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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*

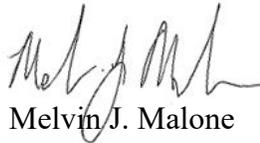
Dear Chairman Jones:

Attached for filing please find *Tennessee-American Water Company's Rebuttal Testimonies of Robert C. Lane, Jared Deason, and Philip J. Drennan* in the above-captioned matter.

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
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TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 25-00089

REBUTTAL TESTIMONY

OF

JARED DEASON

ON

Annual Review of Rates Mechanism

**REBUTTAL TESTIMONY
JARED DEASON
TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 25-00089**

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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS**

3 A. My name is Jared Deason, and my business address is 1 Water Street, Camden, New Jersey
4 08102.

5 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
6 **PROFESSIONAL EXPERIENCE.**

7 A. I have a Bachelor’s degree in Economics from Florida State University. I have
8 approximately 16 years of experience in the water and wastewater utility industry, the last
9 two years of which have been with American Water Works Service Company, Inc.
10 (“Service Company” or “AWWSC”). The Service Company is wholly owned subsidiary
11 of American Water Works Company, Inc. (“American Water” or “AWWC”) that provides
12 services to its affiliates, including Tennessee-American Water Company (“TAWC”,
13 “Tennessee American”, or the “Company”). Prior to my time with AWWSC, from 2015 to
14 2023, I was employed as the Regulatory Manager for Sunshine Water Services, the Florida
15 subsidiary of Nexus Water Group. I was also previously employed by the Florida Public
16 Service Commission in the years 2007 to 2011 as a Regulatory Analyst IV assigned to the
17 water and wastewater section of the former Division of Economic Regulation. In that role,
18 I was the lead analyst in many water and wastewater rate proceedings. Additionally, I am
19 a current member of the Society of Utility and Regulatory Financial Analysts and a
20 Certified Rate of Return Analyst (“CRRA”).

21 **Q. WHAT ARE YOUR DUTIES AS DIRECTOR OF RATES AND REGULATORY?**

22 A. My primary responsibilities involve the review and preparation of regulatory filings,
23 proceedings, and related endeavors for the regulated subsidiaries of American Water. This

1 includes the preparation of written testimony, exhibits, and workpapers in support of
2 regulatory proceedings. In addition, I also review regulatory developments and evaluate
3 alternative strategies that may impact the operations of American Water and its
4 subsidiaries.

5 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**
6 **TENNESSEE PUBLIC UTILITY COMMISSION (THE “COMMISSION”) OR**
7 **ANY OTHER UTILITY COMMISSION?**

8 A. Yes, I previously provided written testimony before the Tennessee Public Utility
9 Commission (“Commission” or “TPUC”) in Docket No. 19-00028. I have also provided
10 written testimony before the Florida Public Service Commission, the Pennsylvania Public
11 Utility Commission, the Alabama Public Service Commission, the Utilities Division of the
12 Arizona Corporation Commission, the Iowa Utilities Commission, the Indiana Utility
13 Regulatory Commission, the Hawaii Public Utilities Commission, and the Maryland Public
14 Service Commission.

15 **Q. DID YOU PREVIOUSLY SUBMIT DIRECT TESTIMONY IN THIS**
16 **PROCEEDING ON BEHALF OF TENNESSEE-AMERICAN WATER COMPANY,**
17 **INC. (“TAWC” OR THE “COMPANY”)?**

18 A. No.

19 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

20 A. The purpose of my rebuttal testimony is to respond to the Pre-filed Testimony of Mark E.
21 Garrett on behalf of the City of Chattanooga (“COC”) and Clark D. Kaml on behalf of the
22 Consumer Advocate. Among the issues that I will be addressing in response to Mr. Garrett's

1 testimony and Mr. Kaml's testimony are _regulatory lag, cost controls, retroactive
2 ratemaking, subsidization, existing riders, traditional rate cases and return of equity.

3
4 **II. REGULATORY LAG, COST CONTROLS, RETROACTIVE RATEMAKING,**
5 **SUBSIDIZATION, EXISTING RIDERS, TRADITIONAL RATE CASES**

6 **Q. DO YOU AGREE WITH MR. GARRETT'S ASSERTION THAT REGULATORY**
7 **LAG IS AN ESSENTIAL FEATURE OF UTILITY REGULATION?¹**

8 A. While I acknowledge the traditional role of regulatory lag, Mr. Garrett's characterization
9 fails to recognize the evolving utility landscape. Extended regulatory lag creates significant
10 financial uncertainty that can deter critical long-term capital investments necessary for
11 maintaining system reliability and environmental compliance. The Annual Review
12 Mechanism ("ARM") proposal seeks to reduce this volatility while maintaining robust
13 regulatory oversight.

