands UPAA>, Tab “Exhibit RB-12-UPAA-DD” (Petitioner’s Exhibit RB-12-UPAA-DD), included with the Company’s filing and provide the following information:

- a. Provide the monthly balance in this account from January 2020 through December 2023;
- b. Provide a copy of the initial entry recorded in the Company’s books that created this UPAA liability; and
- c. Provide a narrative explanation of the reasons for creating this regulatory liability.

RESPONSE:

1-175. Rate Base Workpapers. Provide a copy of all rate base workpapers not included in the Company’s filing or the Minimum Filing Requirements.

RESPONSE:

1-176. Refer to the *Testimony of Dominic DeGrazia*, File <TAWC 2024 Rate Case – Purchased Water Exhibit.xlsx>, Tabs “Marion Gas & Water” (Schedule EXP-1.6) and “Waldens Ridge” (Schedule EXP-1.7). Provide the support for the rate change for the Marion Gas Systems & Board of Water Works and Sewers.

RESPONSE:

1-177. Refer to the *Testimony of Dominic DeGrazia*, File <TAWC 2024 Rate Case – Chemicals Exhibit.xlsx>, Tab “Chem Prices” (Schedule EXP-3.3). Provide the following:

- a. The source for the hardcoded values contained in rows J through L that contain chemical prices; and
- b. The source for the values contained within columns O through T.

RESPONSE:

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1-178. Refer to the File <2024 TAWC Rate Case – Appendix Inflation.xlsx>. Confirm that the datasets contained within this file were obtained from the U.S Bureau of Labor Statistics. If not confirmed, provide the source of these datasets.

RESPONSE:

1-179. Refer to the File <2024 TAWC Rate Case – Appendix Inflation.xlsx>, Tab “Inflation- Ofc Sup Stationery” (Schedule 1.3). The Consumer Advocate was unable to locate this database, “PCU4532--4532--” on the U.S. Bureau of Labor Statistics website (<https://data.bls.gov/cgi-bin/srgate>). Provide the source for this database along with the values going back to 2018.

RESPONSE:

1-180. Refer to the Minimum Filing Guidelines (1-86), Response to Q008 and Files <2024 TAWC MFG Q008, Attachment1.xlsx> through <2024 TAWC MFG Q008, Attachment6.xlsx>. In the same format, provide the Company’s General Ledger detail for the years ending 2019 and 2020.

RESPONSE:

1-181. Refer to the File <TAWC 2024 Rate Case – Customer Accounting Exhibit.xlsx>, Tab “Exhibit” (Petitioner’s Exhibit EXP-13-Customer Accounting-JW). Provide the following:

- a. Tab “Workpaper 2” (Schedule EXP 13.3). Provide the information for the years ending 2019 and 2020; and
- b. The number of customers paying cash or by mailed check for the years ending 2019-2023.

RESPONSE:

Public Version

1-182. Refer to the File <TAWC - Exhibit Rev - 3_Revenue Forecast.xlsx>. Specifically, refer to forecasted values provided in Columns S through AP in all tabs of this workbook. What is the source/formula for these forecasted values? If no source/formula exist, provide how the Company arrived at these forecasts.

RESPONSE:

1-183. Refer to the File <TAWC - Exhibit Rev - 3_Revenue Forecast.xlsx>, Tab “Other Operating Revenues”, Column C. Provide the data for the years ending 2019-2022 for Column C.

RESPONSE:

1-184. Refer to the File <TAWC - Exhibit Rev - 3_Revenue Forecast.xlsx>, Tab “Residential Revenue”, Column C. Provide the data for the years ending 2019-2022 for Column C.

RESPONSE:

1-185. Refer to the File <TAWC - Exhibit Rev - 3_Revenue Forecast.xlsx>, Tab “Commercial Revenue”, Column C. Provide the data for the years ending 2019-2022 for Column C.

RESPONSE:

1-186. Refer to the File <TAWC - Exhibit Rev - 3_Revenue Forecast.xlsx>, Tab “Public Authority Revenue”, Column C. Provide the data for the years ending 2019-2022 for Column C.

RESPONSE:

1-187. Refer to the File <TAWC - Exhibit Rev - 3_Revenue Forecast.xlsx>, Tab “IND Revenue”, Column C. Provide the data for the years ending 2019-2022 for Column C.

RESPONSE:

Public Version

1-188. Refer to the File <TAWC - Exhibit Rev - 3_Revenue Forecast.xlsx>, Tab “Fire Revenue”, Column C. Provide this data for the years ending 2019-2022 for Column C.

RESPONSE:

1-189. Refer to the *Direct Testimony of Grady Stout* at 38:13-16. Provide the yearly number of customers added organically by service territory since 2012.

RESPONSE:

1-190. Refer to the *Direct Testimony of Heath Brooks* at 30: 13-21 - 311:13. Provided a detailed explanation on the Company proposes to “gradually” move Jasper Highlands into a consolidated rate structure.

RESPONSE:

1-191. Refer to the *Direct Testimony of Heath Brooks* at 31:14-21. Provide the workpaper supporting figures referenced by Mr. Brooks.

RESPONSE:

1-192. Refer to Exhibit-BL-2, Red Line Version of Tariff – Tennessee American Water as attached to the *Direct Testimony of Robert Lane*. Provide this redline document in Microsoft Word format. (starts on p.55)

RESPONSE:

1-193. Provide the actual balance of short-term debt used by TAWC for each month (or most frequently available) from January 1, 2016, to the most currently available in Excel format.

RESPONSE:

Public Version

1-194. Provide the total actual balance of CWIP broken down into CWIP earning AFUDC and CWIP not earning AFUDC for TAWC for each month (or most frequently available) from January 1, 2016, to the most currently available.

RESPONSE:

1-195. Provide the monthly (or most frequently available) balance sheet and income statements for TAWC for each year from January 1, 2016, to the most currently available in Excel format.

RESPONSE:

1-196. Provide the monthly (or most frequently available) balance sheet and income statements for American Water Works for each year from January 1, 2016, to the most currently available in Excel format.

RESPONSE:

1-197. Provide TAWC's water sales to residential, commercial, and industrial customers for each month (or most frequently available) from January 1, 2018, to the most currently available.

RESPONSE:

1-198. Provide a copy of all the major bond rating agency reports that cover American Water Works and TAWC that were issued from January 1, 2018, to the most currently available.

RESPONSE:

1-199. List all debt and equity raised by American Water Works and TAWC since January 1, 2015, to the most currently available. For bonds, provide the CUSIP number for all securities raised over this time.

RESPONSE:

Public Version

1-200. Does American Water Works, Inc. provide lines of credit to TAWC? If yes, explain how much the amount of funds available as of the most currently available data and quarterly, or the most frequently available, since December 2022.

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 U.S. Mail, with a courtesy copy sent via electronic mail, upon:

Robert C. Lane
Director, Rates and Regulatory
Tennessee-American Water Company
109 Wiehl Street
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This the 7th day of June, 2024.



Victoria B. Glover
Assistant Attorney General

Docket 24-00032
Transaction Sample
CA Request No. 1-93

Calculated Field	Company Code	Profit Center	Assignment	Document Type	Document Number	Account	Amount	Text	Reference	Posting Key	Offsett.account type	Offsetting acct no.	Name of offsetting account	Reference Key	WBS element	Order	Cost Center	Purchasing Document	Item	Entry Date	Posting Date	Document Date	Year/month	Posting Period	Fiscal Year
Maintenance	1026	2605	E26-2600-260501	CS	9300168033	63150026	108000	WBS E26:		40 S		53150000	Contract Svc-Other - Natural Accou	303513835			260501		0	45279	45291	45279	2023/12	12	2023
Maintenance	1026	2602	E26-2440-260206	CS	9300164679	62002400	21358.89	WBS E26:		40 S		52000000	M & S (OKM) - Natural Account	303439467			260206		0	45197	45199	45197	2023/09	9	2023
Maintenance	1026	2602	E26-2440-260206	CS	9300164519	62002400	18664.97	WBS E26:		40 S		52000000	M & S (OKM) - Natural Account	303434638			260206		0	45194	45199	45194	2023/09	9	2023
Contract Services	1026	2602	E26-1600-260203	CS	9300154209	53150016	22864.68	WBS E26-		40 S		53150000	Contract Svc-Other - Natural Accou	303211302			260203		0	44937	44957	44937	2023/01	1	2023
Contract Services	1026	2602	E26-1400-260206	CS	9300165295	53150014	34000	WBS E26-		40 S		53150000	Contract Svc-Other - Natural Accou	303444939			260206		0	45202	45199	45202	2023/09	9	2023
Contract Services	1026	2602	E26-1400-260206	CS	9300164660	53150014	34596.31	WBS E26-		40 S		53150000	Contract Svc-Other - Natural Accou	303439451			260206		0	45197	45199	45197	2023/09	9	2023
Support Services	1026	2601		CF	9300157611	53401800	39671.81	CTR AWTR		40 K	C1033		AMERICAN WATER WORKS SERV	303280560			260000		0	45020	45016	45020	2023/03	3	2023
Support Services	1026	2601		CF	9300158015	53401800	7488.02	CTR AWTR		40 K	C1033		AMERICAN WATER WORKS SERV	303252005			260000		0	3/2/2023	2/28/2023	3/2/2023	2023/02	2	2023
Support Services	1026	2601		CF	9300159523	53401800	13120.69	CTR AWTR		40 K	C1033		AMERICAN WATER WORKS SERV	303325495			260000		0	45079	45077	45079	2023/05	5	2023
Support Services	1026	2601		CF	9300168550	53401400	15014.61	CTR AWTR		40 K	C1033		AMERICAN WATER WORKS SERV	303527035			260000		0	45295	45291	45295	2023/12	12	2023
Support Services	1026	2601		CF	9300168897	53401400	6333.45	SO_33997		40 K	C1033		AMERICAN WATER WORKS SERV	0303611453AWTR			260000		0	45295	45291	45295	2023/12	12	2023
Transportation	1026	2602		KR	5000107067	55000000	231562.73	N54012738		40 K		115925	Automotive Rentals	5.00011E+17	R26-0201.23-P-001				0	45185	45185	45180	2023/09	9	2023
Transportation	1026	2602		KR	5000107066	55000000	159866.05	N48011943		40 K		115925	Automotive Rentals	5.00011E+17	R26-0201.23-P-001				0	45185	45185	45174	2023/09	9	2023
Transportation	1026	2602		KR	5000107456	55000000	137677.39	N54012740		40 K		115925	Automotive Rentals	5.00011E+17	R26-0201.23-P-001				0	45198	45198	45180	2023/09	9	2023

Tennessee American Water Company
Docket No. 26-00089
Consumer Advocate
Exhibit CDK-9

LEAD SCHEDULES

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

RATE BASE SCHEDULES

- 12 Utility Plant in Service - End of Month Balances, Calculations of 13 month Average Balance (Supporting Schedule 2.2, demonstrating calculation including any allocation from American Water Company)
- 13 Depreciation Expense - Calculation of Depreciation and Amortization Expense based on HBP Utility Plant in Service (Supporting Schedule 2.2, including allocation factors, depreciation expense, and depreciation study)

- 14 Construction Work in Progress - End of Month Balances, calculation of 13 month average balance (Supporting Schedule 2.2 including allocations)
- 15 Accumulated Depreciation - End of Month Balances, calculation of 13 month average balance
- 16 Contributions in Aid of Construction - End of Month Balances, calculation of 13 month average balance
- 17 ADIT - End of Month Balances, calculation of 13 month average balance
- 18 Cash Working Capital - Summary of 13 month average balance
- 19 ARM Regulatory Asset Balances and Activity by Month

REVENUE SCHEDULES

- 20 Historic Base Period Revenue Components by Rate Schedule & Special Contract
- 21A Annual Base Rate Reset Total Revenue by Rate Schedule and Special Contract
- 21B Annual Base Rate Reset Revenue Components by Rate Schedule and Special Contract
- 22 Annual Base Rate Reset Other Revenues
- 23 Proof of Revenue at Proposed Rates
- 24 Revenue Changes by Rate Schedule

O&M EXPENSE SCHEDULES

- 25 Customer Accounts & Service Expense, including uncollectible ratio calculation
- 26 Employee Salary and Wage Expense
- 27 Employee Short Term Compensation Expense
- 28 Employee Long Term Compensation Expense
- 29 Deferred Environmental Regulatory Amortization and Cost Support
- 30 Deferred Pension Regulatory Amortization and Pension Plan Contribution Support
- 31 Return on Service Company Assets
- 32 Other Pension Expense
- 33 Lobbying Expense, Charitable Contribution, Social Club Membership Adjustment
- 34 Promotional and Advertising Expenses, consistent with Commission Rule 1220-04-05-.45

FINANCIAL REPORTS

- 35 Tennessee Allocated Income Statement,
- 36a Total American Water Company View Year End Income Statement
- 36B Total American Water Company SEC View
- 36C Parent Year End Income Statement
- 36D Service Company Year End Income
- 36E Total American Water Company Regulatory View Year End Balance Sheet
- 36F Total American Water Company SEC View Year End Balance Sheet
- 36G Parent Year End Balance Sheet
- 36H Service Company Year End Balance Sheet
- 37A Total American Water Company Monthly Trial Balance Regulatory View
- 37B Total American Water Company Monthly Trial Balance Regulatory View
- 37C Parent Monthly Trial Balance Regulatory View
- 37D Parent Monthly Trial Balance SEC View
- 37E Service Company Monthly Trial Balance Regulatory View
- 37F Service Company Monthly Trial Balance SEC View

OTHER INFORMATION SCHEDULES

- 38 Operating Budget for the year subsequent to the HBP
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General Ledger transaction level detail for all O&M Charges allocated to Tennessee Operations from the Service Corporation

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**RESPONSE OF THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
("OUCC") TO SURVEY FROM CHRISTENSEN ASSOCIATES – Nov. 22, 2024**

IURC PBR STUDY – INDIANA CODE § 8-1-2.5-6.5

Introductory Comments

The Indiana Office of Utility Consumer Counselor ("OUCC") appreciates the opportunity to submit these written comments to the Indiana Utility Regulatory Commission ("IURC") study process on alternative forms of regulation (hereafter, generally referred to as "alternative regulation" or "AFORs").

This current study was initiated as a result of Ind. Code § 8-1-2.5-6.5 when the Indiana Legislature directed the Commission to study performance-based ratemaking for electricity suppliers, identified a set of topics to be included in this study, defined a stakeholder-based process for the study, and provided for a 2025 final recommendation and report.

Below, the OUCC provides specific responses to the questions posed by the Commission's consultants on this matter. The OUCC is supplementing our responses with an attachment that includes a report prepared by our expert consultant in this matter, Dr. David Dismukes, regarding AFORs and their applicability to Indiana.

Professor Dismukes' analysis finds of the three major AFORs: formula rate plans ("FRPs"); performance-based ratemaking ("PBR") plans; and multi-year rate plans ("MYRPs"); none have led to any meaningful nor measurable ratepayer benefits. Collectively, these AFORs have:

- Not resulted in any sustainable nor distinctly measurable improvements in reliability or quality of service when developed in other states.
- Almost always led to large rate increases with very few decreases nor earning sharing opportunities with customers.
- Not led to measurable operating cost efficiencies that have been shared with customers.
- Have often led to a deterioration in capital investment discipline and huge gains in rate base.
- Have not provided uncontroverted evidence indicating any form of unequivocal "success" for ratepayers.

Thus, the OUCC does not support a movement from Indiana's current form of regulation to forms of regulation that are typically adopted by high-cost states with expansive investment goals and policy agendas that are not entirely consistent with Indiana.

As previously noted in the OUCC's reply to the Commission's initial survey in this study, the state's current paradigm is sufficient. Hoosier ratepayers would not be well-served by policies that would move Indiana into the pantheon of high-cost states such as California, Massachusetts, and Connecticut.

OUCC Response to Stakeholder Workshop Questions

1. **Did the workshop on October 17th provide helpful information regarding the IURC's plans to evaluate the applicability of PBR in Indiana?**

OUCC Response:

The OUCC appreciates the opportunity to participate in the October 17, 2024 IURC workshop and found it to be a useful exchange of ideas regarding various different forms of alternative regulation. The presentation was educational and will likely serve as a good background for all participants in this process, as well as the penultimate report on this subject that will be provided to the Indiana Legislature.

2. **Did your organization feel it had the opportunity to provide comments and ask questions during the workshop?**

OUCC Response:

Yes. The Commission and its consultants provided ample opportunities for input.

3. **What aspects of the workshop did you find valuable and what areas to you feel could be improved.**

OUCC Response:

The workshop, in general, was well-run. The OUCC has no recommendations for improvement.

Current Regulatory Framework

1. **What goals and outcomes related to electric utility services should be pursued through regulation in Indiana?**

OUCC Response:

All goals should be pursued within the guidelines of the Five Pillars of Electric Utility Service as defined in Indiana Code § 8-1-2-0.6. The Indiana General Assembly established the Five Pillars following four years of robust discussions by the 21st Century Energy Policy Development Task Force.

Regulation of Indiana electric utility services aims to achieve several key objectives to ensure utilities operate in the public interest including ensuring safe and reliable service, establishing just and reasonable rates, promoting energy efficiency and conservation, protecting consumer interests, and encouraging infrastructure investment.

2. How well does the current rate-regulation framework in Indiana facilitate success in the following areas:
 - a. Reliability
 - b. Resiliency
 - c. Stability
 - d. Affordability
 - e. Environmental sustainability
 - f. Utility cost control
 - g. Regulatory efficiency
 - h. Customer service/connection time
 - i. Financial health of the utility
 - j. Adaptability to the energy transition (e.g., retirement of coal generation facilities; adoption of distributed energy resources, electrification)

OUCR Response:

The OUCR has not prepared an itemized evaluation of each utility's performance in each of the above-listed categories. However, experiences in other states show that a move to alternative forms of regulation would not benefit Indiana ratepayers, as described in our report.

3. Will the current rate-regulation framework in Indiana remain appropriate for optimizing utility services in the following areas, given the transition from coal power generation and given the energy transition? (Yes/No) If no, please explain what improvements could be made to the state's regulatory framework that would offer improvements to the status quo.
 - a. Reliability
 - b. Resiliency
 - c. Stability
 - d. Affordability
 - e. Environmental sustainability
 - f. Utility cost control
 - g. Regulatory efficiency
 - h. Customer service/connection time
 - i. Financial health of the utility
 - j. Adaptability to the energy transition (e.g., retirement of coal generation facilities; adoption of distributed energy resources, electrification)

OUCR Response:

The General Assembly adopted Indiana's Five Pillars after lengthy and robust discussions by legislators and additional Task Force members. Indiana's current regulatory framework does not need to be changed.

4. Have rates increased at a faster pace than the historic average of the last decade? If so, why?

OUCC Response:

Yes. The attached report shows a marked increase in retail rates for all of Indiana's investor-owned electric utilities over the past several years. The last three years, in particular, have seen a rapid upward movement in retail electricity rates.

5. What could be done to improve affordability for customers?

OUCC Response:

The OUCC is very concerned about utility affordability and has expressed such concerns in proceedings before the IURC. Our report demonstrates that alternative forms of regulation, as used in other states, are simply incongruous with the goals of assuring energy affordability.

To the extent that any alternative form of regulation is recommended in the Commission's report to the Legislature, strong ratepayer protections need to be included. These may include investment level caps, rate caps, affordability caps, and other measures limiting the potential harmful aspects of AFORs.

Multi-Year Rate Plans and Performance Incentive Mechanisms

1. Would you support a regulatory regime that allows the option to use a MYRP on the states' investor-owned utilities, meaning three or more years between rate applications? (This could mean forecasting revenues over a three-year period, operating under a price or revenue cap, or setting rates annual based on a cost-of-service formula.) Explain why or why not.

OUCC Response:

No. Such mechanisms, when adopted in other states, have resulted in a deterioration of capital investment discipline and operating cost efficiencies. Further, as our report shows, few to no states adopting MYRPs have seen any proportional increases in reliability or resiliency. Further, and most importantly, most states that have adopted MYRPs have seen energy affordability deteriorate as a result of MYRP adoption. This has been particularly true in the District of Columbia as shown in the attached report.

2. Do you support utilities operating under a price cap (or revenue cap) over a five-year period, where prices (or revenue requirements) are adjusted each year according to a formula based on inflation and industry productivity? Why or why not?

OUCG Response:

No.

First, rates under such an approach only move in one direction: up. The OUCG cannot support measures allowing utility rates to unequivocally increase without corresponding base rate case proceedings.

Second, such approaches are rarely used in the United States. While such approaches are common in Canada, Indiana is not Canada. Likewise, while New England states such as Massachusetts use AFORs, Indiana should not aspire to the regulatory practices of states like Massachusetts which have residential retail rates that are almost 100 percent higher than Indiana. Indiana is not Massachusetts.

