PETITIONER'S EXHIBIT LCB-1

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 15-_________

DIRECT TESTIMONY

OF

LINDA C. BRIDWELL

ON

CHANGES TO THE QUALIFIED INFRASTRUCTURE INVESTMENT PROGRAM RIDER, THE ECONOMIC DEVELOPMENT INVESTMENT RIDER, AND THE SAFETY AND ENVIRONMENTAL COMPLIANCE RIDER

SPONSORING PETITIONER'S EXHIBITS:

PETITIONER'S EXHIBIT SUMMARY – LCB
PETITIONER'S EXHIBIT – AVG IMPACT – LCB
PETITIONER'S EXHIBIT – QIIP 1 – LCB
PETITIONER'S EXHIBIT – QIIP 2 – LCB
PETITIONER'S EXHIBIT – EDI 1 – LCB
PETITIONER'S EXHIBIT – EDI 2 – LCB
PETITIONER'S EXHIBIT – SEC 1 – LCB
PETITIONER'S EXHIBIT – SEC 2 – LCB
PETITIONER'S EXHIBIT – CURRENT TARIFF SHEET NO. 12 – CAPITAL RIDERS -- LCB
PETITIONER'S EXHIBIT – CURRENT TARIFF SHEET NO. 12 – RIDERS – LCB
PETITIONER'S EXHIBIT – PROPOSED TARIFF SHEET NO. 12 – RIDERS - LCB

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Linda C. Bridwell and my business address is 2300 Richmond Road, Lexington, Kentucky 40502.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by American Water Works Service Company ("AWW") as Manager of Rates and Regulation for Tennessee and Kentucky.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS OR ANY OTHER COMMISSION?

A. Yes. I provided written testimony before the Tennessee Regulatory Authority ("TRA" or "Authority") in TRA Docket No. 12-00049 and TRA Docket No. 15-00001, and both written and oral testimony in TRA Docket No. 14-00121 and 15-00029. I have also provided both written and oral testimony in at least fifteen different proceedings before the Kentucky Public Service Commission ("PSC") including rate cases, special investigations, and applications for a Certificate of Public Convenience and Necessity.

Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received a B.S. degree in Civil Engineering from the University of Kentucky in 1988 and I received a M.S. degree in Civil Engineering from the University of Kentucky in 1992 with an emphasis in water resources. I completed a Masters of Business Administration from Xavier University in Cincinnati, Ohio in 2000. I am a registered Professional Engineer in the Commonwealth of Kentucky.

I have been employed by AWW since 1989. I began as a distribution supervisor for Kentucky American Water ("KAWC") until 1990 when I was promoted to Planning

Engineer, then Engineering Manager, and later Director of Engineering in 1998. In July 2004, I accepted the position of Project Delivery and Developer Services Manager for the Southeast Region of AWW, responsible for Kentucky, Tennessee, and West Virginia. In 2008, I became the KAWC Project Delivery Manager for the construction of a new water treatment plant, booster station, and transmission main in Kentucky. This project was the largest project completed by American Water, in any of its regulated businesses, at $164 million. Upon completion of the project in October 2010, I became the Director of Environmental Compliance and Water Quality for KAWC and in February of 2012 I accepted my current position. I am an active member of the American Water Works Association (AWWA), served as president of the local chapter and state section of the American Society of Civil Engineering (ASCE), and served as an officer in the local chapter of the National Society of Professional Engineers (NSPE) and as a State officer. I have served periodically as an Adjunct Professor at the University of Kentucky in the Civil Engineering Department, teaching "Water Quality and Pollution Control" and the "Introduction to Environmental Engineering." I served as a member of the Civil Engineering Industrial Advisory Committee at the University of Kentucky from 2005 until 2012. I served as a Commissioner on the Kentucky Water Resources Development Commission established by Governor Patton. I currently serve as Vice Chairman of the Board of Directors for the Kentucky Infrastructure Authority and serve on the Kentucky State Board of Licensure for Professional Engineers and Land Surveyors.