14 **Q. DO YOU AGREE WITH MR. GARRETT'S ASSERTION THAT THE PROPOSED**
15 **ARM DIMINISHES COST CONTROL INCENTIVES BY REMOVING**
16 **FINANCIAL CONSEQUENCES OF OVERSPENDING?²**

17 A. No, I do not. His assertion is fundamentally flawed. Our proposed ARM includes robust
18 annual Commission review, providing a transparent forum for scrutinizing expenses and
19 investments. The Commission retains full authority to disallow imprudent expenditures,
20 ensuring only costs in the public interest are recovered. Furthermore, an ARM can be

¹ *Pre-filed Testimony of the City of Chattanooga Witness Mark E. Garrett*, 10:13-14, TPUC Docket No. 25-00089 (Feb. 3, 2026) (hereinafter "Garrett").

² *Garrett* at 11:5-7 and 13:1-4.

1 designed with performance incentives that encourage efficiencies and cost savings,
2 providing an enhanced regulatory framework beyond traditional ratemaking. The
3 suggestion that utilities will automatically overspend ignores our fundamental obligation
4 to operate efficiently and the Commission's continued oversight authority.

5 **Q. DO YOU AGREE WITH MR. GARRETT'S OPINION THAT THE PROPOSED**
6 **ARM CONSTITUTES IMPERMISSIBLE RETROACTIVE RATEMAKING BY**
7 **SEEKING TO RECOVER PAST DEFICIENCIES IN FUTURE RATES?**³

8 A. This interpretation misunderstands ARM's design and statutory authority. ARM is an
9 annual reconciliation process using historical data as a basis for prospective rate
10 adjustments. It ensures the utility has the opportunity to earn its authorized return moving
11 forward, preventing significant over- or under-earnings detrimental to customers or the
12 utility. Tennessee Code Ann. § 65-5-103(6)(C) explicitly provides authority for annual
13 adjustments to achieve authorized ROE. {7} ARM aligns with this statutory intent by
14 ensuring future rates are just and reasonable without re-pricing past services. Consistent
15 with Tennessee law and Commission precedent, the mechanism looks forward, not
16 backward, in establishing appropriate rate levels.

17 **Q. MR. GARRETT BELIEVES THAT TAWC'S ARM FAILS TO PROMOTE COST-**
18 **BASED RATES AND INCREASES SUBSIDIZATION BETWEEN RATE ZONES.**⁴
19 **HOW DO YOU RESPOND?**

20 A. I agree with the principle of cost causation. However, ARM as a revenue stability
21 mechanism does not prevent implementation of granular cost allocation studies or rate

³ *Garrett*, pp. 13-19.

⁴ *Garrett*, pp. 29-32.

1 design adjustments in other proceedings, such as TAWC’s most recent rate case in TPUC
2 Docket No. 24-00032. Our focus with ARM is foundational financial stability, providing a
3 platform for detailed rate design conversations ensuring equity across customer classes and
4 zones.

5 **Q. MR. GARRETT MAINTAINS THAT THE ARM IS UNNECESSARY BECAUSE**
6 **EXISTING INCREMENTAL CAPITAL RECOVERY RIDER (“ICR”) AND**
7 **PRODUCTION COST AND OTHER PASS-THROUGH (“PCOP”) RIDERS**
8 **ALREADY PROVIDE ADEQUATE COST RECOVERY. IS THIS AN ACCURATE**
9 **STATEMENT?⁵**

10 A. No, it is not. While existing riders have been valuable for specific cost recovery, they
11 provide only piecemeal solutions. On the other hand, ARMs offer a comprehensive
12 framework for managing overall revenue requirements, addressing broader operating costs
13 beyond capital and specific pass-throughs. The financial data referenced by Mr. Garrett,⁶
14 while showing some periods of sufficient return, also reveals fluctuations underscoring the
15 need for more consistent and stable recovery mechanisms to support predictable service
16 and investment for all customers.