Third, these approaches utilize a variety of obtuse and wildly unreliable productivity measures that are consistently biased against ratepayers and can lead to exceptionally large annual rate increases.

Fourth, as our report notes, these approaches do nothing but facilitate capital cost inefficiencies and overcapitalization. Indiana cannot afford additional excess capital investment inefficiencies given current rate trends that have been highlighted in our attached report.

3. If utilities established a revenue requirement forecast for three or more years, would it be more burdensome to validate the reasonableness of such forecasts compared to evaluating a single future test year? What additional information would utilities need to provide to assist in the evaluation of such forecasts?

OUCG Response:

Yes. Multiple forecast test years are simply unreliable and place ratepayers at financial risk for any errors included in those forecasts. The question also “presumes” that the problem with multiple forecast test years is simply limited to one of data transparency: this is not accurate. “More information” will not make a forecast test year more palatable since, as noted earlier, that transparency will not change, in any way, the fundamentally unreliable nature of such information.

4. Would you expect a utility to obtain financial benefits from operating under some form of price (or revenue) cap? Why or why not?

OUCC Response:

Yes. It is expected that price and revenue caps would afford utilities several financial benefits, the most important of which is the ability to overcapitalize and increase shareholder value at ratepayers' expense.

5. Would you expect customers to obtain benefits from operating under some form of price (or revenue) cap? Why or why not?

OUCC Response:

There is no proven empirical ratepayer benefit arising from revenue/price cap regulation in the electric utility industry to date.

6. Would you support financial rewards (i.e., PIMs) for utilities that provide superior service quality or penalties for utilities that provide sub-par service quality as established by specific metrics? Does your opinion change if the PIMs are optional (opt-in) or if the PIMs are set specifically for each utility rate rather than the same PIM target for all utilities?

OUCC Response:

If any financial rewards are provided, they must be structured in a fashion that rewards exceptional - not average - performance. Such rewards, if offered, should be limited to performance that is above and beyond a utility's public interest obligations.

7. How would you define success or failure of a performance-based regulation mechanism such as a MYRP or PIM?

OUCC Response:

The success of any form of alternative regulation mechanisms should be the ability to reduce costs and rates over time relative to historic trends/trajectories and regional peers. If alternative regulation were successful, then Indiana utilities would need to see significant improvement in their cost and pricing performances relative to regional peers. To date, no utility that has adopted an AFOR can make a comparable showing as shown in the attached report.

8. Does your organization agree that updates to Indiana’s existing regulatory structure would be a better approach to address the goals of both Indiana utilities and consumers, compared to requiring the utilities to operate under some form of MYRP? If so, what incremental updates could be considered, and what goals would these updates help address?

OUCG Response:

Indiana’s current regulatory framework is not broken. The risk of changing the current regulatory framework far outpaces any potential “hypothetical” benefit.

Additional Information

9. Do you have any additional information or comments to share regarding the exploration of performance-based regulation for Indiana utilities?

OUCG Response:

Not at this time. The OUCG does, however, reserve the right to provide additional and supplemental information on this matter as warranted.

10. Would you find value in a second workshop? If so, what topic areas would you want to discuss?

OUCG Response:

If the IURC and Christensen Associates choose to convene additional workshops, the OUCG will actively participate.



ACADIAN
CONSULTING GROUP

Ratepayer benefits and impacts from alternative regulation: A survey and implications for Indiana.

Prepared on behalf of the Indiana Office of Utility Consumer Counselor

David E. Dismukes, Ph.D.
Acadian Consulting Group

November 22, 2024

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Executive Summary – Overall Findings

There are **three major forms of alternative regulation**: Formula Rate Plans (“FRPs”); Performance-Based Ratemaking (“PBR”) plans; and Multi-Year Rate Plans (“MYRPs”). To date, **none have led to any meaningful nor measurable ratepayer benefits**. Alternative regulation has not resulted in any sustainable nor distinctly measurable improvement in reliability or quality of service.

Alternative regulation mechanisms have resulted in large rate increases with very few rate decreases nor earning sharing opportunities.

In addition, no measurable operating costs efficiencies have arisen in any state due to alternative regulation. In fact, most states have seen a deterioration in capital investment discipline and huge gains in rate base due to alternative regulation.

There is not one single state adopting FRPs, PBR plans, or MYRPs that has shown outcomes that can be held out as an unequivocal “success” for ratepayers.

Study purpose

The Acadian Consulting Group, LLC (“ACG”) has been asked by the Indiana Office of Utility Consumer Counselor to **examine alternative regulation**.

The purpose of this analysis is to assess and evaluate the performance of alternative forms of regulation (“AFORs”) throughout the U.S. with a special emphasis on what the transitions to these AFORs have meant for utility ratepayers.

This analysis includes an assessment of Indiana’s electric utilities, their rates, costs, and capital investment performance and some limited examples of affordability challenges facing the state for certain Indiana electric utility ratepayers.

The analysis shows that few to no ratepayer benefits would arise from the adoption of FRPs, PBR plans, or MYRPs and would likely lead to excessive capital investment and higher electricity rates. Such mechanisms have not led to any meaningful nor measurable operating cost efficiencies nor has it resulted in any improvements in reliability or quality of service.



Section 2: The fallacies of alternative regulation

Why alternative regulation?

Moral hazard notes that often, the **informational asymmetry** between regulators and regulated companies, **prevents traditional regulation from forcing the most optimal outcome.**

The **basis for alternative regulation is that while optimal costs are difficult to observe, profits are not.** Thus, alternative regulation seeks to **eliminate the traditional base rate case regulatory process** to one where rates are automatically increased by a formula or some fixed allowed levels. **This pricing “flexibility,” supposedly, gives utilities greater incentives, through higher profits, to seek capital and operating cost efficiencies.**

The entire basis for alternative regulation is that **unobservable efficiency opportunities** actually **exist** and the **benefits** of changing the current form of regulation are **greater than the costs.**

However, actual experience has not proven either premise is true, nor has alternative regulation been successful at: (a) lowering rates; (b) generating cost/operating efficiencies; (c) improving service quality or reliability; and (d) creating ratepayer benefits.

How does traditional regulation differ from alternative regulation?

Alternative regulation starts with a large policy leap of faith: regulators have to be willing to allow **prices (or revenues)** to become “**decoupled**” with **traditional (utility-specific) measures of costs**.

Such approaches **challenge the traditional policy and legal foundations of utility regulation** that set rates on “**known and measurable**” information to assure those rates are **fair, just, and reasonable**.

Alternative regulation **presumes that if utilities are given pricing and investment flexibility, they will lead to considerable efficiencies** that can be **shared with ratepayers** in the form of (a) **lower retail rates** and (b) **earnings or profit sharing**.

However, **alternative regulation shifts all utility performance risk onto ratepayers**: Utilities are allowed, up front, to increase rates to increase or preserve profitability. Benefits only arise if utilities create operating and capital efficiencies – **If these efficiencies do not arise, ratepayers receive no benefits from alternative regulation and thus bear the risk of the poor utility performance**.

Does alternative regulation lead to ratepayer benefits?

To date, there is **no systematic evidence that clearly shows that alternative regulation, for electric utilities, has resulted in any (a) reduced/improved retail rates; (b) improved cost efficiencies; or (c) improved quality of service or reliability.**

In fact, the **evidence to date shows that various forms of alternative regulation have resulted in the opposite:** (a) increased rates; (b) increased inefficiencies, particularly capital investment inefficiencies; (c) little to no improvement in reliability or quality of service.

Very little, to zero, ratepayer financial benefits have arisen from “sharing” or “earnings sharing mechanisms” as applied to most major forms of alternative regulation (i.e., FRPs, PBRs, MYRPs).

In fact, **many states that have utilized alternative regulation mechanisms in the past, have abandoned their use.** For instance, **Maine and Vermont do not use PBR mechanisms anymore, and North Dakota, Colorado, and Oklahoma no longer use MYRPs.**

Reduced administrative/regulatory costs?

To date, there is **no systematic evidence that clearly shows that alternative regulation results in lower regulatory or administrative costs.**

Most utilities that are under some form of alternative regulation continue to make repeated and regular regulatory filings. **It is a myth that alternative regulation significantly reduces administrative and regulatory costs.**

Further, rate proceedings such as FRPs and MYRPs **have compliance and or reconciliation proceedings** that continue to require regulatory and administrative costs. It has not been shown that **the sum of these smaller and repeated annual filings offset base rate expenses** incurred prior to the alternative regulatory regime.

Lastly, future rate case filings can also be more contentious and require additional resources since the prudence of many cumulative capital investments are evaluated at that time.

The theoretic basis for alternative regulation is flawed.

The **theoretic literature supporting alternative regulation** was written and developed with the **experience of the 1980s-1990s** in mind. This period followed a **large era of major capital/capacity expansion**, particularly in the development of nuclear and coal fired electric generation.

Capital and capacity utilization during the 1980s-1990s was abysmal. Consider that throughout the 1980s, **nuclear generators operated at an average utilization of between 40 to 60 percent.** Coal plant utilization, particularly for super-critical units, was equally low.

In addition, **energy utilities (electric and natural gas) were also saddled with out-of-market longer-term generation contracts**, executed during a period in which price/cost inflation was expected to increase at double digit percentages and when fossil fuels, particularly natural gas, were expected to be in short supply.

This **high degree of industry inefficiency upon which alternative regulation is based simply does not exist today nor do the technical potentials for achieving better overall cost and pricing efficiencies.**

Why is alternative regulation no longer appropriate/relevant?

Today's utility investments **are intended to address a wide range of market failures and social policy goals**, not generate cost efficiencies including:

- Renewables (GHG externalities)
- Safety/reliability (GHG externalities, public goods)
- Environmental (GHG externalities)
- Energy efficiency (GHG, externalities, imperfect info, risk/uncertainty)

The regulatory challenge is that these policies' benefits, by definition, **do not have an easily-measured market value**. Just about **any benefit estimate can be used to justify any level of the investment**. This runs counter to the goals of alternative regulation to create efficiencies.

Further, **few of these social/environmental investments will lead to improved system efficiency** since many are non-revenue generating or have no/little capacity value, resulting in lower system utilization, **thus, making alternative regulation irrelevant and useless.**

Regulation and the capital investment bias

Since the 1960s, the **theory and practice of utility regulation has recognized that utilities have a capital investment bias**. This bias is technically referred to as the “**Averch-Johnson effect**” after the two economists publishing the theory in the *American Economic Review* – but is more **commonly referred to as “gold plating”** in utility practice.

This **capital investment bias notes that the larger a utility’s investment base, the larger the potential earnings**. The larger and faster this investment base (or “rate base”) grows, the faster the potential earnings growth.

Historically, **utilities have justified very large capital/capacity investments on energy usage growth** that, while slowing, has still been considerable over the past three decades.

Over the past decade, however, utilities have faced slowing to potentially contracting energy usage. **No usage growth means no need for capacity, no capacity needs mean no capital investment, and no capital investment means lower earnings opportunities**.

How do utilities grow earnings in a low to non-growth environment?

Utilities are finding new alternatives to **grow their rate bases** through **social investments** that include those **dedicated to reliability/resiliency, safety/security, renewables, energy storage, and other emerging new technologies and resources.**

The **basis for these investments contradicts the purposes of alternative regulation.** First, social investments are often uneconomic. This means that **alternative regulation can not incent utilities into making cost-effective decisions since the resources themselves are not cost effective.**

Second, **social investments do not lead to improved system efficiencies** and can lead to lower, not higher, system utilization **running counter to the purpose of using alternative regulation.**

Third, **alternative regulation delegates social investment prioritization to for-profit utilities and their shareholders.** This outcome contradicts traditional regulation that allows utilities, under the direct supervision of regulators, to make these investments if the gains are shared with ratepayers.

Media recognition of the new utility capital bias.

Even the media recognizes this capital bias in the face of flat electricity demand growth – a trend that is proven to be exacerbated with alternative regulation.

THE WALL STREET JOURNAL
Home World U.S. Politics Economy Business Tech Markets Opinion Arts Life Real Estate

BUSINESS
Utilities' Profit Recipe: Spend More
To expand regulator-imposed earnings caps, electricity producers splurge on new equipment, boosting customers' bills

Every time Southern California Edison replaces a 50-year-old pole with a new one, it has a fresh investment on which it is eligible to earn an annual profit. PHOTO: FRED PROUSEK/REUTERS

By **REBECCA SMITH**
April 20, 2015 6:04 p.m. ET

101 COMMENTS

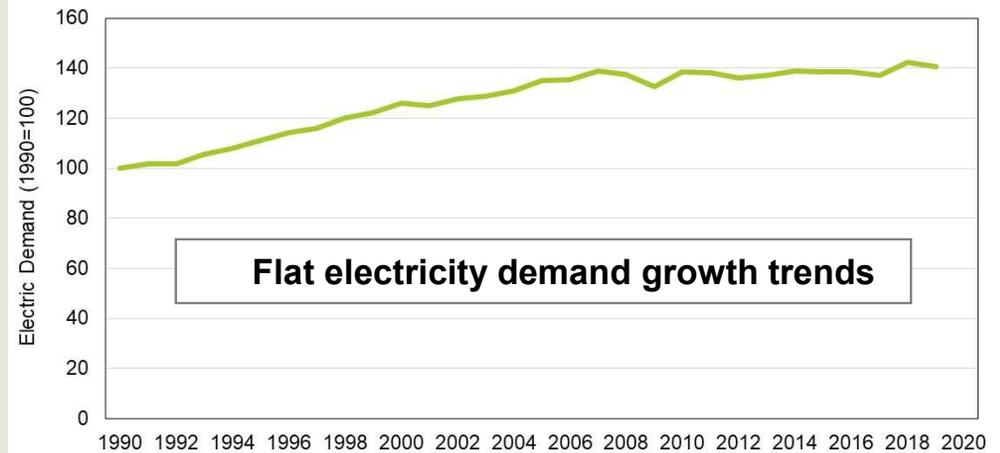
Families in New York are paying 40% more for electricity than they were a decade ago. Meanwhile, the cost of the main fuel used to generate electricity in the state—natural gas—has plunged 39%.

Why haven't consumers felt the benefit of falling natural-gas prices, especially since fuel accounts for at least a quarter of a typical electric bill?

One big reason: utilities' heavy capital spending. New York power companies poured \$17 billion into new equipment—from power plants to pollution-control devices—in the past decade, a spending surge that customers have paid for.

New York utilities' spending plans could push electricity prices up an additional 63% in the next decade, said Richard Kauffman, the former chairman of Levi Strauss & Co. who became New York's energy czar in 2013. It's "not a sustainable path for New York," he said.

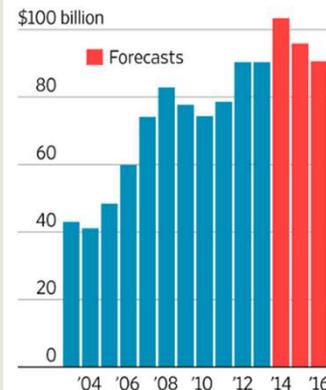
Pricing Power Adds Pep to Equities
It's hard to find companies that can reliably increase earnings while global economic growth remains subdued. In this environment, pricing power can help investors identify companies that are capable of delivering sustainable growth.
There are two components to earnings growth: the top line, represented by revenue, and the bottom line, driven by margins.
For many companies, the best way to boost margins is to increase volume. Selling more of what you already produce typically



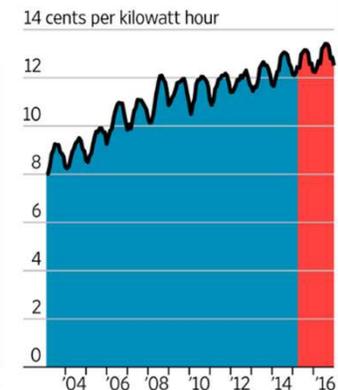
Power Gauge

Regulators are trying to rein in utilities' capital spending, which has ramped up over the past 10 years, driving up electricity prices.

Utility industry capital spending



Residential electricity price



Sources: Edison Electric Institute (spending); Energy Dept. (prices) THE WALL STREET JOURNAL.

Major forms of alternative regulation: Multi-year rate plans (“MYRPs”).

Multi-Year Rate Plans (“MYRPs”) are rate plans designed to span multiple years similar to PBR.

However, unlike PBR, **MYRPs do not rely on a formula to determine future rate increases and instead are approved with defined rate increases each year of the proposed plan.** Due to this, MYRPs tend to be shorter in duration, typically only two or three years in total.

The biggest concern with MYRPs is the approval of large upfront rate increases that are based on projected, not actual information. Additionally, depending on the extent of these allowed future rate increases, **MYRPs may include little to no incentive for the utility to control costs during the term of the plan. Once rates have been allowed to increase, it is difficult to “claw back” those increases in the form of expense/investment disallowances.**

Major forms of alternative regulation: Formula rate plans (“FRPs”).

Formula rate plans (“FRPs”) are a form of alternative regulation **that allows for annual rate adjustments between rate cases based on the difference between a utility’s achieved return on equity to an established target return on equity set during the prior rate case.** Essentially, FRPs **allow for annual “mini rate cases”** that involve a review of utility expenditures, capital investments, and revenue variances **(challenging the claim of “lower regulatory and administrative costs”).**

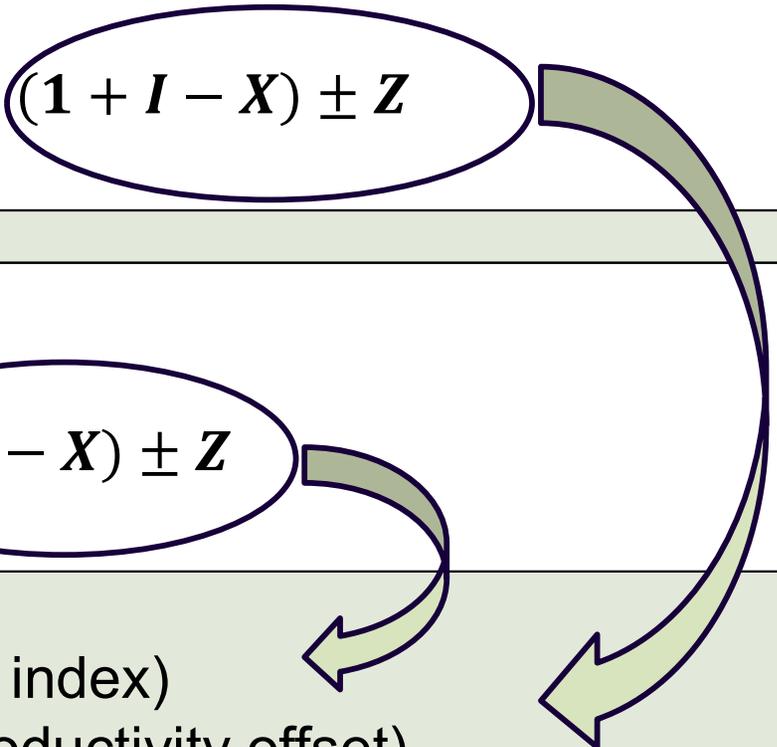
FRPs in practice, however, **have been plagued by constant rate increases to fund growing utility investments, inefficient utility capital investments, and in some cases utility windfall profits due to outdated capital market assumptions.**

FRPs also **have been criticized for reducing the ability of independent oversight of utility expenses and capital investments** since annual FRP reviews are typically conducted on a significantly expedited basis compared to traditional rate cases.

Major forms of alternative regulation: Performance-based regulation (“PBR”).

Performance-Based Regulation (“PBR”) allows either utility revenues or prices (i.e. rates) to increase each year using a set formula that **importantly includes an inflation term (“I”) and a productivity offset (“X”)**. This “I-X” component is the core of such regulation paradigms and **represents a guaranteed rate increase**.

Revenue Cap

$$\bar{R}_t = (\bar{R}_{t-1} + CGA * \Delta Cust) * ((1 + I - X) \pm Z)$$


Price Cap

$$\bar{P}_{m,t} = \bar{P}_{m,t-1} * ((1 + I - X) \pm Z)$$

Where:

I = Annual percent change in prices (Inflation index)

X = An index of expected efficiency gains (Productivity offset)

Z = Adjustments for unforeseen events beyond management’s control



Section 3: Alternative regulation increases rates

Alternative regulation increases rates.