Q. WHAT ARE YOUR DUTIES AS MANAGER OF RATES AND REGULATION?

A. My primary responsibilities encompass the coordination of regulatory issues in Tennessee and Kentucky. This includes coordinating all reports and filings, working with regulatory staff to make sure that all information produced addresses the requirements or requests, and overseeing the preparation and filing of rate cases and tariff changes. I work with the senior management in both states on planning. I am also responsible for keeping abreast of changes in regulation, or trends in regulatory oversight across the United States that may impact our local operations. I report to the Director of Rates for the Central Division of American Water and am accountable to the Presidents of Tennessee American Water ("Tennessee American", or "TAWC"). I am located in Kentucky, but work closely with the TAWC staff in Tennessee as well.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to support the calculation of the 2016 Capital Riders described in TAWC's Petition. On April 14, 2014, the TRA approved four new alternative rate mechanisms for TAWC, effective April 15, 2014, in TRA Docket No. 13-00130. Three of these alternative rate mechanisms were capital program recovery riders, and one was for a rider for Production Costs and Other Pass-throughs ("PCOP"). The three capital riders are the only items included in this current petition.

On June 29, 2015, the TRA approved an adjustment to the three Capital Riders for 2015 in Docket No. 14-00121 with some modifications to one of the Capital Riders. Those modifications have been incorporated into the current application for an adjustment for 2016.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes I am. I am sponsoring the following exhibits:

<u>Petitioner's Exhibit -- Summary – LCB</u>
<u>Petitioner's Exhibit – Avg Impact – LCB</u>
<u>Petitioner's Exhibit – QIIP 1 – LCB</u>
<u>Petitioner's Exhibit – QIIP 2 – LCB</u>
<u>Petitioner's Exhibit – EDI 1 – LCB</u>
<u>Petitioner's Exhibit – EDI 2 – LCB</u>
<u>Petitioner's Exhibit – SEC 1 – LCB</u>
<u>Petitioner's Exhibit – SEC 2 – LCB</u>
<u>Petitioner's Exhibit – Current Tariff Sheet No. 12 – Capital Riders -- LCB</u>
<u>Petitioner's Exhibit – Current Tariff Sheet No. 12 – Riders – LCB</u>
<u>Petitioner's Exhibit – Proposed Tariff Sheet No. 12 – Riders - LCB</u>

I will discuss these exhibits in further detail in my testimony below.

Q. WERE THE PETITIONER'S EXHIBITS LISTED ABOVE PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes.

Q. WHAT WERE THE SOURCES OF THE DATA USED TO PREPARE THE PETITIONER'S EXHIBITS LISTED ABOVE?

A. The data used to prepare the exhibits was acquired from the books of account and business records of Tennessee American, the officers and associates of Tennessee American with knowledge of the facts based on their job responsibilities and activities, and other internal sources which I examined in the course of my investigation of the matters addressed in this testimony.

Q. DO YOU CONSIDER THIS DATA TO BE RELIABLE AND OF A TYPE THAT IS NORMALLY USED AND RELIED ON IN YOUR BUSINESS FOR SUCH PURPOSES?

A. Yes.

Q. DO THE PETITIONER'S EXHIBITS LISTED ABOVE ACCURATELY SUMMARIZE SUCH DATA AND THE RESULTS OF ANALYSIS USING SUCH DATA?

A. Yes, it does.

Q. WHAT ARE THE THREE CAPITAL RECOVERY RIDERS?

A. The three capital program recovery riders authorized in Docket No. 13-00130 were based on certain categories of capital expenditures to cover the investment period of calendar year 2014. An adjustment to those three capital program recovery riders were authorized in Docket No. 14-00121 to cover the investment period of the calendar year 2015. The purpose of the current petition is to comply with the tariffs approved in TRA Docket No. 13-00130 and provide the required information and supporting documentation in each of the capital program riders based on the projected investment period of 2016. The first capital recovery rider is the Qualified Infrastructure Investment Program ("QIIP") Rider. This rider is designed to recover the costs associated with the capital investment made in between rate cases to replace aging infrastructure that is non-revenue producing. As discussed in Docket No. 13-00130, aging water and wastewater infrastructure is a growing problem across the United States that will require significant investments over the next few decades to continue to provide clean and reliable water service. This rider helps TAWC address its needs on replacing this critical infrastructure. The QIIP program includes replacement of existing infrastructure in the areas of mains, meters, services, hydrants, water treatment equipment, pumping equipment, and tank painting.

The second capital recovery rider is the Economic Development Investment ("EDI") Rider. This rider is primarily for the recovery of investment made in infrastructure to assist in economic development in the communities and areas served by TAWC. Communities across the country are competing for economic development opportunities to provide growth in jobs, taxes, and overall quality of life for residents. This rider provides an opportunity for TAWC to partner with the communities it serves to assist in Economic Development. Additionally, unlike the QIIP Rider, the EDI Rider may include operating expenses related specifically to economic development.