17 **Q. MR. GARRETT CLAIMS THAT TRADITIONAL RATE CASES PROVIDE**
18 **ESSENTIAL CUSTOMER PROTECTION THAT OUTWEIGHS**
19 **ADMINISTRATIVE COSTS, CITING EXAMPLES FROM OTHER**
20 **JURISDICTIONS.⁷ HOW DO YOU RESPOND?**

⁵ *Garrett*, pp. 32-35.

⁶ *Garrett* at 33:20-34:7.

⁷ *Garrett* at 26:7-27:23.

1 A. While I respect the value of regulatory scrutiny, I disagree that an ARM diminishes
2 customer protection through regulatory oversight. The proposed ARM maintains annual
3 Commission review with full authority to examine and disallow imprudent costs. The
4 examples cited by Mr. Garrett from other jurisdictions involve different regulatory
5 frameworks and cannot be directly applied to Tennessee's statutory environment. ARM
6 provides enhanced transparency through annual filings while reducing the uncertainty and
7 delays inherent in traditional ratemaking. This approach better serves customers through
8 more timely and predictable rate adjustments based on actual costs.

9

10 **III. RETURN ON EQUITY (“ROE”)**

11 **Q. MR. GARRETT RECOMMENDS THAT TAWC’S CURRENT 9.7% ROE**
12 **ESTABLISHED IN ITS LAST RATE CASE IS INAPPROPRIATE UNDER THE**
13 **PROPOSED ARM AND SHOULD BE REDUCED TO NEAR THE COST OF**
14 **LONG-TERM DEBT OR 4.29 PERCENT?⁸ DO YOU AGREE WITH HIS**
15 **RECOMMENDATION?**

16 A. No, I do not. The 9.7% ROE established in TAWC’s last rate case reflects a comprehensive
17 assessment of risks faced by a regulated utility, including market, operational, and financial
18 risks. While ARM may mitigate some regulatory lag aspects, it does not eliminate all
19 business risks requiring investor compensation. A precipitous ROE reduction as suggested
20 would send negative signals to capital markets, jeopardizing TAWC’s ability to attract
21 necessary investment and potentially increasing its overall cost of capital – ultimately

⁸ *Garrett* at 20:1-7 and 37:19-38:1-5.

1 impacting ratepayers. The suggestion to reduce ROE to debt levels fundamentally
2 misunderstands the continued equity risk profile under ARM.

3 **Q. HOW WAS TAWC’S CURRENT 9.7% ROE ESTABLISHED BY THE**
4 **COMMISSION?**

5 A. TAWC’s current ROE of 9.7% was approved by the Commission in Docket No. 24-00032.
6 In that proceeding, the ROE was determined through expert testimony, cost-of-capital
7 analyses, and financial models, notably the Discounted Cash Flow (DCF) and Capital Asset
8 Pricing Model (CAPM). The Commission determined that an equity return of 9.7% was
9 substantially similar to the midpoint of the parties’ equity return recommendations, the
10 midpoint of 2024 water utility rate decisions, and the average of 2024 rate case decisions
11 for water, electric, and natural gas utilities. The Commission also determined that the 9.7%
12 equity return was comparable to that established in rate cases involving other subsidiaries
13 of AWWC.⁹

14 **Q. HAVE OTHER UTILITIES UNDER THE JURISDICTION OF THE**
15 **COMMISSION THAT HAVE ESTABLISHED ARMS HAD REDUCTIONS IN**
16 **THEIR ROE AS A BYPRODUCT OF A COMMISSION APPROVED ARM?**

17 A. There is no precedent for any utility under the jurisdiction of the Commission that have
18 established ARMs to have their ROE reduced as a consequence of having an ARM.

19 **Q. DOES THE IMPLEMENTATION OF AN ARM REDUCE TAWC’S RISK PROFILE**
20 **SUCH THAT ITS ROE SHOULD BE REDUCED?**

⁹ *Order Setting Rates*, pp. 71-75, TPUC Docket No. 24-00032 (April 21, 2025) (hereinafter “2025 *Order Setting Rates*”).

1 A. No, it does not. Although one aspect of TAWC's risk may change with the implementation
2 of an ARM, the overall risk profile of TAWC does not change to the point where its
3 Commission approved ROE needs to change as well.