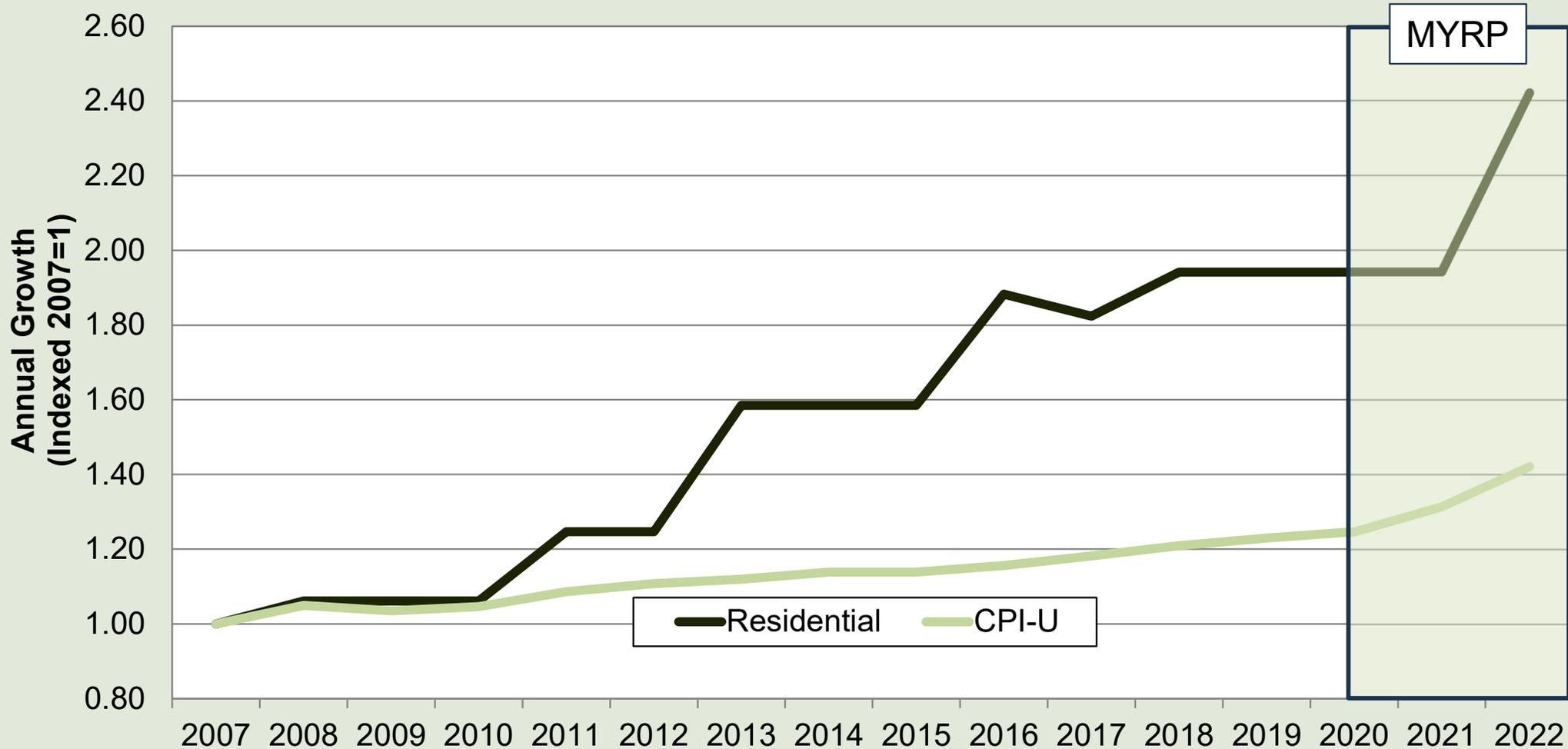
Alternative regulation does not lead to any meaningful nor measurable ratepayer benefits. Utilities that have been allowed to adopt various forms of alternative regulation (MYRPs, PBRs, FRPs) have **requested very large and generous rate increases, in most instances, orders of magnitude larger than historical requests under traditional regulation.**

There are simply no “real-world” examples nor evidence showing that ratepayers have received any meaningful benefits, particularly in the form of rate decreases, from alternative regulation.

The following analysis provides several real-world examples of post-alternative regulation rate increase requests.

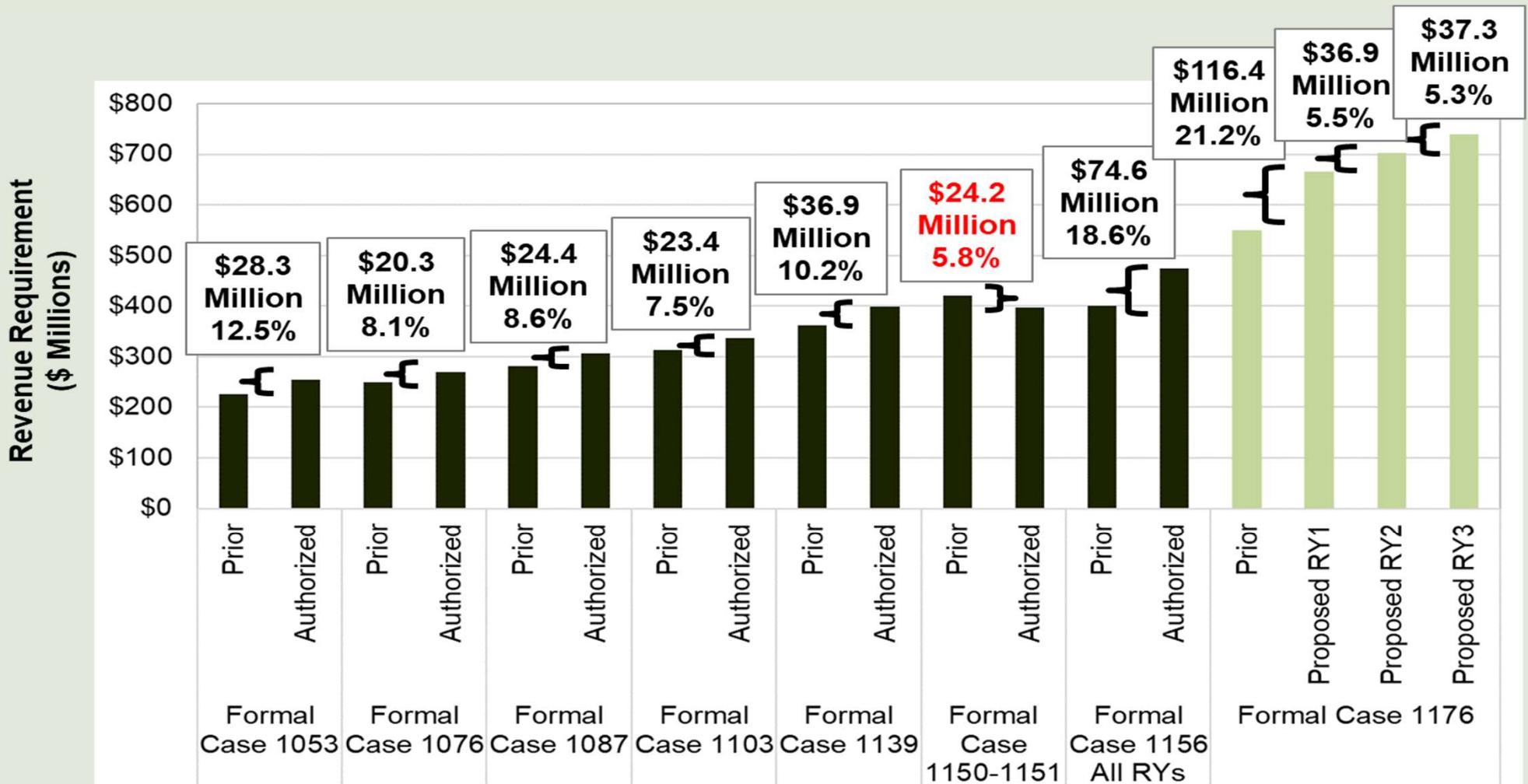
MYRP deficiency example: Pepco DC.

Even under traditional regulation, Pepco's rates were increasing faster than inflation. **Rate increases for all customers accelerated in a dramatic fashion after MYRP implementation.** Current pending MYRP is even greater than prior two years.



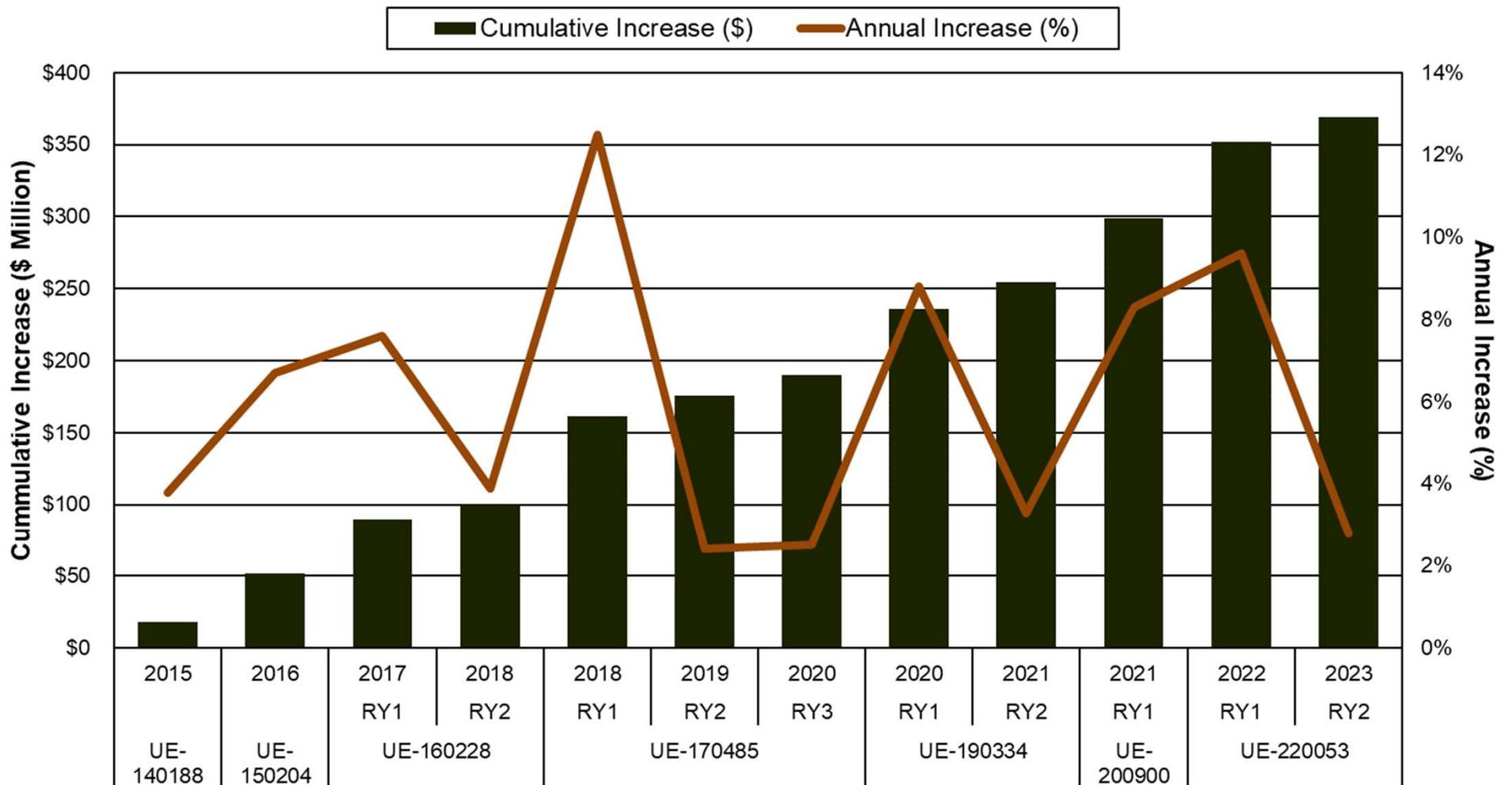
MYRP deficiency example: Pepco DC.

Pepco's most recent MYRP filing requests an increase of \$190.6 million over three years. This is equal to a **32 percent increase** in distribution rates, or nearly **10 percent per year of the proposal**.



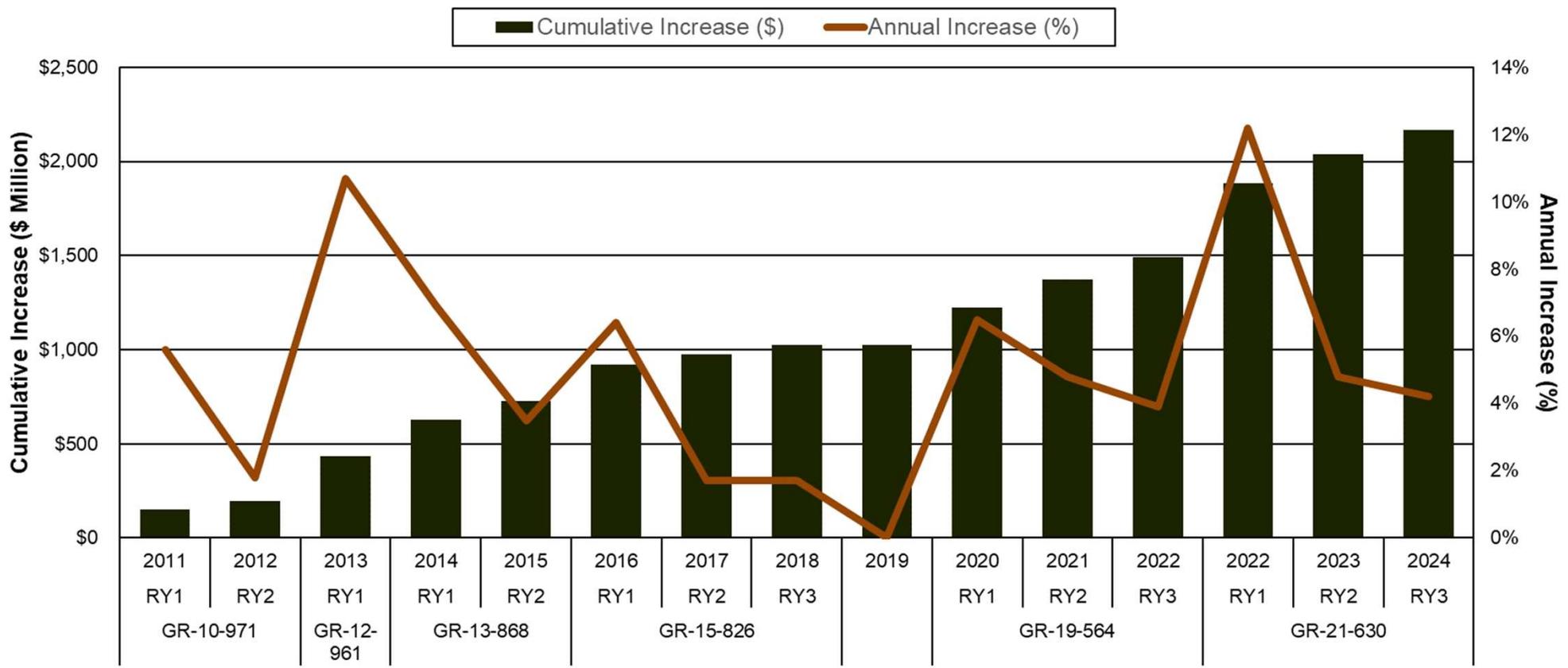
MYRP deficiency example: Avista (Washington)

Under alternative regulation, Avista has imposed **annual rate increases that have exceeded 6 percent (almost \$350 million since 2015).**



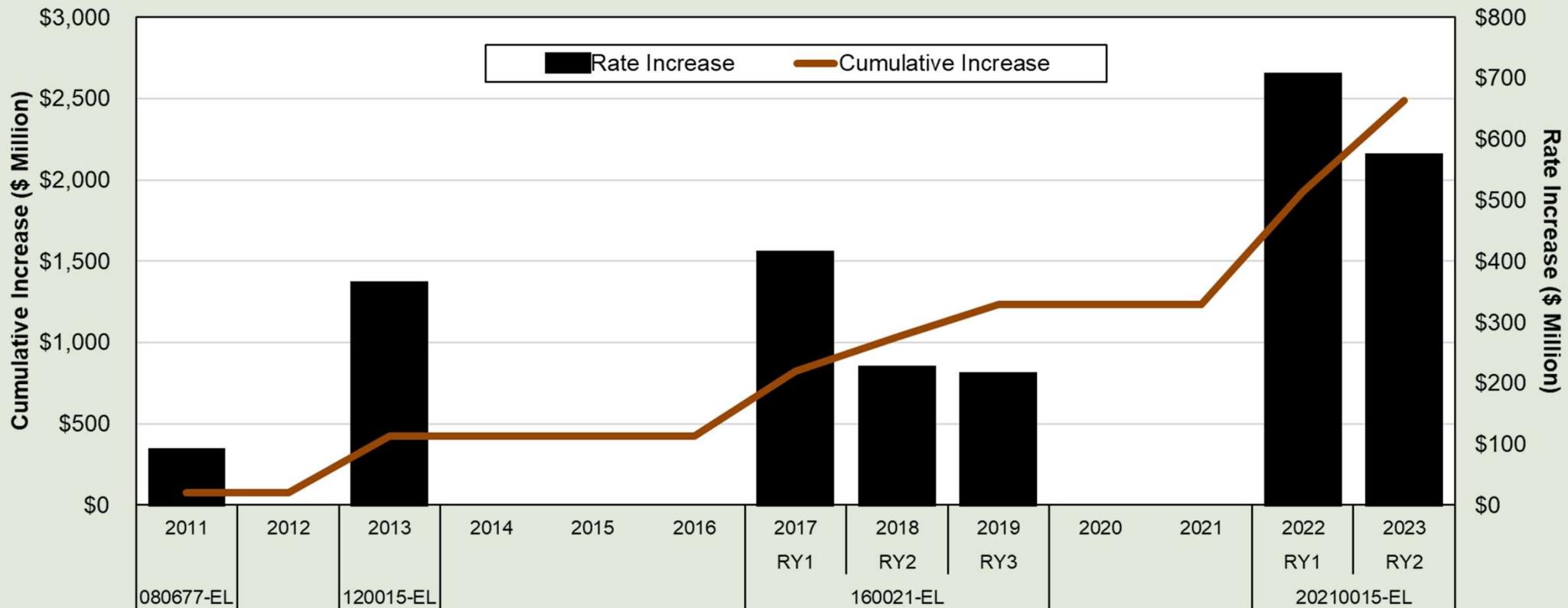
MYRP deficiency example: Xcel (Minnesota)

Xcel, under alternative regulation, has seen **cumulative rate increases of more than \$2.2 billion since 2011 (5 percent per year).**



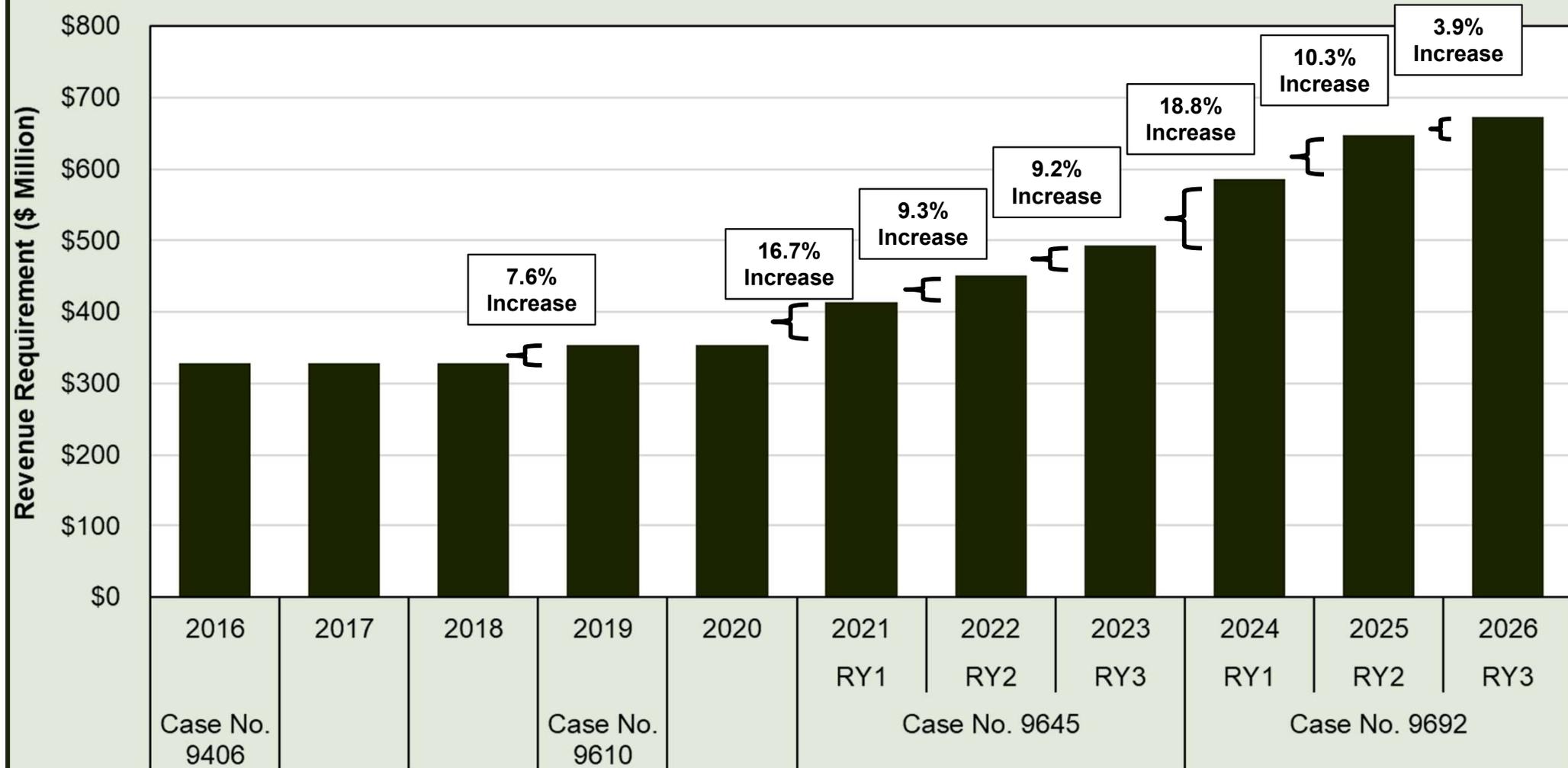
MYRP deficiency example: Florida Power & Light (Florida)