The third capital recovery rider is the Safety and Environmental Compliance ("SEC") Rider. This rider is for the recovery of investment made to comply with safety and environmental regulations since the previous rate case. TAWC, like other utilities, is faced with increasing capital investment needs to comply with safety and environmental regulations. This rider assists TAWC in addressing those needs. Like the EDI Rider, the SEC Rider may include operating expenses that can be identified as specifically for the new infrastructure with this rider.

Attached to my testimony is a Petitioner's Exhibit Current Tariff Sheet No. 12—Capital Riders – LCB, which is a copy of all three capital recovery riders tariff sheets as approved in Docket No. 13-00130, and as modified in Docket No. 14-00121 and further clarified in Docket No. 15-00029.

Q. HOW IS THE PROCESS UNDER THE APPROVED CAPITAL RIDERS DIFFERENT FROM THE PREVIOUS AND HISTORICAL REGULATORY APPROACH WITH RESPECT TO INVESTMENT METHODS?

A. As far as the projects and the investment into those projects are concerned, there isn't any difference. The difference between the new riders and the future test year regulatory approach that has been used by TAWC for rate cases, is largely in the method and procedure of filing, the deference of fully litigated rate cases and the lessening of rate shock, and the multiple benefits of the streamlined alternative mechanisms. If it were not for the new alternative regulatory methods available to the Authority and the regulated community, TAWC would likely have had to file a rate case in 2016. These new methods have deferred the need to file a full rate case, at least in the short term. In theory, these petitions should make the regulatory process much more streamlined and less burdensome, without reducing effective and meaningful regulatory oversight. As intended under the statute and approved by the Authority, the whole process should be efficient, timely and much less expensive. Although there are likely some procedural issues to resolve to ensure that the process continues to meet the streamlining objective, there is no doubt but that the alternative rate adjustment methods are working.

Q. IN DOCKET NO. 14-00121, THE TRA ORDERED CHANGES TO THE ELIGIBLE ITEMS WITHIN THE EDI RIDER. HAVE THOSE CHANGES BEEN INCLUDED IN THIS PETITION?

A. Yes, they have. In Docket No. 14-00121, the TRA made modifications to the eligible items within this capital recovery rider, removing new services, new meters, and the alternative fuel vehicles. These changes are reflected fully in this petition, removing those items from the EDI for not only the current review period of 2016 but the previous cumulative amounts in the riders from the review periods of 2014 and 2015.

Q. IN DOCKET 15-00029, THE TRA ORDERED THAT GOING FORWARD, TAWC SHOULD FILE WORKPAPERS IN A FORMAT THAT DOESN'T USE ARRAY FORMULAS IN CALCULATIONS, AND FOLLOWS A CLEAR AUDIT TRAIL FOR CALCULATIONS. HAS TAWC DONE THAT IN THIS FILING?

A. Yes. TAWC prepared the files similar to what was prepared in Docket No. 13-00130 and Docket No. 14-00121 in an excel workbook. TAWC then prepared a duplicate worksheet in the excel file of the tabs that utilized array formulas for calculation, but went through the calculations without array formulas. In the electronic version, the duplicate tab immediately follows the first tab. There are also three new reconciliation tabs that help demonstrate the total additions, removals and retirements for 2014, 2015, and 2016. This should provide a clear audit trail of the calculations.

Q. HOW HAS THE APPLICATION OF THE EDI RIDER BEEN DIFFERENT FROM THE PREVIOUS INVESTMENT REGULATORY METHODS UTILIZED BY TAWC?

A. In his testimony, Brent O'Neill discusses the individual projects included in the EDI Rider. Without the EDI Rider, these projects may not have been as successful or potentially would not have developed at all. Under its previous investment methods for development, TAWC would have required these developers to pay for the relocation and replacement of assets, thus increasing the upfront costs to them. Given the amount of the investment, coupled with the growth and jobs attached to these projects, losing one or more of the projects would have been a disappointment to the communities. These projects demonstrate that the EDI rider is an extremely valuable tool that can enhance a community's ability to attract future economic development opportunities. Successes such as these will help the area gain an upper hand in the rigid competition among competing communities, which ultimately benefits all of TAWC's customers. For instance, additional water sales have the potential to offset the ongoing declining use that TAWC has experienced, maintaining a water sales level close to authorized and thus contribute to cover a portion of the Company's fixed expenses. This helps maintain lower rates to all of our customers.