4 **Q. PLEASE DEFINE THE RISKS THAT TAWC FACES AND EXPLAIN WHY IT IS**
5 **IMPORTANT TO THE DETERMINATION OF A FAIR AND REASONABLE**
6 **RATE OF RETURN.**

7 A. The investor-required return on equity reflects investors' assessment of the total investment
8 risk of the subject company. Total investment risk is often viewed in the context of business
9 and financial risk.

10 Business risk is associated with the uncertainty of owning a firm's common stock
11 without the firm's use of debt financing. One way to consider the difference between
12 business and financial risk is to view business risk as the uncertainty in the expected earned
13 return on equity, assuming the firm has no outstanding debt.

14 **Q. WHAT BUSINESS RISKS DO WATER UTILITIES SUCH AS TAWC**
15 **CONFRONT?**

16 A. Some examples of business risks faced by utilities include, but are not limited to, the
17 regulatory environment, mandatory environmental compliance obligations, customer mix,
18 the concentration of customers, economic growth of the service territory, market demand,
19 operations, capital intensity, the amount of operating leverage, all of which have a direct
20 bearing on earnings.

21 Although analysts at rating agencies may consider business risks according to
22 individual categories, business risks are interrelated and are not entirely distinct from one
23 another. Thus, it is not easy to precisely and numerically quantify the effect of any

1 individual factor on investors' required return on equity. For estimating an appropriate
2 return on equity, the pertinent issue is where investors see the subject firm as falling within
3 a range of risks. As investors view a firm as being exposed to additional risks, the investors'
4 required return will also increase, and vice versa.

5 For regulated utilities, business risks are both long- and short-term. Near-term
6 business risks are shown in the year-to-year variability in earnings and cash flow brought
7 about by economic or regulatory factors. Long-term business risks point toward the
8 prospect of a decreased ability of investors to earn a return on their invested capital.
9 Because utilities accept the obligation to continuously provide safe, adequate, and reliable
10 service, they may not have the option to delay or defer necessary capital investments.
11 Because those investments are capital-intensive, utilities also may not have the option to
12 avoid raising needed external funds during periods of capital market distress.

13 **Q. WHAT RISKS ARE SPECIFIC TO THE WATER INDUSTRY?**

14 A. Water is necessary for sustaining life, and it is the only utility product which is intended
15 for customers to ingest. Accordingly, water quality and the proper treatment of water is of
16 the utmost importance to the public health and the welfare of customers. Therefore, water
17 production/distribution and water treatment are subject to additional and ever-increasing
18 rigid health and safety rules and regulations.

19 In addition to the health and safety concerns, customers also have substantial
20 concerns, such as taste and smell, regarding the water delivered to them. Taste and smell
21 are often the result of naturally occurring elements in water sources such as sulfur, iron,
22 and calcium and not due to water infrastructure neglect or improper maintenance.

1 Regulators are paying ever closer attention to these concerns because of the strong
2 reactions they stir up in customers.

3 Water utilities serve several functions including production, treatment, and
4 delivery. Water utilities obtain their water supply from wells, aquifers, surface water
5 sources such as reservoirs. Over the years, well supplies and aquifers have been threatened,
6 which has led to minor purification treatment changing to major well rehabilitation,
7 extensive treatment and/or replacement.

8 At the same time, the Safe Drinking Water Act's (SDWA) quality standards have
9 strengthened considerably, requiring multiple types of treatment prior to water delivery.
10 Water supplies can often be limited by drought, overuse, runoff, habitat protection, as well
11 as other operational, political and environmental factors.

12 Progressively more rigorous environmental rule and regulations often require
13 additional capital investment in the treatment of water, thereby intensifying the pressure on
14 water utilities' cash flows through increased capital expenditures for infrastructure, repair
15 and replacement. Additionally, the U.S. Environmental Protection Agency (EPA), as well
16 as other state and local environmental agencies, continue to monitor potential contaminants
17 in the water supply and enact or expand regulations when they feel it is necessary.

18 Water utilities are usually engaged in the entire process of acquiring supply,
19 producing, treating, and distributing water, serving both a production function in addition
20 to a delivery function. To accomplish this, water utilities require significant capital
21 investment, not only in transmission and distribution systems, but also in sources of supply,
22 production, and storage. Continued capital investment is necessary to both serve additional

1 customers and to replace aging infrastructure, which creates a major risk factor for the
2 entire water utility industry.