Florida Power & Light, under alternative regulation, has seen **cumulative rate increases of just under \$2.5 billion since 2011. The largest increase was in 2022 with \$692 million.**



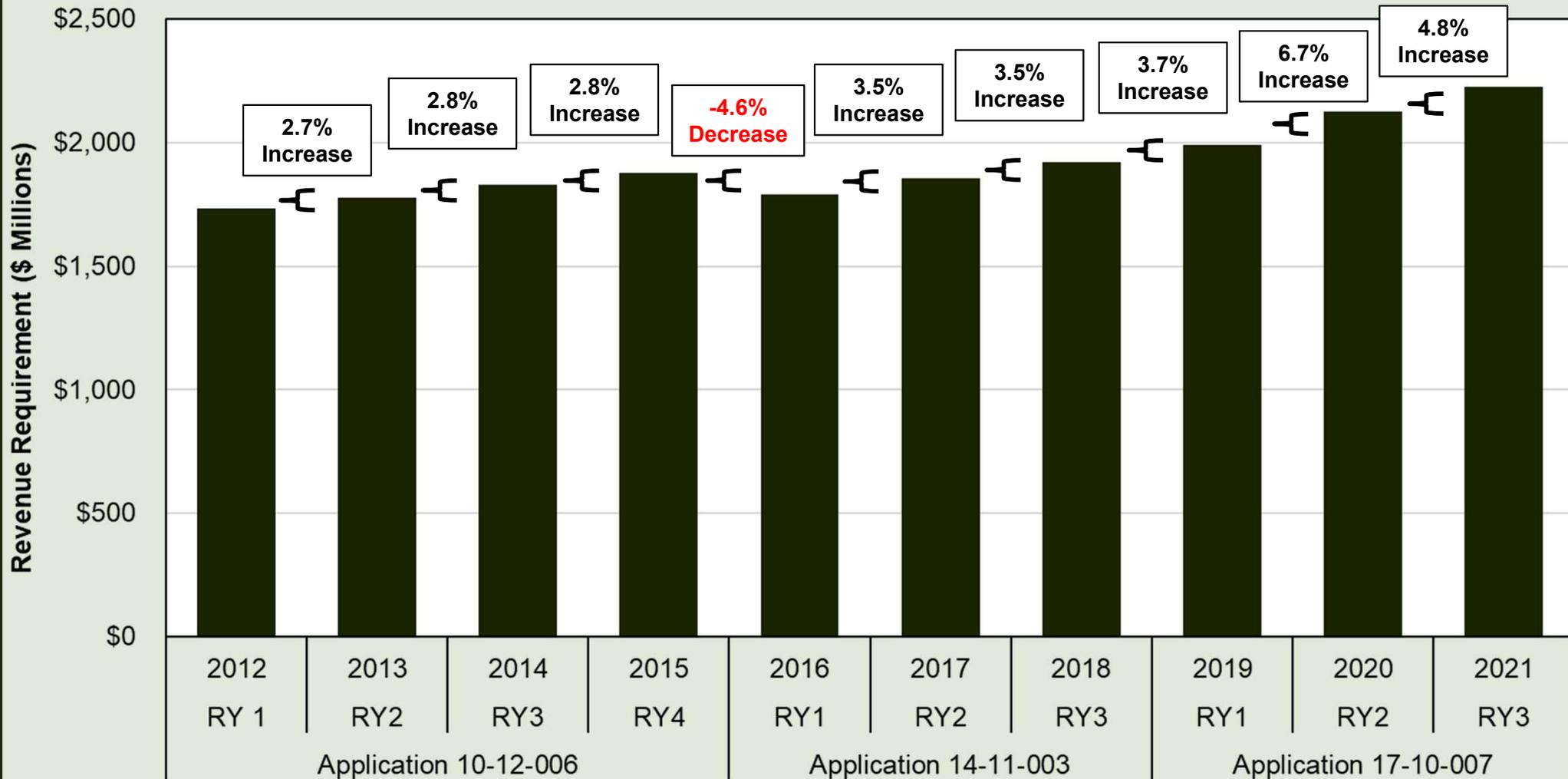
MYRP deficiency example: Baltimore Gas & Electric (Maryland)

From 2016 to 2020, BG&E saw one rate increase of 7.6%. **Since adopting alternative regulation, it has seen an average annual increase of 15%.**



MYRP deficiency example: San Diego Gas & Electric (California)

Under alternative regulation, SDG&E saw only one rate decrease in the past 10 years. Rates grew at an average of 3.2% each year.



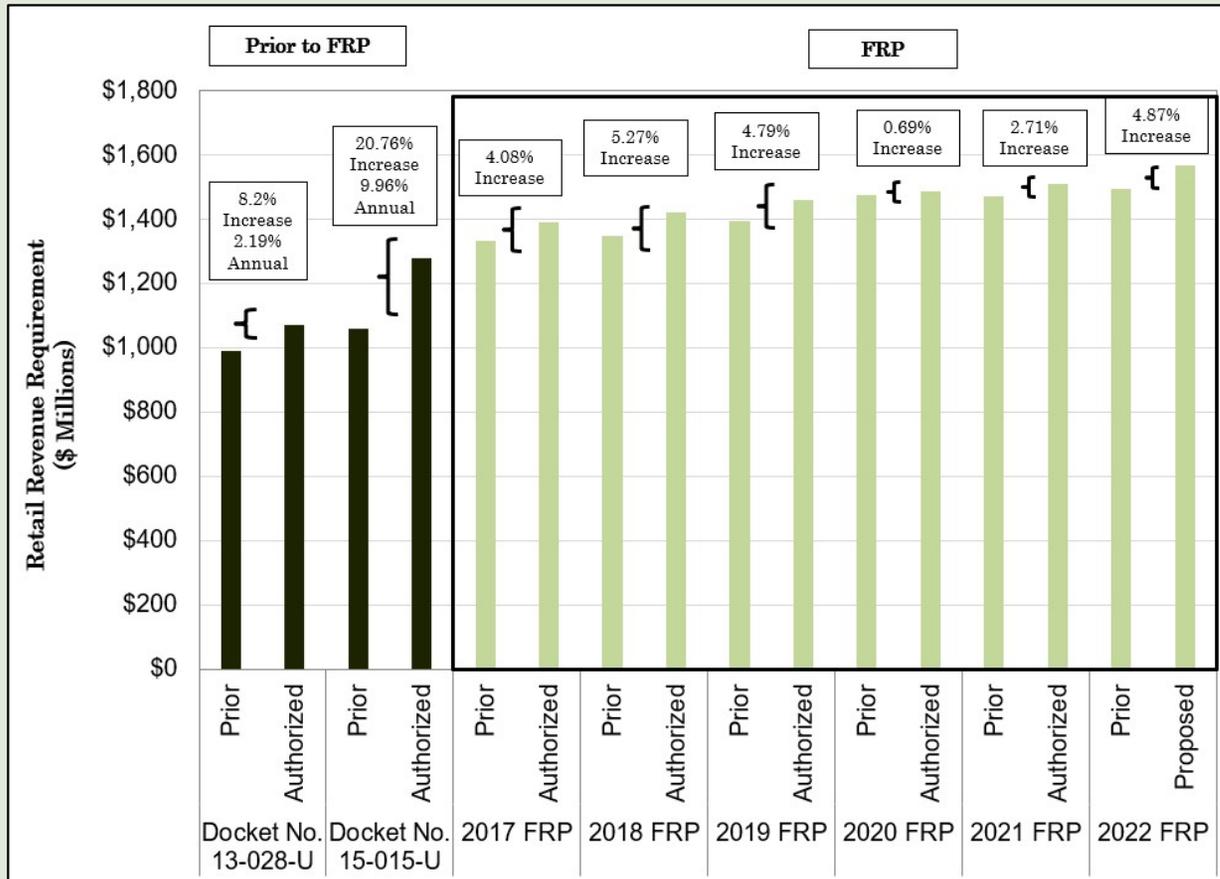
MYRP proposals are stimulating community opposition.

Criticism of MYRP use is not unique to utility regulatory experts, as community organizations have also expressed concerns. For instance, the executive director of Economic Action Maryland strongly criticized Baltimore Gas and Electric's ("BGE's") performance during its MYRP pilot program and its requested extension, observing:

[B]efore the evaluation of the first [MYRP] pilot program is completed, BGE is back asking for a second multiyear rate increase. Essentially, BGE is asking for our trust and for us to pay rate increases based on what they expect to spend. BGE seeks to shift the costs of their infrastructure investments to customers while reaping the profits from these investments. A multiyear proposal incentivizes BGE's desired spending spree when what is needed is prudent oversight and review by the PSC.

Rate increases in 2022 and 2023 are creating undue hardship for households across Central Maryland, particularly in Baltimore. Again, I can speak from experience. Since 2021, my BGE bills have increased by \$200 per month, or \$2,400 per year, while my consumption remains unchanged. ... While this cost increase is a hardship for some middle-class families like mine, it is catastrophic for many families my nonprofit organization supports. ... An increase in utility costs will hurt working families living paycheck-to-paycheck, forcing them to make impossible choices between keeping the lights on or keeping food on the table.

FRP deficiency example: Entergy Arkansas (“EAI”) rate increases.



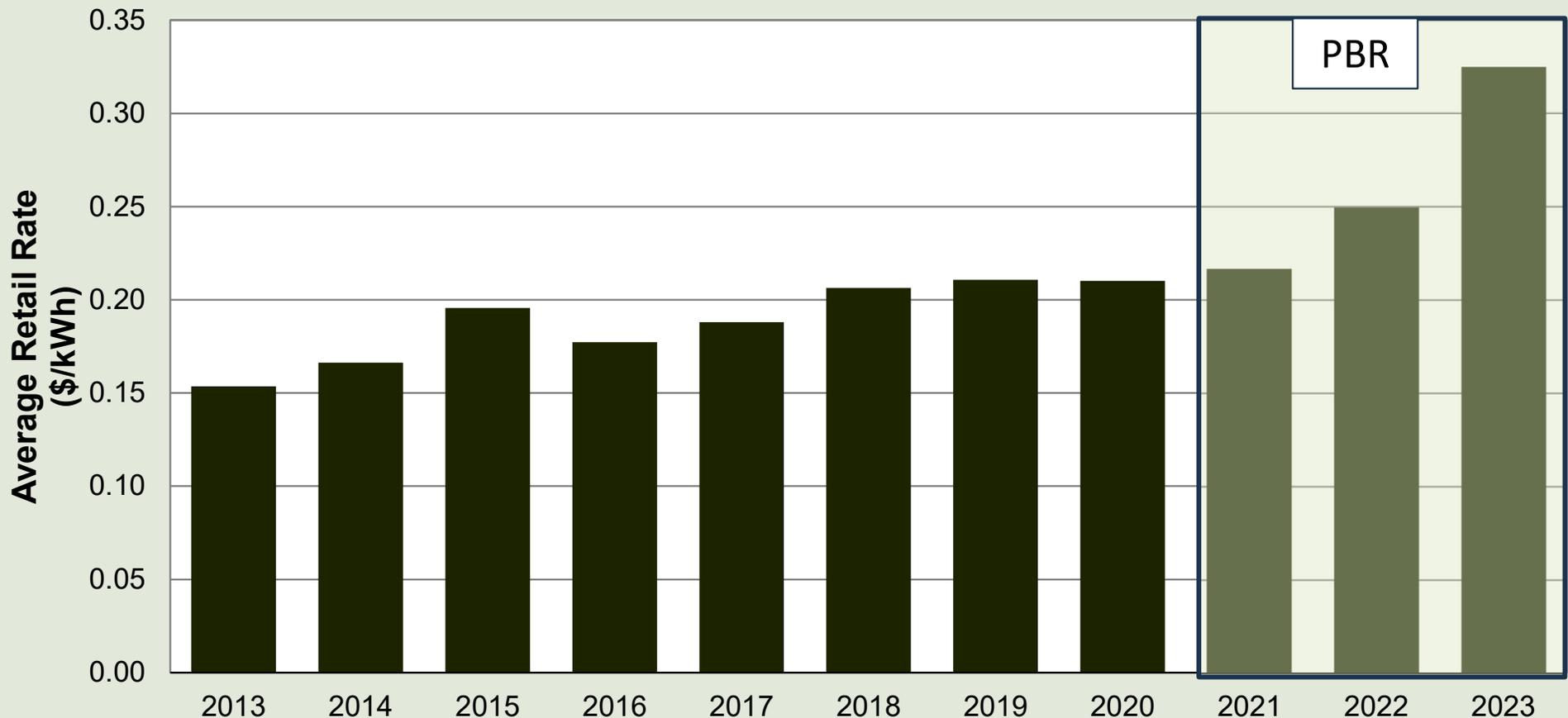
Unsurprisingly, most of EAI’s FRP filings have been at a statutory cap of no more than a four percent increase in total utility bills.

This is after the Company received a rather large pre-FRP “cast off” rate case.

Prior to alternative regulation, EAI’s average rate increases were low, averaging 2.73 percent per year. Post alternative regulation, this increased to 3.74 percent annually or 6.83 percent including the FRP “cast off” rate case.

PBR deficiency examples: National Grid rate increases.

National Grid (Massachusetts Electric Company) saw rates increase from **\$0.2103 per kWh in 2020 to \$0.3248 per kWh in 2023**, an increase of **54.5 percent** over the course of its approved PBR plan. When evaluating historic rates, it is clear that **PBR did not slow the pace of rate increases.**

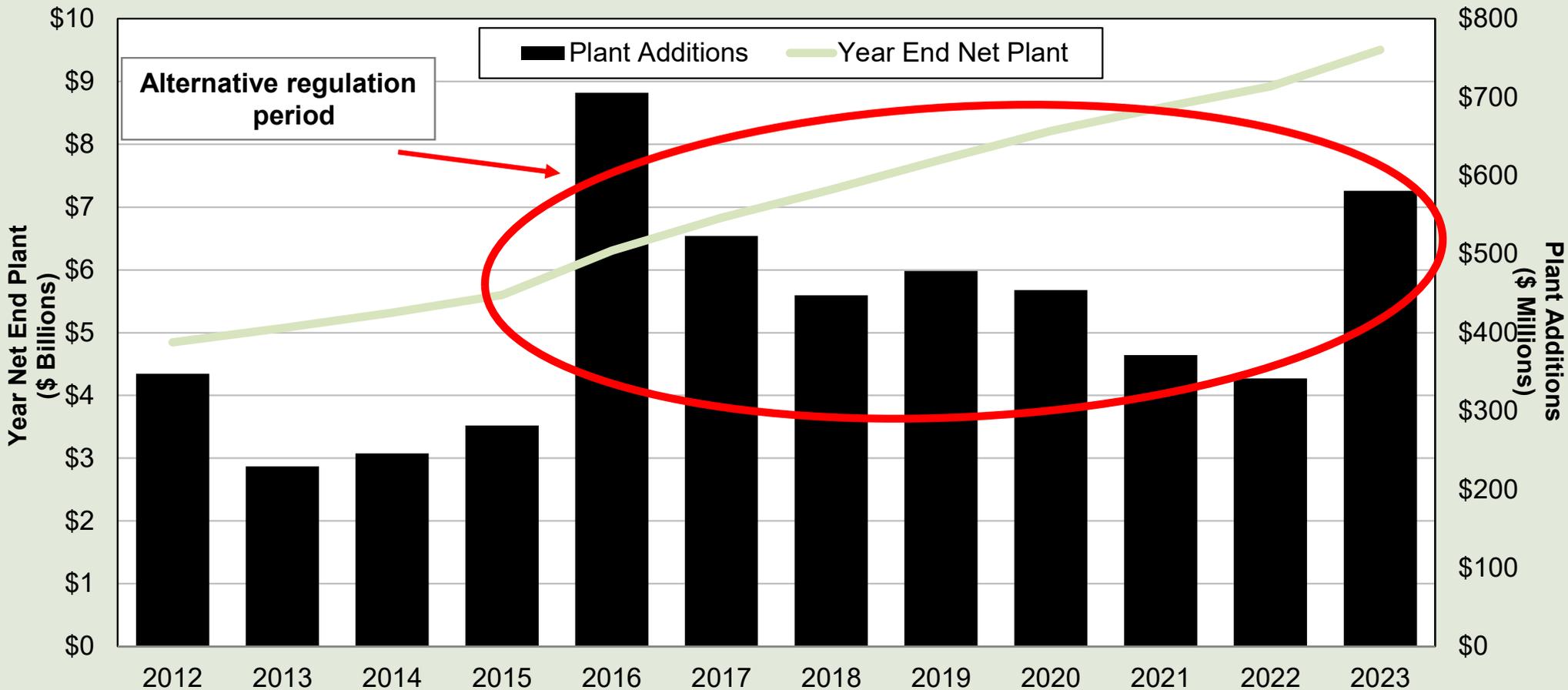




Section 4: Alternative regulation leads to operating inefficiencies

FRP deficiency example: EAI net plant growth

Net plant for EAI has almost doubled since 2011. In 2018, net plant additions amounted over to \$700 million.



FRP deficiency example: concerns with Entergy Arkansas cost containment.

The Arkansas Public Service Commission has repeatedly expressed concern about whether the FRRRA is achieving the intended public policy objectives (such as greater cost containment) envisioned by the Arkansas General Assembly, noting:

The Commission expects all utilities to control their costs in a prudent and reasonable manner **and not utilize the FRP as an automatic yearly four percent rate increase.**¹

Many of the FRP processes, including a reduction in the time afforded for review, the use of projections, and the annual rate adjustments **do little to incentivize a utility to control its costs as compared to traditional ratemaking ...**²

Source 1: Docket No. 255, Order No. 14, issued 12/13/2017, at 31. (Emphasis added.)

Source 2: Docket No. 420, Order No. 21, issued 7/5/2019, at 40. (Emphasis added.)

MYRP deficiency example: concerns with BGE cost containment.

After the Maryland Public Service Commission approved a MYRP pilot proposal for Baltimore Gas & Electric in 2020, the Commission opened a “lessons learned” proceeding in 2024 to take comments from the public on the MYRP pilot¹. The Maryland Energy Administration noted that **“BGE provided minimal evidence to support the significant alterations to the budgeted amounts approved in the MYP filing”** and that **“many of the variances were a result of new projects the Company elected to pursue without prior Commission approval.”**² Additionally, Commission Staff noted **“The spending proposed by the utility in terms of projects represents the foundation of what will be translated into rates. However, the ultimate final projects on the project list that form the basis of spending for the current year can be very different than what was proposed in the initial utility budgets.”**³

Source 1: Docket No. 9618, Notice, issued 8/15/2024.

Source 2: Docket No. 9618, Comments of the Maryland Energy Administration, issued 9/16/2024, at 3. (Emphasis added.)

Source 3: Docket No. 9618 & 9645, Staff Comments on the Pilot Multi-Year Rate Plan, issued 9/16/2024, at 5-6. (Emphasis added.)

PBR deficiency examples: Eversource (NSTAR) operating cost efficiencies.

There is no significant post-PBR cost efficiency (Massachusetts) – Eversource is still above regional peer average in operating costs per MWh.