Q. HOW IS THE SEC RIDER ALSO DIFFERENT FROM PREVIOUS INVESTMENT METHODS OF INVESTMENT THAT WERE AVAILABLE TO TAWC PRIOR TO THE APPROVAL OF THE RIDERS IN TRA DOCKET NO. 13-00130?

A. The overall strategy is similar, but an important difference is that the investment is made through a program that expressly delineates and highlights the reason needed for the investment. To the extent that additional investments are made for safety and environmental compliance measures under the SEC Rider, the purpose of the investment will be more transparent to the customer.

Q. DO THE CAPITAL RECOVERY RIDERS BENEFIT THE CUSTOMERS?

A. Yes. The QIIP, the EDI and the SEC Riders are mutually beneficial to the ratepayers, the public, and TAWC. The Qualified Infrastructure Program Rider, the Economic Development Investment Rider, and the Safety and Environmental Compliance Rider, in part, reduce the need for general rate cases, lessen the occurrence of consumer "rate shock," support the maintenance and improvement of essential infrastructure, support opportunities for successful economic development, growth and job creation, ensure safety and reliability, and allow for more efficient, streamlined regulation. The ratepayers and the public benefit from the safety and reliability components and from the more seamless and timely capital investment in infrastructure, coupled with the related support to economic development, growth and job creation. The Company benefits from a more efficient, streamlined regulatory process that presents TAWC with the opportunity to timely recover its expenses and earn a fair rate of return on its investments.

Q. CAN YOU EXPLAIN THE CALCULATION OF THE CAPITAL RECOVERY RIDERS?

A. Certainly. As set forth in the approved tariffs, all three capital recovery riders are established on an annual prospective basis utilizing 12-month average end-of-month balances and would reflect only those qualified plant additions installed after the conclusion of the initial rate year in Docket No. 12-00049. Consistent with the tariffs, the qualified plant additions are reduced by the projected retirements associated with the capital rider additions in the calculation of applicable depreciation and property tax expense. The EDI and SEC Riders are increased by the appropriate operating expenses as discussed above. In this case, Tennessee American has proposed to begin the attrition period for each of the capital riders on January 1, 2016, ending December 31, 2016. This annual review period was established in the tariffs submitted on March 25, 2014, and approved in Docket No. 13-00130 on April 14, 2014. The tariffs also establish a reconciliation period for each of the capital riders, which will occur 60 days after the close of the attrition period. As the attrition period in Docket No. 14-00121 is for January 1, 2015 through December 31, 2015, the reconciliations will be filed by March 1, 2016. Based upon the process outlined in the tariffs and clarified in Docket No. 14-00121, the reconciliations are not, and were not intended to be, a part of this Petition.

As approved, the capital riders are cumulative and remain in place until reset back to zero at the conclusion of the Company's next rate case filing, at which point the capital costs, depreciation and taxes, and other operating expenses approved and previously recovered through the capital riders are then subsumed within Base Rates.

Q. CAN YOU DISCUSS DETAILED SPECIFICS TO THE OPERATION OF THE CAPITAL RECOVERY RIDERS NOT ADDRESSED ABOVE?

A. Yes. TAWC utilizes an annual prospective approach to the utility plant additions that qualify for recovery through the capital riders. The capital riders provide for the recovery of revenue sufficient to cover the capital cost, depreciation and tax expense related to the projected investment in qualified utility plant. These costs consider the effects of associated retirements ("Net Plant"), Contributions in Aid of Construction (CIAC), and Removal Spending net of Salvage value for the attrition period. To determine the rate of return recovery, the 12 month-end balances of new utility plant in service is averaged, less ½ of the anticipated annual associated CIAC, plus ½ of the anticipated annual associated cost of removal net of salvage spending, to derive the "Net Plant" amount. The current approved pre-tax rate of return ("PTR") is applied to this net amount to determine the revenue requirement of the rate base portion. The PTR is calculated from the weighted common equity and preferred equity, grossed up to include state and federal taxes, plus the weighted cost of long-term debt and the weighted cost of short-term debt. Next, the annual depreciation expense of the additional Net Plant is calculated ("NetDep"), utilizing the current TRA approved depreciation rates by account and then added. From there, incremental new property and Franchise taxes ("PFT") is added. For the EDI and SEC, additional operating expenses would be added as appropriate. The sum of these components are grossed up to include the recovery of the associated additional Gross Receipts taxes, Uncollectible expense, and forfeited discounts ("RT") to derive the final revenue requirement. Then, any over or under capital rider collection of prior periods would be added or subtracted as applicable ("R"). The over or under capital rider adjustment was authorized in Docket No. 15-00029 and is not included as part of this Petition. This total is then divided by the authorized annual level of general metered service and private fire service customer revenues from the prior docket (Docket No. 12-00049), i.e. not including any other revenues, ("PAR") to render each of the new capital rider percentages.