3 **Q. PLEASE EXPLAIN THE CAPITAL INTENSITY OF THE WATER UTILITY**
4 **INDUSTRY COMPARED TO OTHER UTILITY INDUSTRIES.**

5 A. As a capital-intensive industry, water utilities require significantly greater capital
6 investments in the infrastructure required to produce a dollar of revenue than other
7 industries, such as electric utilities. According to the 2023 Indiana Utility Guide that is
8 published by the Indiana Utility Regulatory Commission (IURC), as of 2021, the amount
9 of utility investment required to produce one dollar of revenue for a water utility was
10 almost nine dollars. This compares to natural gas and electric utilities cited in the same
11 report, which showed they required less than three dollars of investment to produce one
12 dollar of revenue. As financing needs continue to increase, the competition for capital from
13 traditional sources has also increased, making the need to maintain financial integrity and
14 attract needed new capital more critical.

15 **Q. HOW DO WATER UTILITIES RAISE CAPITAL?**

16 A. The water utility industry requires a high degree of capital intensity and the need for
17 sizeable infrastructure capital spending, which necessitates regulatory support for
18 sufficient and well-timed rate relief. This includes an adequate rate of return on investment
19 set by regulatory bodies.

20 Considerable water utility investment requires substantial financing. The funds
21 typically used for financing are debt, equity, and cash flow from utility operations. All of
22 these are linked to the opportunity to earn an adequate rate of return on investment.

1 Consistent with the *Hope* and *Bluefield* cases,¹⁰ a utility's return must be adequate
2 to maintain credit quality and enable it to attract new capital at reasonable terms. If it
3 cannot raise new capital, the utility must rely upon either retained earnings or free cash
4 flow, which are directly linked to earning a sufficient rate of return. The amount of cash
5 flows represents the utility's ability to meet its debt and equity obligations. If retained
6 earnings or cash flows are inadequate, it will be extremely difficult for the water utility to
7 attract new capital, at a reasonable cost and on reasonable terms, to invest in necessary
8 infrastructure replacements and/or upgrades. An inadequate rate of return could be
9 financially destructive for water utilities.

10 **Q. PLEASE EXPLAIN WHY FINANCIAL RISK CONSIDERATIONS ARE**
11 **IMPORTANT TO THE DETERMINATION OF A FAIR AND REASONABLE**
12 **RATE OF RETURN.**

13 A. Financial risk is created by introducing debt and/or common stock into the company's
14 capital structure. The additional risk is that a company may not have sufficient cash flows
15 to meet its financial obligations to both its debt holders and equity investors. As stated
16 above, common equity investors' claims on a company's cash flows occur only after debt
17 holders are compensated. As such, the higher the proportion of debt in the capital structure,
18 the higher the financial risk, which must be calculated into the common equity cost rate.
19 In other words, investors demand a higher common equity return as compensation for
20 bearing higher financial risk.

21 Further, it must be kept in mind that a long-term issuer's credit rating is an opinion
22 regarding the company's overall financial capacity to pay its financial obligations as they

¹⁰ *Pre-filed Direct Testimony of TAWC Witness Ann E. Bulkley*, pp. 6-11, TPUC Docket No. 24-00032 (May 1, 2024).

1 become due and payable. However, it is not a determination of the risks equity investors
2 face. The claims of equity holders are subordinate to the claims of debt holders. For this
3 reason, the risks of owning common equity do not directly correspond to the risks of
4 owning bonds. As such, TAWC's equity return must have an adequate risk premium above
5 its cost of debt in order to attract equity capital. This would be impossible if Mr. Garrett's
6 ROE recommendation is adopted by the Commission.

7 **Q. MR. KAML'S RECOMMENDS THE COMMISSION "OPEN A GENERIC**
8 **PROCEEDING TO INVESTIGATE ALL ASPECTS OF GUARANTEEING AN**
9 **AUTHORIZED RETURN".¹¹ HOW DO YOU RESPOND?**

10 A. Utility returns are never guaranteed by the Commission. While the Commission recently
11 authorized a 9.7% rate of return on TAWC's prudently invested capital, TAWC bears the
12 risk of not achieving this level if its actual costs exceed forecasts or if water sales are lower
13 than expected. Thus, the 9.7% return represents an opportunity, not a guarantee.

14 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

15 A. Yes.

¹¹ *Kaml* at ____.

CERTIFICATE OF SERVICE

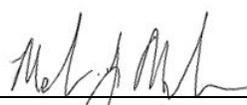
I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

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This the 19th day of February 2026.



Melvin Malone