Company	State	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
		(\$/MWh)									
NSTAR Electric	MA	\$ 35.47	\$ 37.10	\$ 37.91	\$ 37.76	\$ 38.27	\$ 40.32	\$ 39.83	\$ 35.02	\$ 38.14	\$ 38.67
Central Hudson	NY	35.43	36.45	37.29	37.97	35.98	36.46	39.95	40.68	44.91	46.18
Connecticut Light and Power	CT	30.03	31.35	30.72	31.63	31.85	33.57	36.03	36.88	40.76	40.32
Consolidated Edison	NY	48.24	51.68	50.15	52.65	52.42	53.05	52.59	54.29	57.19	57.58
Duquesne Light Co	PA	19.65	20.31	21.83	23.14	24.77	26.20	26.91	27.83	30.55	30.75
Green Mountain Power Corp	VT	39.46	36.10	27.71	27.52	27.80	28.38	29.57	31.02	32.79	32.62
Jersey Central Power	NJ	25.09	30.15	23.18	28.07	26.92	27.48	28.20	34.35	35.26	40.11
Massachusetts Electric	MA	27.09	29.29	31.91	33.05	33.99	37.03	37.33	37.99	40.24	40.77
Monongahela Power Co	NY	17.08	20.15	15.22	20.09	19.45	19.26	20.75	20.45	20.38	20.36
Narragansett Electric	RI	27.37	28.76	31.18	31.70	31.28	34.80	37.48	37.25	41.44	40.09
New York State Elec & Gas Corp	NY	29.33	29.37	28.80	29.91	28.48	31.34	34.28	35.39	37.10	39.61
Niagara Mohawk Power Corp	NY	36.38	36.09	33.06	30.66	29.20	30.51	32.22	31.97	33.57	35.43
Orange & Rockland Utils Inc	NY	41.42	44.39	46.07	48.53	48.63	45.18	47.84	48.31	49.94	50.78
PECO Energy Company	PA	21.23	23.39	22.20	25.40	23.51	24.44	25.07	27.10	27.81	31.25
Pennsylvania Electric Company	PA	19.85	20.81	20.55	21.01	22.39	22.86	23.83	25.47	27.14	26.11
Public Service Co of NH	NH	28.11	28.97	30.11	30.60	32.05	32.84	34.35	34.65	38.98	38.09
Public Service Electric & Gas	NJ	19.28	21.49	22.74	23.77	23.54	23.04	24.19	25.08	25.16	24.64
Peer Group Average		\$ 29.44	\$ 30.93	\$ 30.04	\$ 31.38	\$ 31.21	\$ 32.16	\$ 33.55	\$ 34.34	\$ 36.55	\$ 37.26



Section 5: Alternative regulation does not improve reliability

Concerns regarding MYRP reliance on projections.

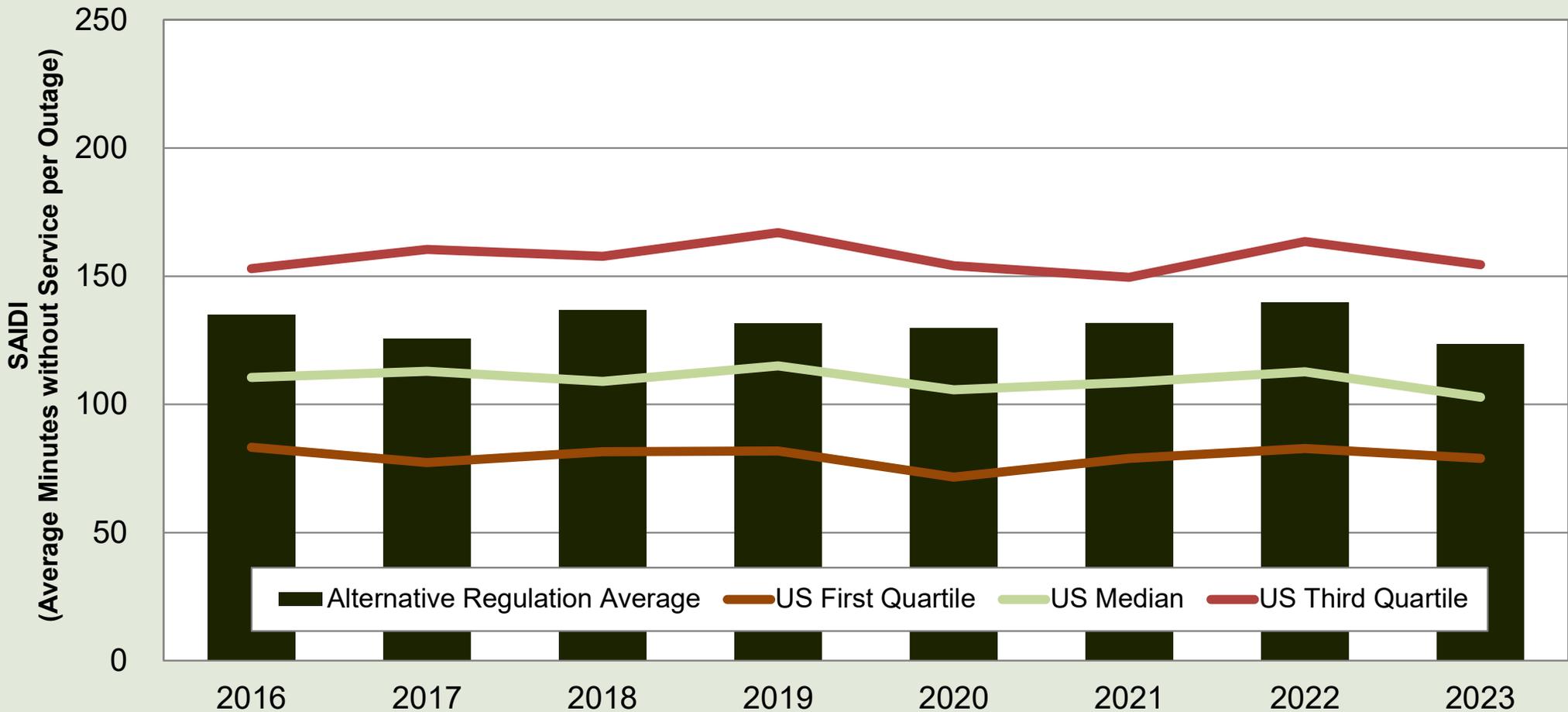
MYRPs establish rates based upon projected revenues, costs, and expenses. A utility can **over-estimate projected costs and expenses to insulate it** from having to bear unforeseen costs or expenses and perhaps.

The **Connecticut Public Utility Regulatory Authority (“Authority”)**¹ criticized United Illuminating Company (“UI”) and its MYRP for its **incorrectly estimated seven-year period capital spend** including anticipated **investments in reliability**, such as storm resilience, substation flood mitigation, step down bank removal projects, substation getaway projects, and perimeter feeder ties projects.

The Authority calculated that UI had underspent its allowed capital budget for the years 2013 through 2019 **by more than \$80 million** noting **“For multi-year rate plans, this level of underspending introduces risk that customers pay for plant additions that are not actually in service.”**

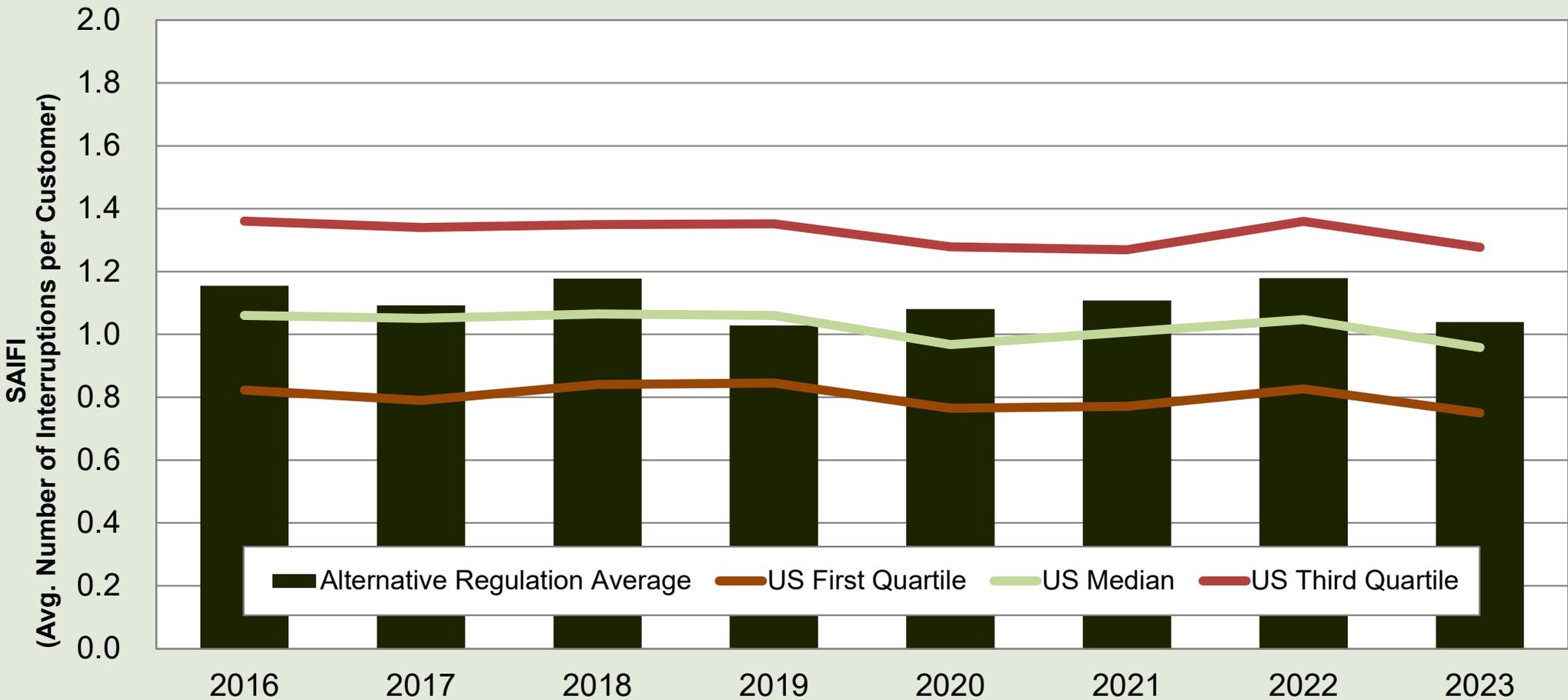
Deficiency example: Average reliability performance (“SAIDI”).

The average SAIDI score for utilities operating under alternative regulation falls within the third quartile when compared to US averages. **Importantly, utilities operating under alternative regulation have not seen improving SAIDI compared to utilities operating under traditional regulation.**



Deficiency example: average reliability performance (“SAIFI”).

Utilities operating under alternative regulation have an average SAIFI score mostly in the third quartile when compared to US averages. **Importantly, utilities operating under alternative regulation have not seen improving SAIFI compared to utilities operating under traditional regulation.**



FRP deficiency example: Entergy Mississippi reliability performance.

EAI's sister utility in Mississippi, also under an FRP, acknowledged its reliability performance has not met customers' expectations despite being afforded a special alternative regulation framework.

For Immediate Release

Entergy Mississippi acknowledges challenges in June storm response

09/12/2023



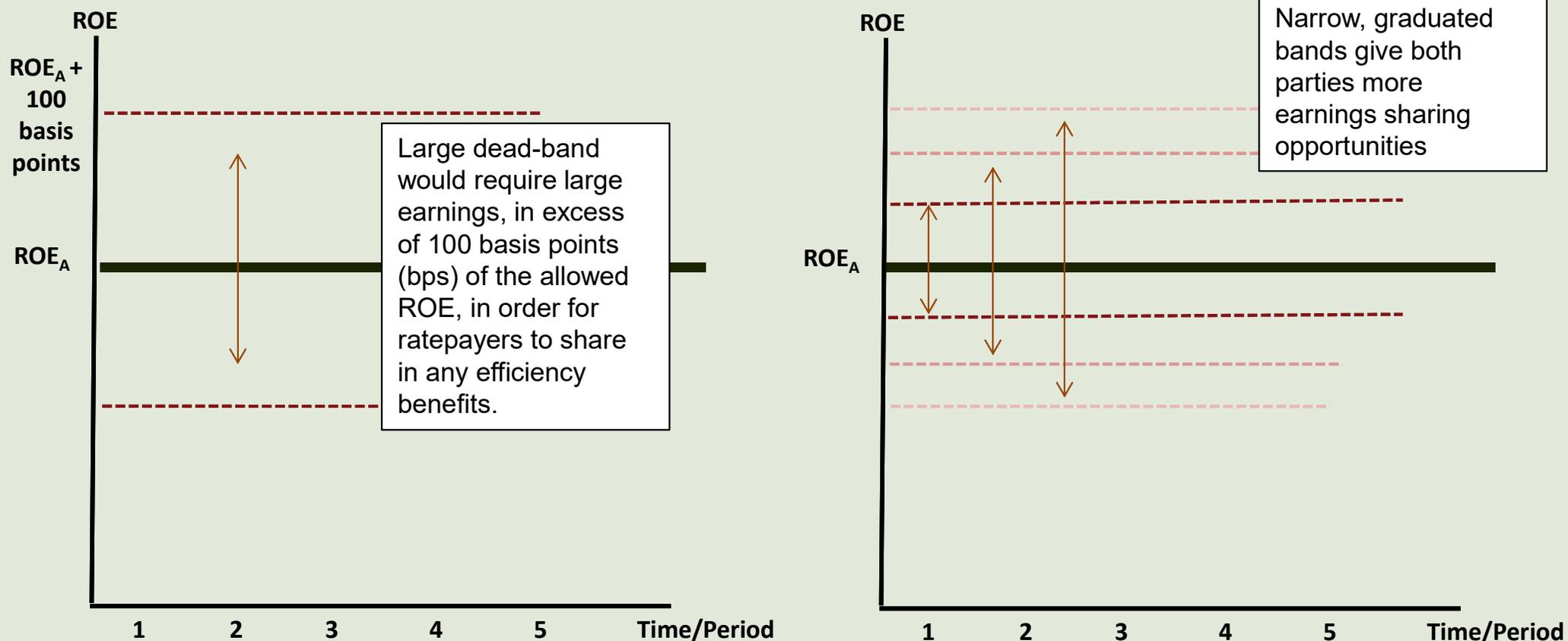
[Company files Commission report and welcomes comments](#)



**Section 6: Alternative regulation
may lead to utility gamesmanship**

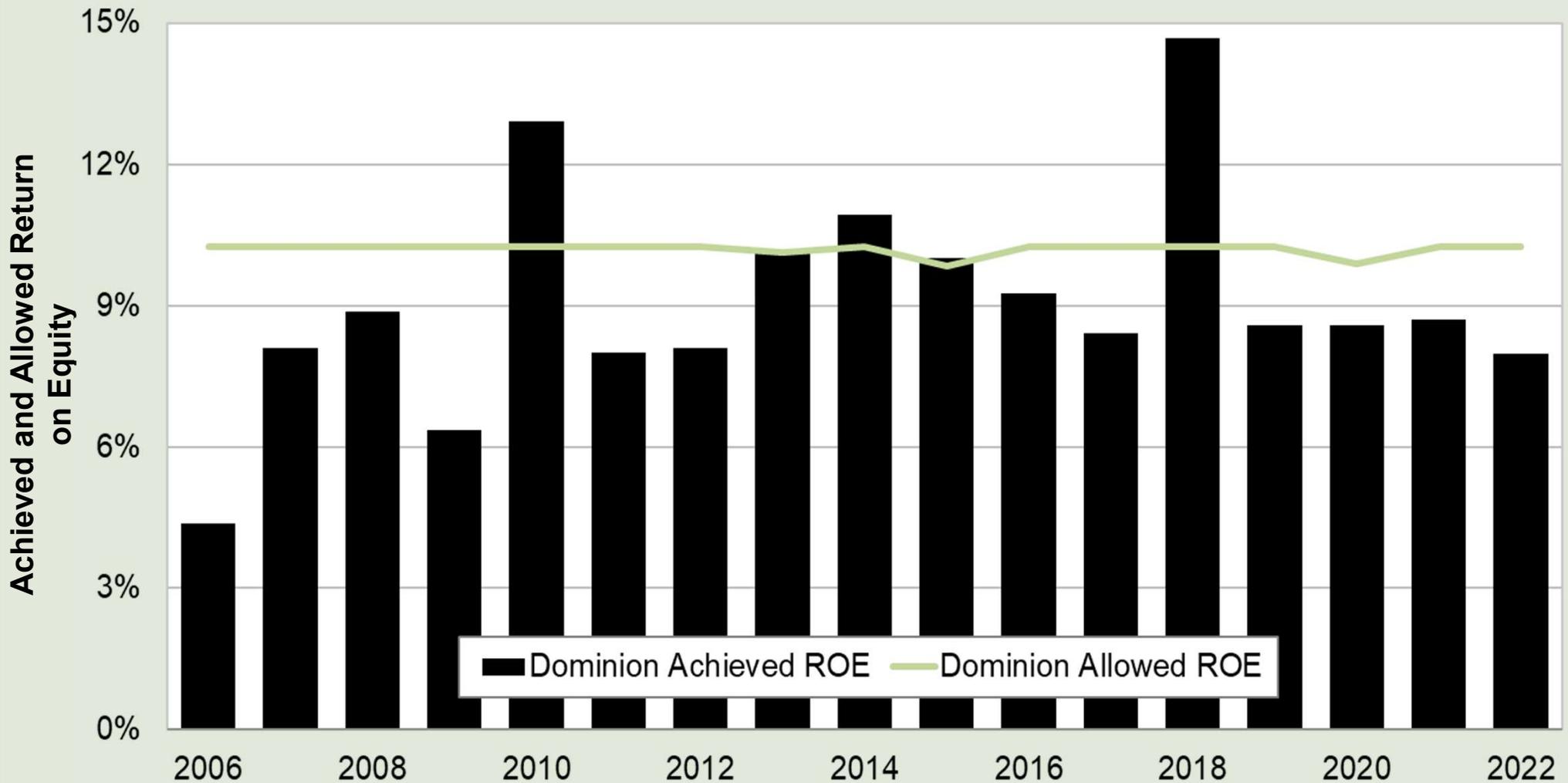
Earnings sharing in alternative regulation.

Most **alternative regulation is paired with earnings sharing mechanisms** that share purported efficiency gains, as measured through **excess earnings**, with ratepayers.



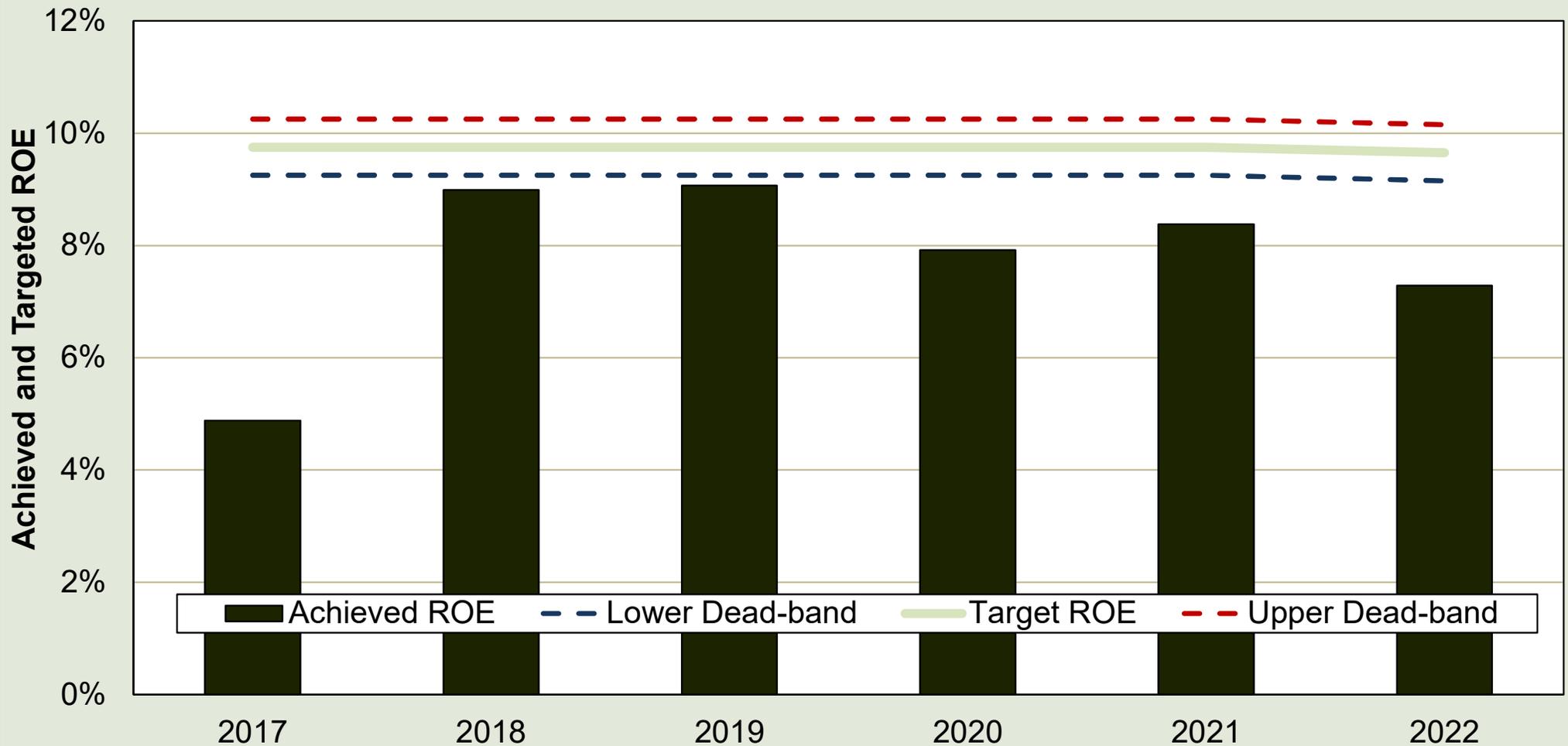
FRP deficiency example: Dominion SC earnings sharing mechanism.