Q. CAN THE ABOVE BE SHOWN AS A FORMULA?

A. Yes, the calculation of the QIIP is:

$$\text{QIIP \%} = \frac{[\{(\text{NetPlant x PTR}) + \text{NetDep} + \text{PFT}\} / 1 - \text{RT}] + \text{R}}{\text{PAR}}$$

where:

(i) NetPlant: average forecasted cost of QIIP qualified plant additions l (computed by use of average of 12 end-of-month balances).

(ii) PTR: current pre-tax rate of return as calculated from authorized weighted cost of equity, grossed up for taxes, added to the authorized weighted cost of debt from most recent Base Rate case Order.

(iii) NetDep: net annual depreciation expense related to the average forecasted QIIP additions, net of retirements and CIAC, per application of current TRA approved depreciation rates by account.

(iv) PFT: property taxes and Franchise Tax

(v) R: reconciliation component related to over/under recovery of QIIP costs during the prior QIIP year.

(vi) RT: sum of revenue taxes % (Gross Receipts Tax), uncollectible expense %, forfeited discounts %, expressed as a decimal

(vii) PAR: authorized annual base revenue subject to QIIP

The calculation of the EDI is:

$$\text{EDI \%} = \frac{[\{(\text{NetPlant x PTR}) + \text{NetDep} + \text{PFT} + \text{EDEx}\} / 1 - \text{RT}] + \text{R}}{\text{PAR}}$$

where:

(i) NetPlant: average forecasted cost of EDI qualified plant additions (computed by averaging the 12 end-of-month plant balances).

(ii) PTR: current pre-tax rate of return as calculated from authorized weighted cost of equity, grossed up for taxes, added to the authorized weighted cost of debt from most recent Base Rate case Order.

(iii) NetDep: net annual depreciation expense related to the average forecasted EDI additions, net of retirements and CIAC, per application of current TRA approved depreciation rates by account.

(iv) PFT: property taxes and Franchise Tax

(v) EDIEx: operational expense items related directly to economic development

(vi) R: reconciliation component related to over/under recovery of EDI costs during the prior EDI year.

(vii) RT: sum of revenue taxes % (Gross Receipts Tax), uncollectible expense % and forfeited discounts %, expressed as a decimal

(viii) PAR: authorized annual base revenue subject to EDI

And the SEC calculation is:

$$\text{SEC \%} = \frac{[\{(\text{NetPlant x PTR}) + \text{NetDep} + \text{PFT} + \text{SECEx}\} / 1 - \text{RT}] + \text{R}}{\text{PAR}}$$

where:

(i) NetPlant: average forecasted cost of SEC Rider qualified plant additions (computed by averaging the 12 end-of-month balances).

(ii) PTR: current pre-tax rate of return as calculated from authorized weighted cost of equity, grossed up for taxes, added to the authorized weighted cost of debt from most recent Base Rate case Order.

(iii) NetDep: net annual depreciation expense related to the average forecasted SEC Rider additions, net of retirements and CIAC, per application of current TRA approved depreciation rates by account.

(iv) PFT: property taxes and Franchise Tax

(v) SECEx: operational expense items related directly to safety and environmental compliance

(vi) R: reconciliation component related to over/under recovery of SEC Rider costs during the prior SEC Rider year.

(vii) RT: sum of revenue taxes % (Gross Receipts Tax), uncollectible expense % and forfeited discounts %, expressed as a decimal

(viii) PAR: authorized annual base revenue subject to SEC Rider.

Q. YOU MENTION THAT THE OVER/UNDER RECONCILIATION IS NOT INCLUDED IN THIS PETITION. CAN YOU EXPLAIN WHY NOT?

A. Yes. The tariff has been authorized to file the forecasted adjustments for new investment, by December 1, to be effective January 1. The reconciliation factor is to be filed by March 1, to be effective April 1 to December 31 only each calendar year. The first reconciliation adjustment was authorized on October 19, 2015 to be effective November 1 through December 31, 2015 in Docket No. 15-00029. This petition is intended to adjust the capital riders for investment in 2016. The calculation includes the cumulative investment for rider for 2014 and 2015. In this petition, TAWC has included the actual investment for each rider in 2014. The reconciliation to be filed by March 1, 2016 will apply as a true-up for the 2015 calendar year investment and revenues, including any over/under collection of the reconciliation approved in 15-00029. Therefore, it is not necessary to include a reconciliation factor in the calculation included in this petition.

Q. HAVE YOU INCLUDED THE CALCULATION OF THE THREE CAPITAL RECOVERY RIDERS IN THE PETITION?

A. Yes. I have attached an exhibit that reflects the calculation of each of the three capital recovery riders by project. A summary is attached to my testimony as **Petitioner's Exhibit Summary - LCB**. The detailed calculations are attached in six exhibits to my testimony as **Petitioner's Exhibit QIIP 1 – LCB**, **Petitioner's Exhibit QIIP 2 – LCB**, **Petitioner's Exhibit EDI 1 – LCB**, **Petitioner's Exhibit EDI 2 – LCB**, **Petitioner's**

Exhibit SEC 1 – LCB, and **Petitioner's Exhibit SEC 2 – LCB.** The calculations are consistent with the calculations that were made in the approved tariff in Docket No. 13-00130 and Docket No. 14-00121. Further, to assist in the streamlined regulatory process, TAWC is including with the Petition its detailed work-papers supporting the calculation of the three capital recovery riders. Again, these work-papers are consistent with the calculations made to support the approved tariff in Docket No. 13-00130 and again in Docket No. 14-00121.

Q. HAS TAWC INCLUDED DETAILED INFORMATION REGARDING THE PROJECTS THAT MAKE UP EACH OF THE PROPOSED CAPITAL RECOVERY RIDERS?

A. Yes. Company witness Brent O'Neill will discuss the details regarding the proposed capital expenditures included in the QIIP, EDI and SEC for 2016.

Q. HOW ARE THE QIIP, EDI, AND SEC REVENUES RECOVERED?

A. The QIIP, EDI and SEC are expressed as a percentage. The current tariff Third Revised Sheet No. 12 – Riders – 1 is attached to my testimony as **Petitioner's Exhibit Current Tariff Sheet No. 12 – Riders – LCB**, and the proposed tariff sheet Fourth Revised Sheet No. 12 – Riders - 1 is attached to my testimony as **Petitioner's Exhibit Proposed Sheet No. 12 – Riders – LCB**. They are each applied to the total amount billed to each customer under the otherwise applicable rates and charges for basic service, metered usage charges, and private fire charges, and are applied prior to the inclusion of any other taxes, charges, or surcharges. All three capital riders are combined into one line item on the bill of each customer.

Q. WHAT WILL HAPPEN TO THE CAPITAL RIDERS UPON APPROVAL OF NEW RATES IN A RATE CASE PROCEEDING?

A. The QIIP, EDI, and SEC will all be reset to zero as of the effective date of the new base rates which Base Rates then provide for the recovery of the annual costs that had theretofore been recovered through the capital riders. Thereafter, and consistent with the tariffs, only the new QIIP, EDI, and SEC qualified plant additions and expenses not previously included in rate base and Base Rates will be reflected in the future filings.

Q. WHAT COST OF CAPITAL IS UTILIZED IN THE FORMULA OF THE CAPITAL RIDERS?

A. The cost of capital is the established rate of return (on a pre-tax basis) in the Company's immediately preceding Base Rate case Order, currently TRA Docket No. 12-00049.

Q. WHAT DEPRECIATION RATES ARE USED TO DETERMINE THE DEPRECIATION EXPENSE RECOVERED BY THE QIIP, EDI AND SEC?

A. The depreciation rates last approved by the TRA in Docket 12-00049 for the respective plant accounts in which the specific items of qualified infrastructure under each rider are recorded are the depreciation rates used to determine the depreciation expense. New depreciation rates would be used only after depreciation rates are changed during a general rate proceeding. These are the rates that were used in Docket Nos. 13-00130, 14-00121 and 15-00029.