DESC's achieved ROE has fallen below its allowed ROE deadband in 13 of 17 different FRP reporting periods since FRP was implemented in 2006.



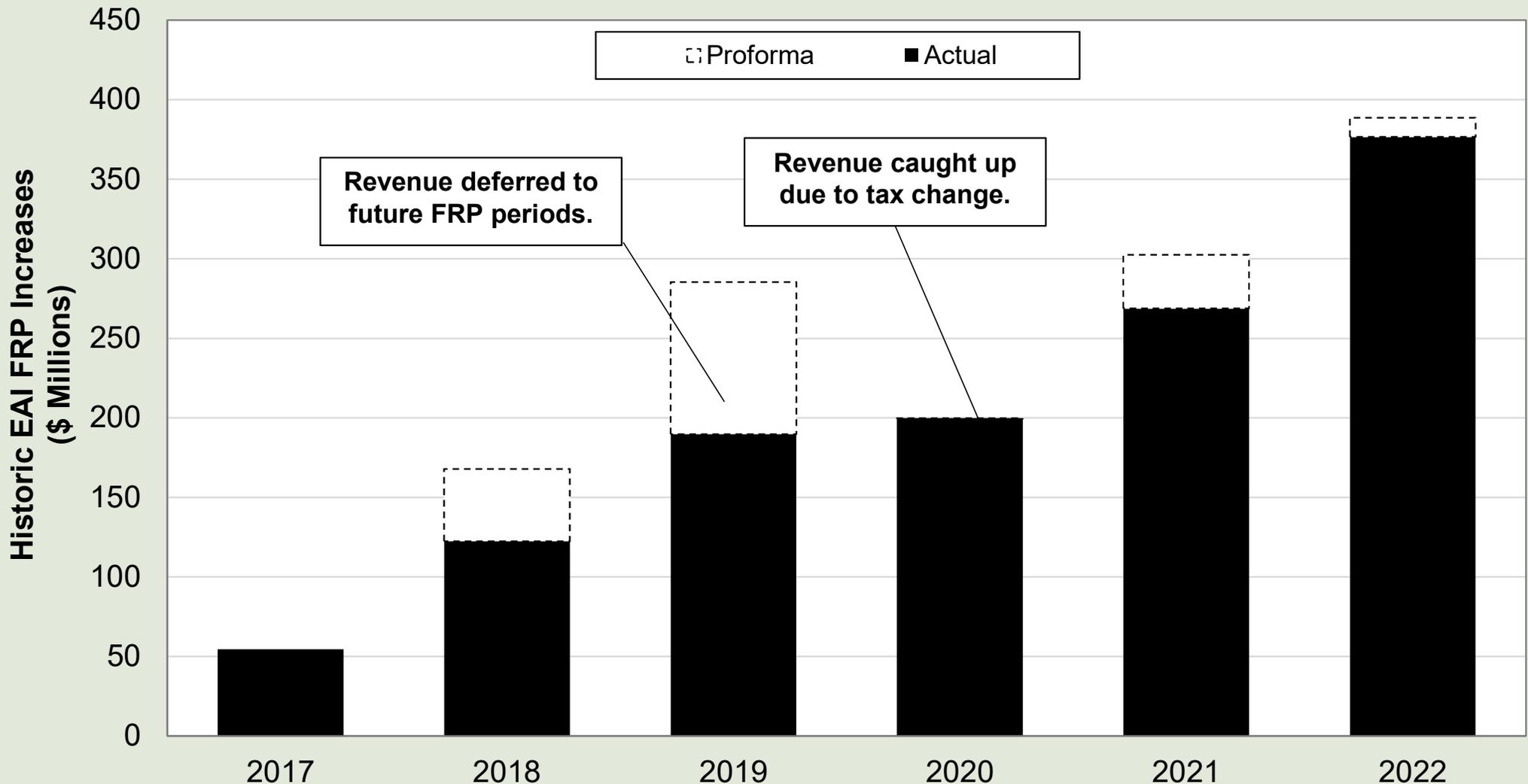
FRP deficiency example: Entergy Arkansas strategic earnings.

EAI has never shared benefits with ratepayers through its earnings sharing mechanism. Instead, it has been guaranteed a *de facto* statutorily-allowed four percent rate increase every year.



FRP deficiency example: EAI revenue alternative regulation increases

EAI has booked expenses/investments in excess of rate cap to assure those investments are “used and useful” for future ratemaking purposes.





Section 7: Indiana Performance



Section 7.1: Retail rates and revenues

Regional residential rates (\$ per kWh).

Indiana IOUs have residential rates consistently at or above the regional average on a dollar per kWh basis. Only two utilities are below peer averages.

Company	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	-----(\$/kwh)-----									
Indianapolis Power & Light	\$ 0.092	\$ 0.095	\$ 0.103	\$ 0.110	\$ 0.110	\$ 0.112	\$ 0.113	\$ 0.115	\$ 0.130	\$ 0.138
Centerpoint Indiana	\$ 0.146	\$ 0.148	\$ 0.151	\$ 0.152	\$ 0.147	\$ 0.153	\$ 0.157	\$ 0.163	\$ 0.173	\$ 0.172
Indiana Michigan Power Co	\$ 0.101	\$ 0.109	\$ 0.112	\$ 0.116	\$ 0.126	\$ 0.137	\$ 0.145	\$ 0.150	\$ 0.158	\$ 0.160
Northern Indiana Pub Serv Co	\$ 0.129	\$ 0.129	\$ 0.130	\$ 0.144	\$ 0.140	\$ 0.143	\$ 0.151	\$ 0.160	\$ 0.170	\$ 0.179
Duke Energy Indiana, LLC	\$ 0.117	\$ 0.110	\$ 0.110	\$ 0.116	\$ 0.115	\$ 0.117	\$ 0.117	\$ 0.130	\$ 0.151	\$ 0.143
Consumers Energy Co	0.149	0.146	0.154	0.159	0.159	0.159	0.156	0.181	0.181	0.188
DTE Electric Company	0.146	0.145	0.156	0.155	0.156	0.161	0.173	0.179	0.184	0.197
Northern States Power Co	0.128	0.131	0.133	0.137	0.137	0.133	0.133	0.138	0.151	0.160
Interstate Power and Light Co	0.134	0.141	0.148	0.153	0.158	0.167	0.166	0.168	0.178	0.179
MidAmerican Energy Co	0.092	0.098	0.103	0.106	0.103	0.102	0.102	0.107	0.109	0.109
Eergy Metro	0.117	0.124	0.136	0.140	0.136	0.127	0.132	0.130	0.130	0.132
Eergy Kansas South, Inc	0.120	0.120	0.130	0.133	0.133	0.119	0.125	0.125	0.141	0.130
Eergy Kansas Central, Inc	0.121	0.121	0.131	0.134	0.134	0.133	0.126	0.125	0.142	0.131
ALLETE, Inc.	0.092	0.089	0.102	0.106	0.109	0.111	0.112	0.127	0.138	0.140
Empire District Electric Co	0.121	0.126	0.130	0.137	0.137	0.132	0.132	0.133	0.150	0.157
Eergy Missouri West	0.115	0.113	0.113	0.112	0.112	0.109	0.113	0.112	0.117	0.126
Union Electric Co - (MO)	0.104	0.113	0.107	0.112	0.109	0.104	0.104	0.108	0.113	0.123
Northern States Power Co - MN	0.125	0.124	0.129	0.134	0.137	0.132	0.134	0.137	0.152	0.158
Madison Gas & Electric Co	0.164	0.172	0.165	0.172	0.167	0.166	0.167	0.167	0.182	0.197
Wisconsin Electric Power Co	0.151	0.155	0.153	0.154	0.152	0.154	0.156	0.159	0.169	0.190
Wisconsin Power & Light Co	0.124	0.129	0.132	0.139	0.131	0.137	0.134	0.135	0.152	0.161
Wisconsin Public Service Corp	0.126	0.134	0.132	0.134	0.130	0.129	0.138	0.139	0.151	0.166
Peer Group Average	\$ 0.125	\$ 0.128	\$ 0.132	\$ 0.136	\$ 0.135	\$ 0.134	\$ 0.135	\$ 0.139	\$ 0.149	\$ 0.156

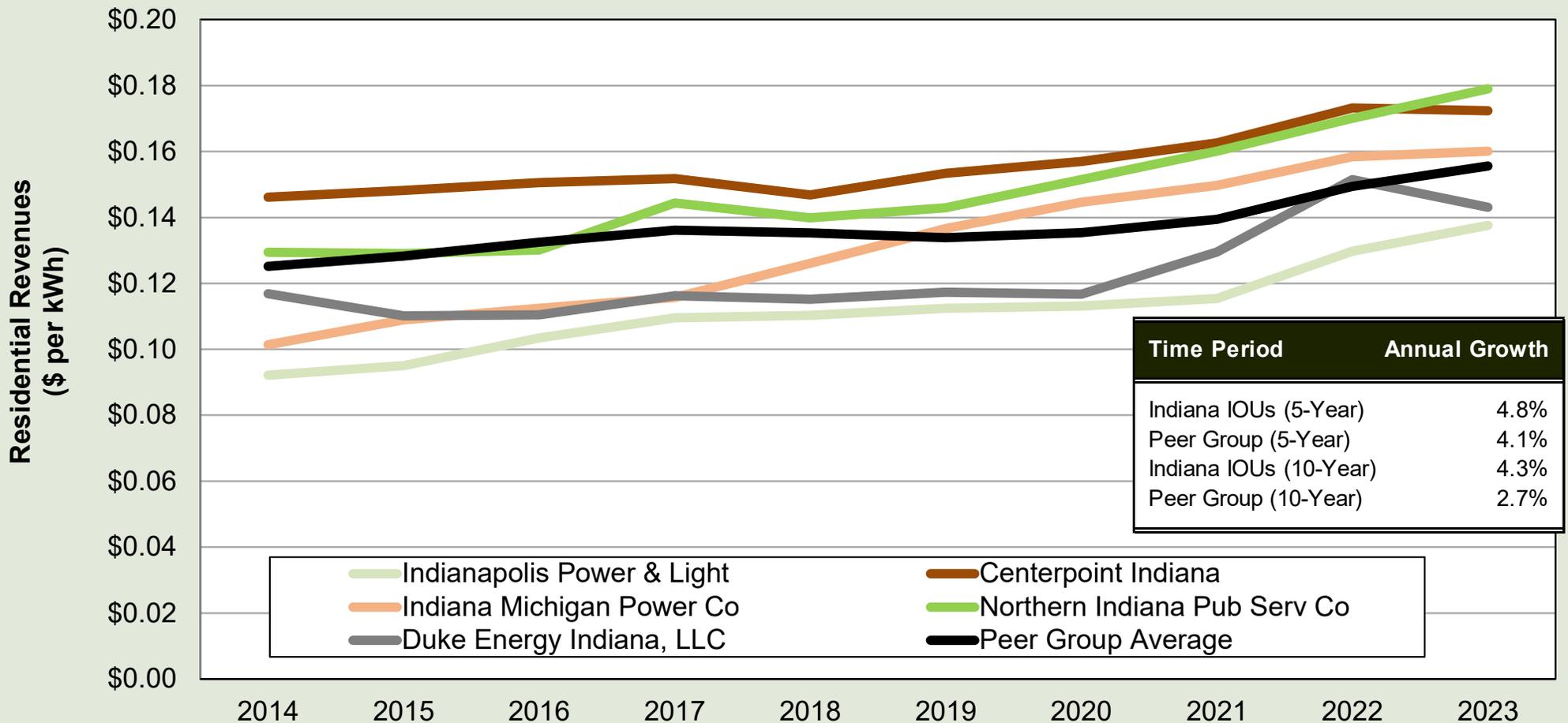
Rank Order: Residential rates.

Most Indiana IOUs have residential rates that rank poorly compared to regional peer utilities. **Indiana IOU residential rates are among the highest in the region.**

Company	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	----- (Ranking) -----									
Indianapolis Power & Light	3	2	3	3	4	5	5	4	4	7
Centerpoint Indiana	19	20	18	17	17	17	19	18	18	16
Indiana Michigan Power Co	4	4	6	6	7	15	15	15	15	13
Northern Indiana Pub Serv Co	16	13	11	16	16	16	16	17	17	18
Duke Energy Indiana, LLC	8	5	5	7	6	6	6	8	12	9
Consumers Energy Co	20	19	20	21	21	19	17	22	20	19
DTE Electric Company	18	18	21	20	19	20	22	21	22	21
Northern States Power Co	15	15	15	13	13	13	11	13	11	12
Interstate Power and Light Co	17	17	17	18	20	22	20	20	19	17
MidAmerican Energy Co	1	3	2	2	1	1	1	1	1	1
Evergy Metro	7	11	16	15	12	8	9	9	5	6
Evergy Kansas South, Inc	9	8	10	8	10	7	7	5	7	4
Evergy Kansas Central, Inc	10	9	12	9	11	12	8	6	8	5
ALLETE, Inc.	2	1	1	1	2	4	3	7	6	8
Empire District Electric Co	11	12	9	12	15	11	10	10	9	10
Evergy Missouri West	6	6	7	5	5	3	4	3	3	3
Union Electric Co - (MO)	5	7	4	4	3	2	2	2	2	2
Northern States Power Co - MN	13	10	8	11	14	10	12	12	14	11
Madison Gas & Electric Co	22	22	22	22	22	21	21	19	21	22
Wisconsin Electric Power Co	21	21	19	19	18	18	18	16	16	20
Wisconsin Power & Light Co	12	14	14	14	9	14	13	11	13	14
Wisconsin Public Service Corp	14	16	13	10	8	9	14	14	10	15

Trends in residential rates.

Regional residential rates have been increasing steadily since 2014. In the past five years, **Indiana IOU rates, on average, have increased at an annual growth rate of 4.8 percent compared to 2.7 percent for regional peers.**



Regional commercial rates (\$ per kWh).

Indiana IOU rates have consistently been at or higher than the regional peer average since 2014. Three Indiana utilities have some of the highest commercial rates among regional peers.

Company	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	-----(\$/kwh)-----									
Indianapolis Power & Light	\$0.105	\$0.107	\$0.115	\$0.115	\$0.117	\$0.129	\$0.132	\$0.124	\$0.135	\$0.140
Centerpoint Indiana	\$0.120	\$0.120	\$0.123	\$0.125	\$0.123	\$0.128	\$0.133	\$0.139	\$0.142	\$0.147
Indiana Michigan Power Co	\$0.080	\$0.086	\$0.089	\$0.091	\$0.099	\$0.108	\$0.111	\$0.113	\$0.121	\$0.114
Northern Indiana Pub Serv Co	\$0.116	\$0.115	\$0.118	\$0.133	\$0.129	\$0.130	\$0.136	\$0.145	\$0.155	\$0.160
Duke Energy Indiana, LLC	\$0.098	\$0.088	\$0.089	\$0.094	\$0.095	\$0.099	\$0.096	\$0.103	\$0.126	\$0.112
Consumers Energy Co	0.126	0.123	0.123	0.127	0.129	0.132	0.131	0.139	0.137	0.142
DTE Electric Company	0.105	0.099	0.100	0.103	0.105	0.108	0.113	0.119	0.122	0.135
Northern States Power Co	0.098	0.100	0.102	0.105	0.102	0.101	0.101	0.104	0.115	0.121
Interstate Power and Light Co	0.101	0.104	0.108	0.112	0.120	0.127	0.126	0.128	0.135	0.132
MidAmerican Energy Co	0.075	0.077	0.077	0.080	0.079	0.081	0.080	0.084	0.087	0.085
Evergy Metro	0.095	0.100	0.111	0.113	0.107	0.101	0.102	0.102	0.101	0.104
Evergy Kansas South, Inc	0.098	0.096	0.099	0.100	0.101	0.095	0.100	0.100	0.116	0.106
Evergy Kansas Central, Inc	0.097	0.096	0.099	0.100	0.101	0.104	0.099	0.098	0.113	0.104
ALLETE, Inc.	0.083	0.079	0.091	0.096	0.100	0.102	0.103	0.119	0.136	0.137
Empire District Electric Co	0.110	0.110	0.109	0.113	0.117	0.112	0.112	0.112	0.128	0.135
Evergy Missouri West	0.091	0.086	0.089	0.091	0.089	0.087	0.088	0.087	0.093	0.096
Union Electric Co - (MO)	0.083	0.087	0.084	0.085	0.087	0.082	0.079	0.084	0.089	0.096
Northern States Power Co - MN	0.096	0.094	0.099	0.106	0.104	0.103	0.103	0.114	0.130	0.130
Madison Gas & Electric Co	0.110	0.115	0.110	0.113	0.113	0.110	0.114	0.112	0.125	0.138
Wisconsin Electric Power Co	0.120	0.118	0.116	0.116	0.115	0.117	0.117	0.119	0.127	0.138
Wisconsin Power & Light Co	0.105	0.109	0.112	0.112	0.108	0.111	0.108	0.109	0.120	0.130
Wisconsin Public Service Corp	0.093	0.096	0.093	0.094	0.093	0.091	0.093	0.095	0.103	0.116
Peer Group Average	\$0.099	\$0.099	\$0.101	\$0.104	\$0.104	\$0.104	\$0.104	\$0.107	\$0.116	\$0.120

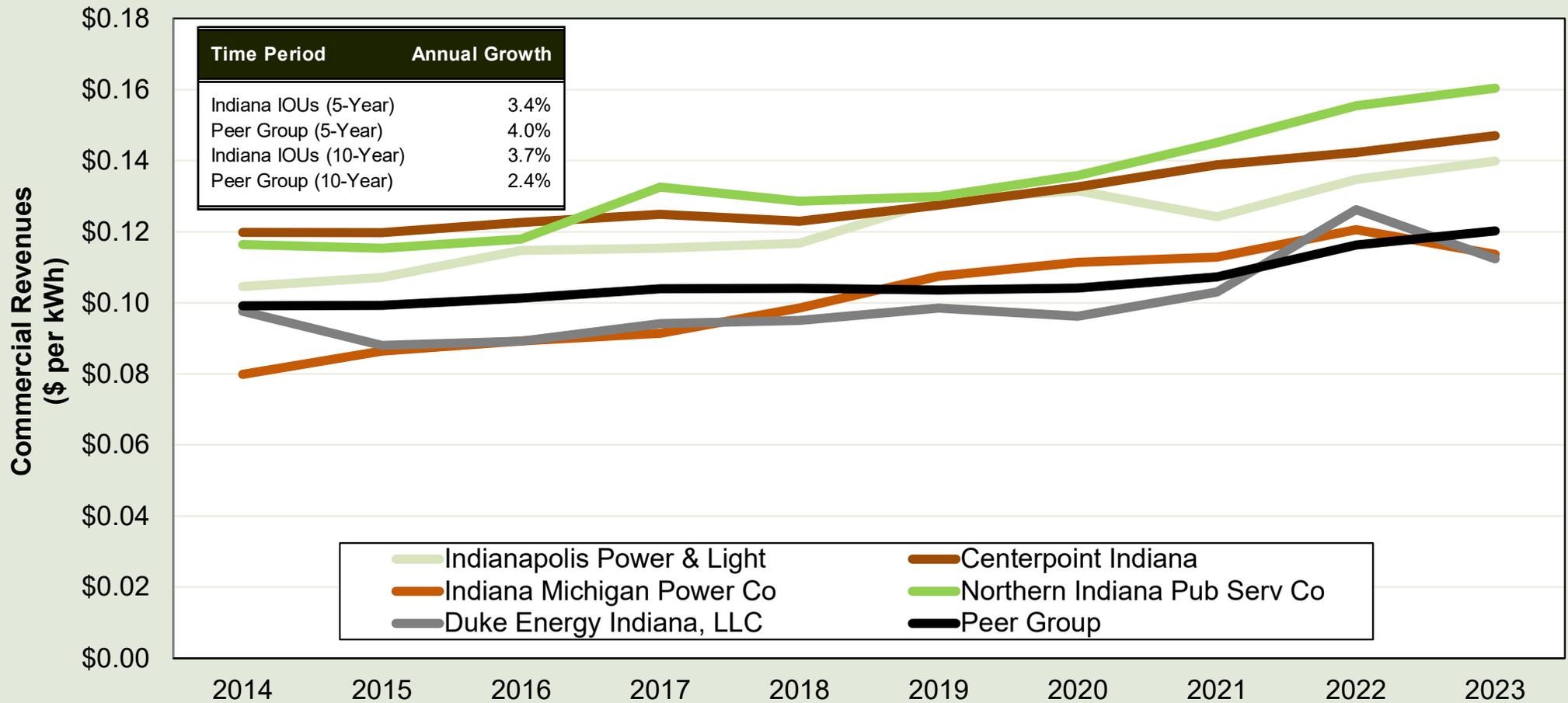
Rank Order: commercial rates.

Most Indiana IOUs have commercial rates that **rank near the bottom of a regional peer group comparison** while two are slightly above average.

Company	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	----- (Ranking) -----									
Indianapolis Power & Light	14	15	18	18	17	20	20	18	18	19
Centerpoint Indiana	20	21	21	20	20	19	21	20	21	21
Indiana Michigan Power Co	2	4	5	4	6	12	13	13	10	8
Northern Indiana Pub Serv Co	19	19	20	22	21	21	22	22	22	22
Duke Energy Indiana, LLC	10	6	4	6	5	6	5	8	13	7
Consumers Energy Co	22	22	22	21	22	22	19	21	20	20
DTE Electric Company	15	11	11	10	12	13	15	15	11	15
Northern States Power Co	12	12	12	11	10	7	8	9	7	10
Interstate Power and Light Co	13	14	13	13	19	18	18	19	17	13
MidAmerican Energy Co	1	1	1	1	1	1	2	1	1	1
Evergy Metro	7	13	16	17	13	8	9	7	4	4
Evergy Kansas South, Inc	11	9	10	9	9	5	7	6	8	6
Evergy Kansas Central, Inc	9	8	9	8	8	11	6	5	6	5
ALLETE, Inc.	4	2	6	7	7	9	10	17	19	16
Empire District Electric Co	17	17	14	15	18	16	14	11	15	14
Evergy Missouri West	5	3	3	3	3	3	3	3	3	2
Union Electric Co - (MO)	3	5	2	2	2	2	1	2	2	3
Northern States Power Co - MN	8	7	8	12	11	10	11	14	16	12
Madison Gas & Electric Co	18	18	15	16	15	14	16	12	12	17
Wisconsin Electric Power Co	21	20	19	19	16	17	17	16	14	18
Wisconsin Power & Light Co	16	16	17	14	14	15	12	10	9	11
Wisconsin Public Service Corp	6	10	7	5	4	4	4	4	5	9

Trends in commercial rates.

Regional commercial rates have steadily increased since 2014. Indiana IOUs, on average, have seen an increase in rates on an annual basis of 3.4 percent compared to 4.0 percent for regional peers.



Regional industrial rates (\$ per kWh).

Indiana IOU industrial rates have been competitive with regional peers since 2014.

Company	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	-----(\$/kwh)-----									
Indianapolis Power & Light	\$ 0.078	\$ 0.078	\$ 0.084	\$ 0.088	\$ 0.087	\$ 0.087	\$ 0.085	\$ 0.087	\$ 0.103	\$ 0.105
Centerpoint Indiana	\$ 0.072	\$ 0.072	\$ 0.073	\$ 0.079	\$ 0.077	\$ 0.079	\$ 0.078	\$ 0.080	\$ 0.086	\$ 0.090
Indiana Michigan Power Co	\$ 0.060	\$ 0.065	\$ 0.066	\$ 0.066	\$ 0.071	\$ 0.075	\$ 0.077	\$ 0.079	\$ 0.086	\$ 0.083
Northern Indiana Pub Serv Co	\$ 0.072	\$ 0.070	\$ 0.068	\$ 0.074	\$ 0.070	\$ 0.072	\$ 0.056	\$ 0.060	\$ 0.071	\$ 0.061
Duke Energy Indiana, LLC	\$ 0.078	\$ 0.069	\$ 0.069	\$ 0.073	\$ 0.073	\$ 0.075	\$ 0.071	\$ 0.077	\$ 0.100	\$ 0.088
Consumers Energy Co	0.088	0.080	0.077	0.082	0.080	0.081	0.082	0.086	0.087	0.083
DTE Electric Company	0.075	0.067	0.065	0.067	0.067	0.067	0.070	0.074	0.077	0.086
Northern States Power Co	0.075	0.076	0.076	0.077	0.077	0.074	0.075	0.076	0.084	0.087
Interstate Power and Light Co	0.064	0.066	0.068	0.068	0.075	0.079	0.077	0.077	0.084	0.079
MidAmerican Energy Co	0.048	0.051	0.052	0.054	0.056	0.057	0.055	0.059	0.063	0.062
Evergy Metro	0.073	0.077	0.085	0.089	0.083	0.080	0.076	0.076	0.073	0.077
Evergy Kansas South, Inc	0.070	0.069	0.072	0.071	0.071	0.069	0.070	0.066	0.077	0.072
Evergy Kansas Central, Inc	0.080	0.078	0.081	0.081	0.081	0.081	0.080	0.077	0.091	0.084
ALLETE, Inc.	0.054	0.055	0.062	0.065	0.064	0.065	0.070	0.078	0.089	0.086
Empire District Electric Co	0.082	0.083	0.080	0.082	0.086	0.081	0.082	0.080	0.093	0.101
Evergy Missouri West	0.070	0.064	0.066	0.067	0.067	0.069	0.063	0.060	0.067	0.067
Union Electric Co - (MO)	0.055	0.057	0.066	0.068	0.069	0.066	0.063	0.068	0.071	0.077
Northern States Power Co - MN	0.076	0.075	0.077	0.078	0.081	0.080	0.079	0.090	0.102	0.102
Madison Gas & Electric Co	0.078	0.082	0.076	0.082	0.075	0.072	0.073	0.074	0.087	0.092
Wisconsin Electric Power Co	0.086	0.080	0.077	0.079	0.078	0.081	0.082	0.085	0.094	0.095
Wisconsin Power & Light Co	0.073	0.077	0.080	0.078	0.076	0.077	0.074	0.076	0.084	0.092
Wisconsin Public Service Corp	0.061	0.062	0.060	0.060	0.060	0.058	0.059	0.064	0.073	0.074
Peer Group Average	\$ 0.071	\$ 0.071	\$ 0.072	\$ 0.074	\$ 0.073	\$ 0.073	\$ 0.072	\$ 0.074	\$ 0.082	\$ 0.083

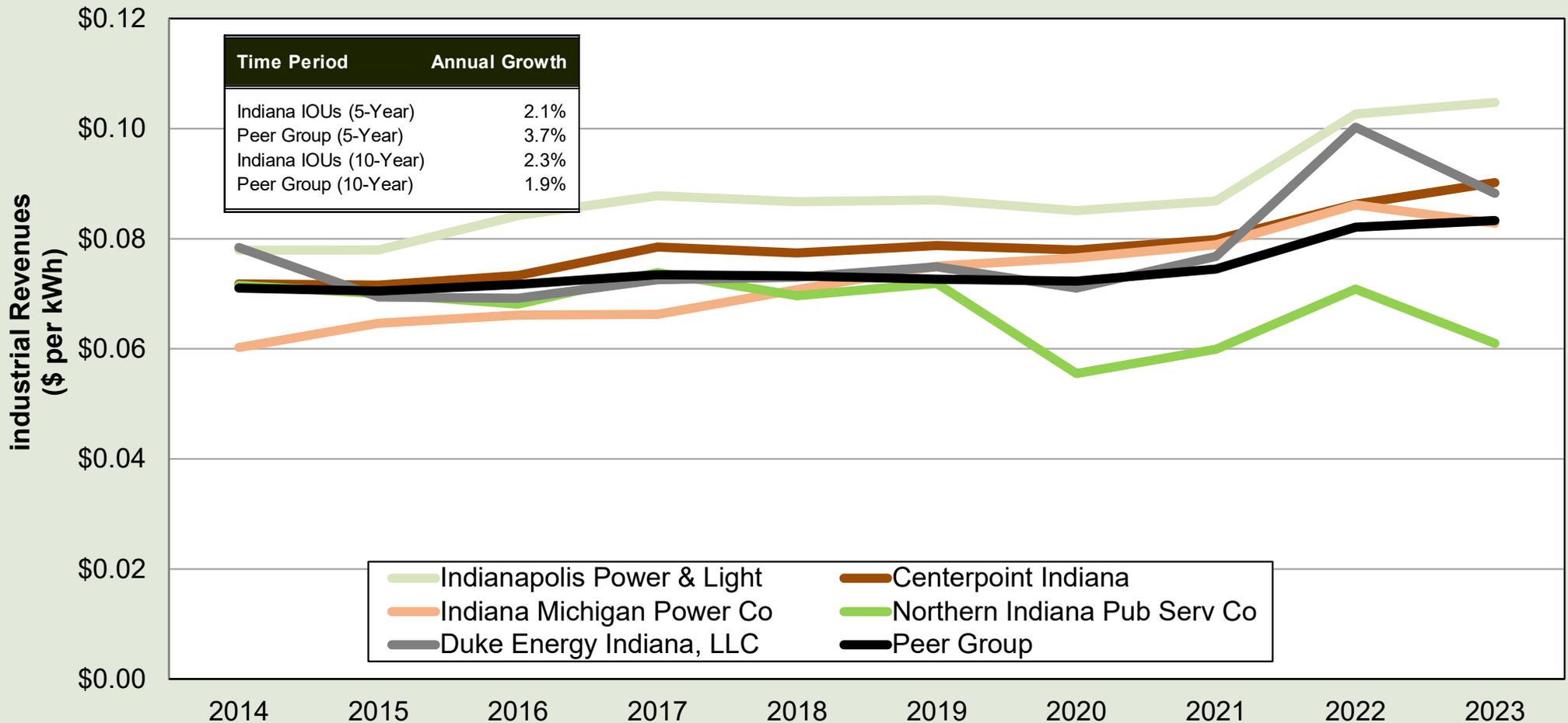
Rank Order: industrial rates.

Indiana IOUs **industrial rates rank around the median** when compared to regional peer utilities with the exception of Indianapolis Power & Light.

Company	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	----- (Ranking) -----									
Indianapolis Power & Light	17	17	21	21	22	22	22	21	22	22
Centerpoint Indiana	10	12	12	15	15	14	16	17	13	16
Indiana Michigan Power Co	4	6	6	4	8	12	14	16	12	9
Northern Indiana Pub Serv Co	9	11	8	11	7	8	2	2	4	1
Duke Energy Indiana, LLC	18	9	10	10	10	11	9	13	20	15
Consumers Energy Co	22	20	15	18	17	20	21	20	15	10
DTE Electric Company	14	8	4	5	4	5	8	7	8	12
Northern States Power Co	13	14	14	12	14	10	12	11	10	14
Interstate Power and Light Co	6	7	9	7	11	15	15	12	9	8
MidAmerican Energy Co	1	1	1	1	1	1	1	1	1	2
Evergny Metro	11	16	22	22	20	17	13	10	5	6
Evergny Kansas South, Inc	8	10	11	9	9	7	7	5	7	4
Evergny Kansas Central, Inc	19	18	20	17	19	18	18	14	17	11
ALLETE, Inc.	2	2	3	3	3	3	6	15	16	13
Empire District Electric Co	20	22	19	19	21	21	19	18	18	20
Evergny Missouri West	7	5	7	6	5	6	4	3	2	3
Union Electric Co - (MO)	3	3	5	8	6	4	5	6	3	7
Northern States Power Co - MN	15	13	16	14	18	16	17	22	21	21
Madison Gas & Electric Co	16	21	13	20	12	9	10	8	14	18
Wisconsin Electric Power Co	21	19	17	16	16	19	20	19	19	19
Wisconsin Power & Light Co	12	15	18	13	13	13	11	9	11	17
Wisconsin Public Service Corp	5	4	2	2	2	2	3	4	6	5

Trends in industrial rates.

Regional industrial rates have seen little growth since 2014. Indiana IOUs have seen increases in rates on an average annual basis of 2.3 percent compared to a growth of 1.9 percent for regional peers.





Section 7.2: Operating efficiencies

Total operational expense (\$ per MWh) comparisons.

Since 2014, Indiana IOUs have had total operational expenses greater than those of regional peers. **Total operational expense in 2023 for Indianapolis Power & Light was 32 percent higher than the regional average.**

Company	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	-----(\$/MWh)-----									
Indianapolis Power & Light	\$ 52.45	\$ 56.70	\$ 57.95	\$ 63.38	\$ 61.47	\$ 56.80	\$ 54.70	\$ 62.03	\$ 80.74	\$ 80.29
Centerpoint Indiana	\$ 59.26	\$ 59.17	\$ 61.57	\$ 63.18	\$ 61.51	\$ 70.77	\$ 67.64	\$ 60.61	\$ 79.05	\$ 74.65
Indiana Michigan Power Co	\$ 45.16	\$ 49.37	\$ 50.58	\$ 46.70	\$ 49.47	\$ 54.36	\$ 50.91	\$ 56.04	\$ 66.38	\$ 53.10
Northern Indiana Pub Serv Co	\$ 60.35	\$ 59.10	\$ 62.14	\$ 65.46	\$ 60.58	\$ 61.86	\$ 55.03	\$ 57.85	\$ 70.40	\$ 64.79
Duke Energy Indiana, LLC	\$ 57.13	\$ 49.25	\$ 46.72	\$ 50.87	\$ 51.18	\$ 53.19	\$ 49.23	\$ 54.54	\$ 78.91	\$ 61.85
Consumers Energy Co	81.86	73.12	71.95	73.82	74.49	71.93	70.09	81.42	94.11	76.45
DTE Electric Company	65.32	62.56	64.78	63.94	64.65	62.79	68.30	67.90	74.09	61.98
Northern States Power Co	92.00	90.46	91.98	94.05	88.06	87.67	87.78	91.10	96.46	93.50
Interstate Power and Light Co	66.37	63.24	65.67	61.50	61.32	56.45	53.39	55.96	64.38	57.49
MidAmerican Energy Co	33.31	30.76	29.04	31.11	29.89	28.31	24.77	26.02	28.54	26.53
Eergy Metro	44.56	45.29	44.07	45.72	50.97	44.22	40.50	48.67	48.12	39.16
Eergy Kansas South, Inc	66.71	58.31	55.65	55.76	59.36	51.31	49.74	53.72	62.84	50.81
Eergy Kansas Central, Inc	45.29	44.77	44.11	41.15	44.08	43.97	40.89	49.12	54.11	45.86
ALLETE, Inc.	45.07	41.57	42.82	45.60	45.89	46.37	45.17	53.40	63.52	61.31
Empire District Electric Co	70.79	65.33	61.73	60.80	66.21	63.71	63.33	83.25	57.48	64.75
Eergy Missouri West	61.12	56.16	56.41	57.12	58.13	57.51	50.44	60.34	64.52	64.85
Union Electric Co - (MO)	43.05	45.05	46.53	43.49	41.90	43.34	38.17	43.20	51.99	54.24
Northern States Power Co - MN	76.29	71.42	65.75	68.04	67.95	63.86	60.79	62.21	67.78	66.85
Madison Gas & Electric Co	68.89	75.14	67.96	70.19	65.64	65.42	63.42	69.13	75.04	72.93
Wisconsin Electric Power Co	75.13	67.97	66.86	66.26	74.10	73.94	70.52	74.92	84.08	82.33
Wisconsin Power & Light Co	52.85	52.17	54.98	54.88	52.16	52.99	48.88	49.58	55.75	52.02
Wisconsin Public Service Corp	61.13	57.82	55.25	52.99	50.87	47.79	45.19	52.68	61.42	58.93
Peer Group Average	\$ 61.75	\$ 58.89	\$ 57.97	\$ 58.02	\$ 58.57	\$ 56.56	\$ 54.20	\$ 60.15	\$ 64.96	\$ 60.59

Source: FERC Form 1 as provided by S&P Global.

Note: Calculated as total power production, transmission, distribution expenses, customer account exp, sales exp, and A&G

Rankings: Total operational expense (\$ per MWh).

Since 2014, there has been no improvement in total operational expense efficiencies compared to regional peers. **All Indiana IOUs rank worse in 2023 than they did in 2014.**

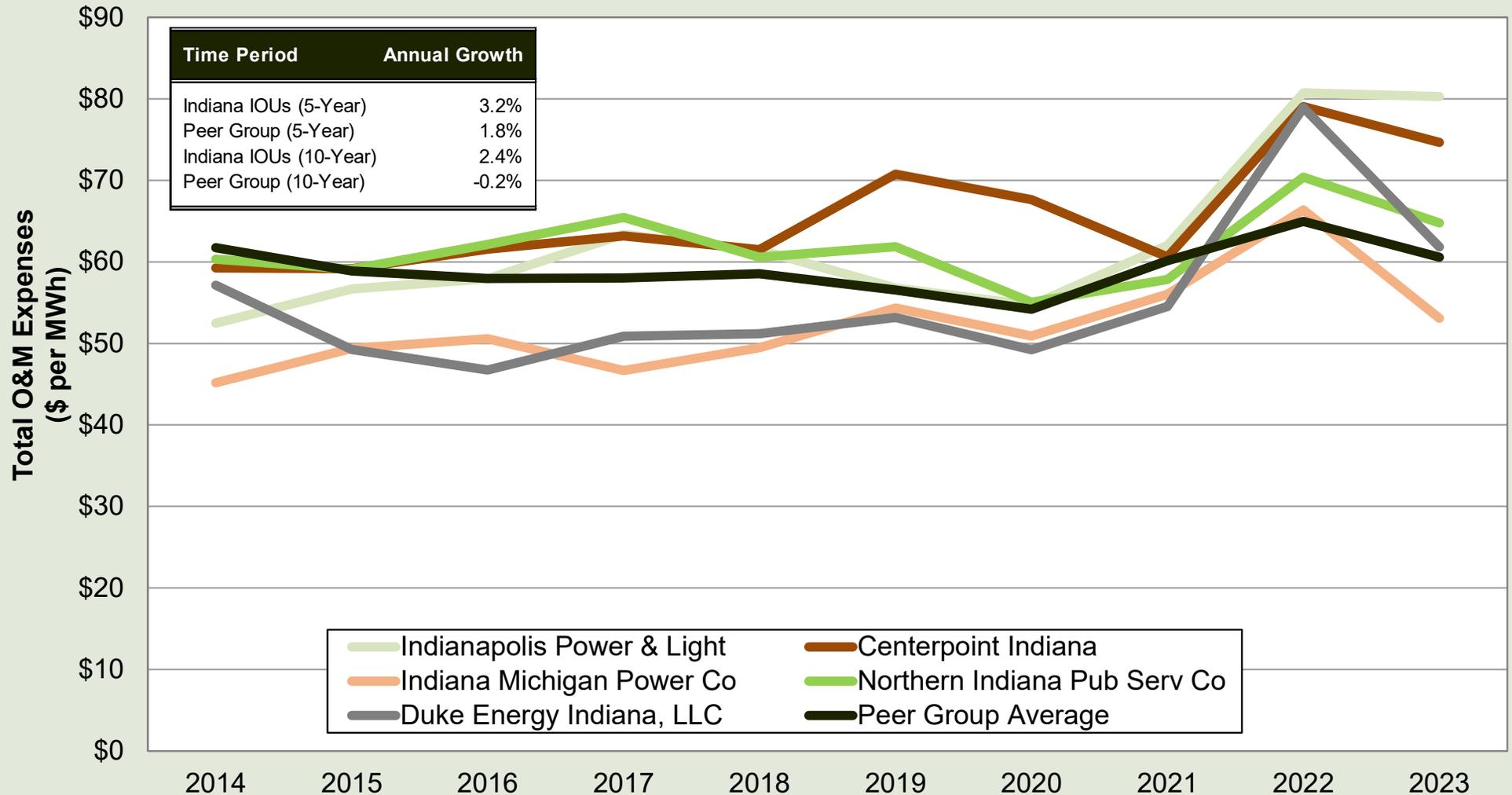
Company	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	------(Rank)-----									
Indianapolis Power & Light	7	10	12	15	14	12	13	15	19	20
Centerpoint Indiana	10	14	13	14	15	19	18	14	18	18
Indiana Michigan Power Co	5	7	7	6	5	10	11	11	12	6
Northern Indiana Pub Serv Co	11	13	15	17	12	14	14	12	14	14
Duke Energy Indiana, LLC	9	6	6	7	8	9	8	9	17	11
Consumers Energy Co	21	20	21	21	21	20	20	20	21	19
DTE Electric Company	14	15	16	16	16	15	19	17	15	12
Northern States Power Co	22	22	22	22	22	22	22	22	22	22
Interstate Power and Light Co	15	16	17	13	13	11	12	10	10	8
MidAmerican Energy Co	1	1	1	1	1	1	1	1	1	1
Evergy Metro	3	5	3	5	7	4	3	3	2	2
Evergy Kansas South, Inc	16	12	10	10	11	7	9	8	8	4
Evergy Kansas Central, Inc	6	3	4	2	3	3	4	4	4	3
ALLETE, Inc.	4	2	2	4	4	5	5	7	9	10
Empire District Electric Co	18	17	14	12	18	16	16	21	6	13
Evergy Missouri West	12	9	11	11	10	13	10	13	11	15
Union Electric Co - (MO)	2	4	5	3	2	2	2	2	3	7
Northern States Power Co - MN	20	19	18	19	19	17	15	16	13	16
Madison Gas & Electric Co	17	21	20	20	17	18	17	18	16	17
Wisconsin Electric Power Co	19	18	19	18	20	21	21	19	20	21
Wisconsin Power & Light Co	8	8	8	9	9	8	7	5	5	5
Wisconsin Public Service Corp	13	11	9	8	6	6	6	6	7	9

Source: FERC Form 1 as provided by S&P Global.

Note: Note: Calculated as total power production, transmission, distribution expenses, customer account exp, sales exp, and A&G

Trends: Total operational expense (\$ per MWh).

Since 2014, Indiana IOUs, other than Indiana Michigan, have seen higher total operational expenses than their regional peers.



Source: FERC Form 1 as provided by S&P Global.

Note: Calculated as total power production, transmission, distribution expenses, customer account exp, sales exp, and A&G



Section 7.3: Capital investment efficiencies

Regional net distribution plant (\$/MWh) investment.

Since 2014, both Centerpoint Indiana and Northern Indiana Public Service Co. have seen net distribution plant (\$/MWh) investment surpass that of regional peers.

Company	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	-----(\$/MWh)-----									
Indianapolis Power & Light	\$ 15	\$ 17	\$ 20	\$ 25	\$ 25	\$ 26	\$ 34	\$ 46	\$ 56	\$ 78
Centerpoint Indiana	\$ 55	\$ 61	\$ 66	\$ 77	\$ 77	\$ 99	\$ 117	\$ 99	\$ 123	\$ 159
Indiana Michigan Power Co	\$ 33	\$ 41	\$ 46	\$ 49	\$ 54	\$ 66	\$ 75	\$ 82	\$ 87	\$ 106
Northern Indiana Pub Serv Co	\$ 40	\$ 47	\$ 53	\$ 59	\$ 67	\$ 81	\$ 94	\$ 98	\$ 113	\$ 137
Duke Energy Indiana, LLC	\$ 43	\$ 45	\$ 47	\$ 55	\$ 59	\$ 74	\$ 86	\$ 92	\$ 101	\$ 118
Consumers Energy Co	\$ 110	\$ 115	\$ 122	\$ 135	\$ 136	\$ 150	\$ 165	\$ 175	\$ 192	\$ 211
DTE Electric Company	\$ 94	\$ 98	\$ 104	\$ 114	\$ 121	\$ 137	\$ 158	\$ 166	\$ 176	\$ 197
Northern States Power Co	\$ 60	\$ 64	\$ 68	\$ 70	\$ 73	\$ 80	\$ 90	\$ 93	\$ 99	\$ 111
Interstate Power and Light Co	\$ 98	\$ 100	\$ 108	\$ 115	\$ 121	\$ 120	\$ 143	\$ 160	\$ 166	\$ 176
MidAmerican Energy Co	\$ 45	\$ 48	\$ 50	\$ 51	\$ 51	\$ 56	\$ 58	\$ 53	\$ 52	\$ 60
Evergy Metro	\$ 59	\$ 69	\$ 70	\$ 73	\$ 81	\$ 83	\$ 91	\$ 100	\$ 110	\$ 129
Evergy Kansas South, Inc	\$ 57	\$ 62	\$ 65	\$ 76	\$ 80	\$ 83	\$ 91	\$ 91	\$ 94	\$ 104
Evergy Kansas Central, Inc	\$ 40	\$ 49	\$ 57	\$ 54	\$ 57	\$ 72	\$ 77	\$ 75	\$ 75	\$ 90
ALLETE, Inc.	\$ 22	\$ 21	\$ 24	\$ 22	\$ 23	\$ 25	\$ 26	\$ 23	\$ 29	\$ 31
Empire District Electric Co	\$ 93	\$ 98	\$ 101	\$ 109	\$ 105	\$ 117	\$ 151	\$ 145	\$ 155	\$ 174
Evergy Missouri West	\$ 86	\$ 92	\$ 95	\$ 102	\$ 100	\$ 109	\$ 114	\$ 133	\$ 148	\$ 168
Union Electric Co - (MO)	\$ 64	\$ 65	\$ 74	\$ 72	\$ 72	\$ 91	\$ 97	\$ 107	\$ 119	\$ 153
Northern States Power Co - MN	\$ 54	\$ 55	\$ 56	\$ 59	\$ 59	\$ 59	\$ 61	\$ 61	\$ 66	\$ 75
Madison Gas & Electric Co	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 151	\$ 158	\$ 169
Wisconsin Electric Power Co	\$ 79	\$ 77	\$ 81	\$ 86	\$ 98	\$ 110	\$ 119	\$ 125	\$ 135	\$ 136
Wisconsin Power & Light Co	\$ 94	\$ 93	\$ 103	\$ 114	\$ 119	\$ 136	\$ 142	\$ 133	\$ 134	\$ 137
Wisconsin Public Service Corp	\$ 41	\$ 45	\$ 52	\$ 59	\$ 67	\$ 90	\$ 104	\$ 119	\$ 127	\$ 140
Peer Group Average	\$ 64	\$ 68	\$ 72	\$ 77	\$ 80	\$ 89	\$ 99	\$ 112	\$ 120	\$ 133

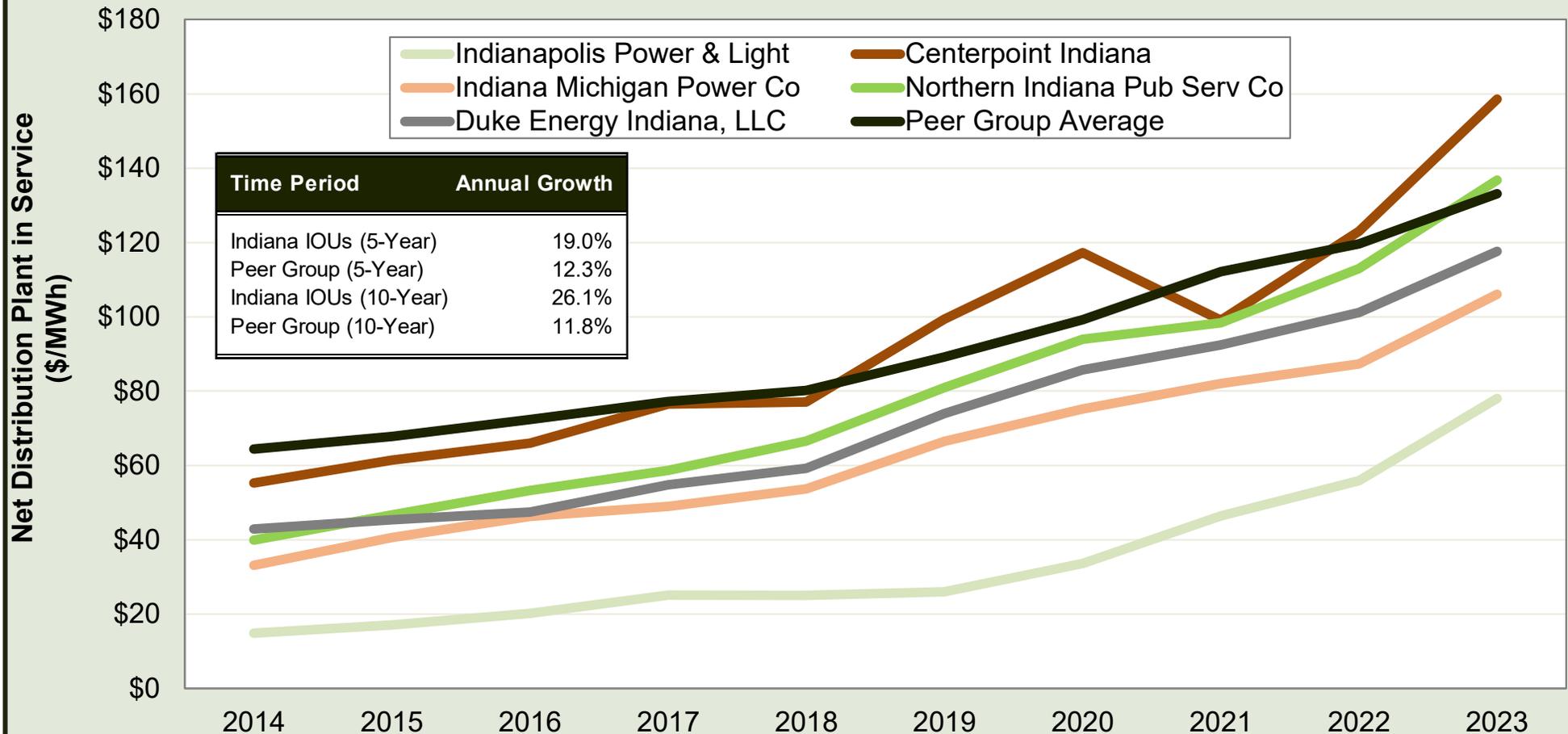
Rankings: Regional net distribution plant (\$/MWh) investment.

All Indiana IOUs rank near the median in terms of net distribution plant (\$/MWh) investment with no improvement relative to peers since 2014.

Company	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	------(Rank)-----									
Indianapolis Power & Light	2	2	2	3	3	3	3	2	3	4
Centerpoint Indiana	11	11	12	15	13	15	16	11	13	16
Indiana Michigan Power Co	4	4	4	4	5	6	6	6	6	7
Northern Indiana Pub Serv Co	5	7	8	8	9	10	12	10	11	12
Duke Energy Indiana, LLC	8	6	5	7	8	8	8	8	9	9
Consumers Energy Co	22	22	22	22	22	22	22	22	22	22
DTE Electric Company	20	19	20	19	21	21	21	21	21	21
Northern States Power Co	14	13	13	11	12	9	9	9	8	8
Interstate Power and Light Co	21	21	21	21	20	19	19	20	20	20
MidAmerican Energy Co	9	8	6	5	4	4	4	3	2	2
Evergy Metro	13	15	14	13	15	12	11	12	10	10
Evergy Kansas South, Inc	12	12	11	14	14	11	10	7	7	6
Evergy Kansas Central, Inc	6	9	10	6	6	7	7	5	5	5
ALLETE, Inc.	3	3	3	2	2	2	2	1	1	1
Empire District Electric Co	18	20	18	18	18	18	20	18	18	19
Evergy Missouri West	17	17	17	17	17	16	15	17	17	17
Union Electric Co - (MO)	15	14	15	12	11	14	13	13	12	15
Northern States Power Co - MN	10	10	9	10	7	5	5	4	4	3
Madison Gas & Electric Co	1	1	1	1	1	1	1	19	19	18
Wisconsin Electric Power Co	16	16	16	16	16	17	17	15	16	11
Wisconsin Power & Light Co	19	18	19	20	19	20	18	16	15	13
Wisconsin Public Service Corp	7	5	7	9	10	13	14	14	14	14

Trends: Regional net distribution plant (\$/MWh) investment.

Net distribution plant investment has been growing rapidly in the region. Indiana IOUs have seen an average annual growth rate of **26.1 percent**, compared to **11.8 percent for peers**, since 2014.





Section 7.4: Affordability

Energy affordability

Energy affordability is defined as how expensive energy is relative to household income.

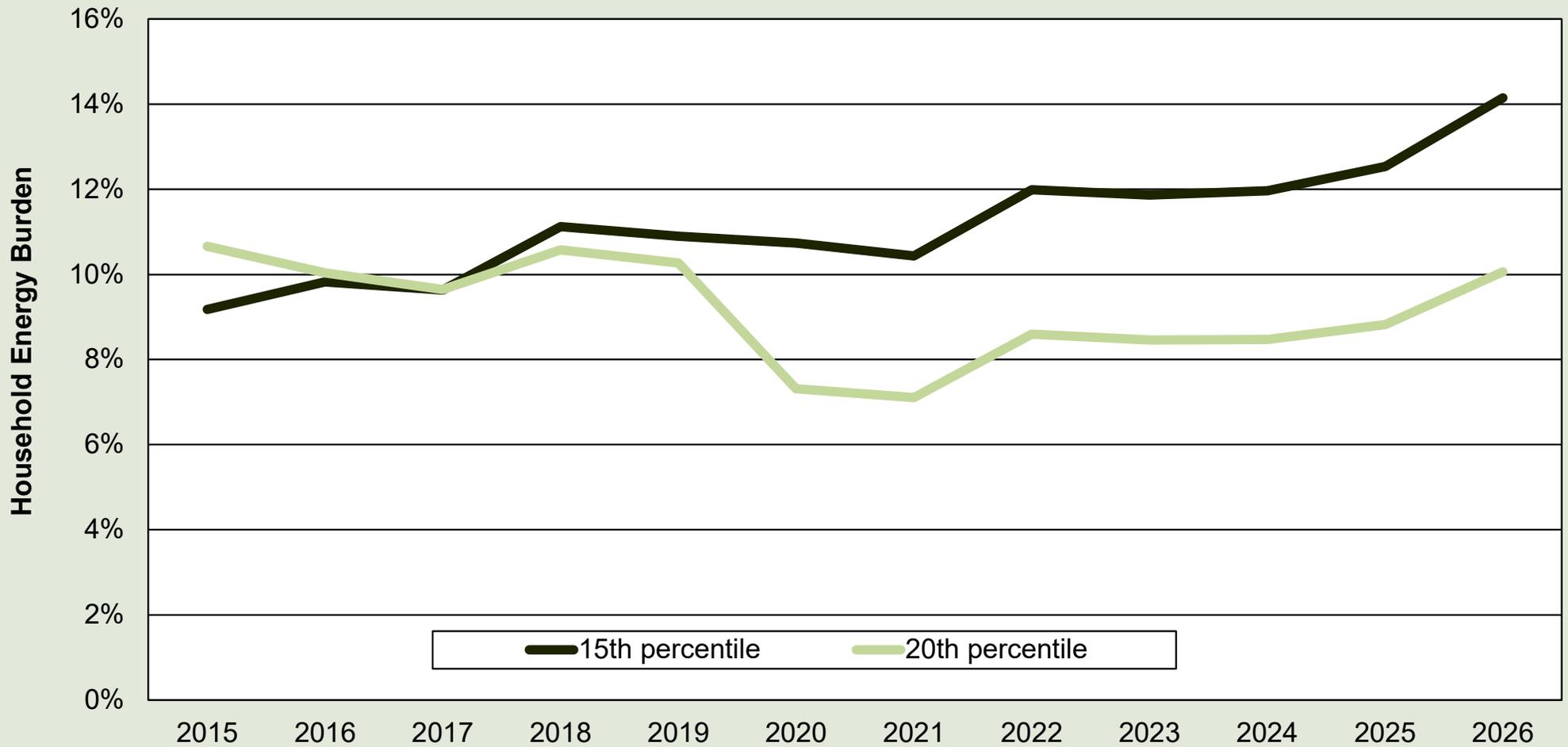
Affordability can be utilized as an index to measure the ability of a household to pay for essential utility services **such as water, electricity, and/or natural gas.**

The generally accepted percent of when energy becomes burdensome is when it **exceeds six percent of household income.**

Energy affordability is increasingly becoming an important regulatory policy for numerous states and local government setting affordability targets. **New York state, the City of Portland Oregon, California, and Pennsylvania** have all examined energy affordability, and in some cases issued policy statements.

Affordability in Centerpoint Indiana service territory

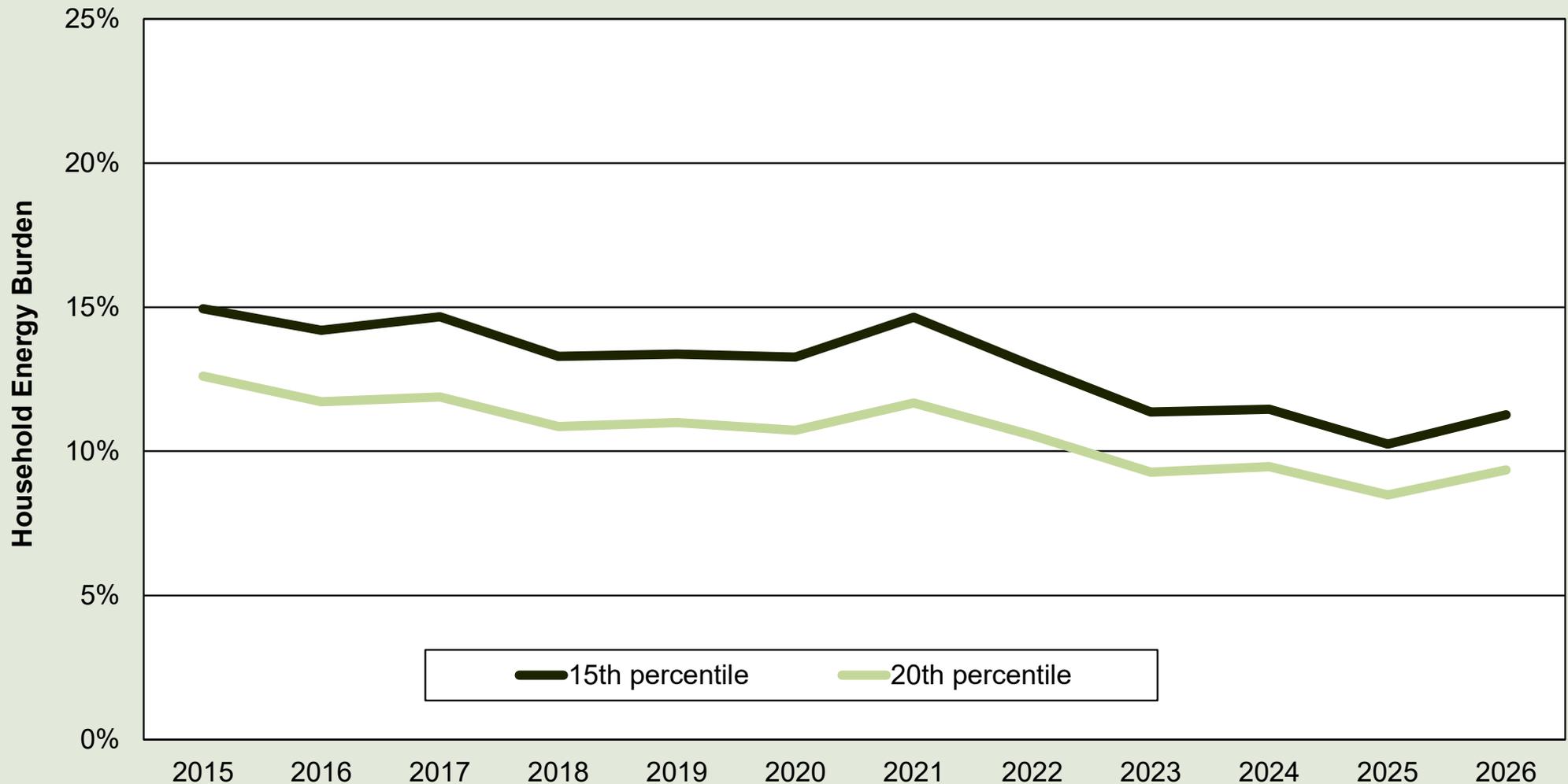
Energy affordability for the 15th and 20th percentile has continued to get more expensive and has been greater than six percent indicating significant energy burden.



Source: Company tariff, EIA.

Affordability in Northern Indiana Public Service Company service territory

Although NIPSCO has seen a decrease in recent years, its energy burden is currently around 10 to 12 percent.





Section 8: Conclusions and Recommendations

Conclusions.

There are three major, comprehensive forms of alternative regulation: FRPs; PBR plans; and MYRPs. To date, no major form of alternative regulation has led to any meaningful nor measurable ratepayer benefits. Alternative regulation has not resulted in any sustainable nor distinctly measurable improvement in reliability or quality of service.

Alternative regulation mechanisms have resulted in large rate increases with very few rate decreases or earning sharing opportunities.

In addition, no measurable nor sustainable improvement in operating costs or efficiencies have arisen in any state due to alternative regulation. In fact, most states have seen a deterioration in capital investment discipline and huge gains in rate base due to alternative regulation.

There is not one single state adopting alternative regulation that has shown outcomes that can be held out as an unequivocal “success” for ratepayers.

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