Q. WHAT PROPERTY TAX RATE IS USED TO DETERMINE THE PROPERTY TAX EXPENSE RELATED TO THE ADDITIONAL INVESTMENT TO BE RECOVERED BY THE QIIP, EDI AND SEC?

A. The property tax rate is based on the proportion of property taxes authorized in Docket No. 12-00049 to the utility plant in service, multiplied by the additional utility plant less retirements. This is the same rate used in Docket Nos. 13-00130, 14-00121 and 15-00029.

Q. HOW ARE ANNUAL REVENUES DETERMINED FOR THE QIIP, EDI AND SEC?

A. The projected annual revenues will be the authorized water services revenues from the last case, Docket No. 12-00049, including all service charges and volumetric charges for all classes that are subject to the capital riders. These are the same annual revenues used in Docket Nos. 13-00130, 14-00121 and 15-00029.

Q. COULD THE AMOUNT OF INVESTMENT RIDER REVENUES COLLECTED FROM TENNESSEE AMERICAN'S CUSTOMERS VARY FROM THE ACTUAL AMOUNT OF REVENUE NEEDED TO COVER A RETURN OF AND A RETURN ON THE COMPANY'S QIIP, EDI AND SEC INFRASTRUCTURE INVESTMENT AND TAXES?

A. Yes. This could occur as a result of a difference between the actual and the allowed water operating revenues upon which the capital riders are based.

Q. AS A REGULATORY SAFEGUARD TO CONSUMERS AND TO SERVE THE PUBLIC INTEREST, DOES EACH OF THE CAPITAL RIDERS INCLUDE A RECONCILIATION MECHANISM IN THE EVENT THAT THE LEVEL OF INVESTMENT, EXPENSE, OR REVENUE APPROVED VARIES FROM THE ACTUAL COSTS?

A. Yes. As discussed earlier, the QIIP, EDI and SEC Riders are all subject to an annual reconciliation whereby the revenue received under each of the capital riders for the reconciliation period will be compared to the revenue necessary for the Company to recover its return of and return on investment plus taxes, for that QIIP, EDI and SEC year. Any over or under recovery will be included in the calculation of the next adjustment to the QIIP, EDI and SEC Riders. For the reason I stated earlier, the reconciliation is not part of the currently proposed change to the QIIP, EDI or SEC Riders. The capital rider reconciliations for the period ending December 31, 2015, will be submitted on March 1, 2016.

Q. HAS TENNESSEE AMERICAN INCLUDED ANY OPERATING EXPENSES IN THE CURRENTLY PROPOSED EDI RIDER OTHER THAN THE DEPRECIATION AND TAX EXPENSES?

A. No. In the tariffs approved in Docket No. 13-00130, TAWC included expenses related to specific Economic Development within the community as a component of the EDI rider and operating expenses related to specific investment in the SEC rider. However, in Docket No. 14-00121 the operating expenses related specifically to TAWC contributions to Economic Development agencies were not approved by the TRA. In that same Docket, TAWC removed proposed SEC operating expenses that would be picked up in the PCOP. Other types of operating expenses related to Economic Development or the SEC rider are not included in this current petition but TAWC will continue to review potential operating expenses for the EDI and SEC riders and submit them for consideration as appropriate.

Q. IN SUMMARY, HAS TENNESSEE AMERICAN INCLUDED ANY OPERATING EXPENSES IN THE CURRENTLY PROPOSED SEC RIDER OTHER THAN THE DEPRECIATION AND TAX EXPENSES?

No.

Q. YOU INDICATED THAT TENNESSEE AMERICAN IS ONLY INCLUDING CHANGES TO THE CAPITAL RIDERS FOR 2016 CAPITAL EXPENDITURES IN THIS FILING. WHEN WILL TENNESSEE AMERICAN FILE THE RECONCILIATION OF THE CAPITAL RIDERS?

A. Consistent with the approved tariffs, Tennessee American will file a reconciliation for all three capital riders no later than March 1, 2016. There are actually two steps to the reconciliation. The first is an adjustment for budget to actual investment. This is a regulatory oversight and public interest component of the mechanism that results in a true-up if the investment did not occur (up or down) as forecasted. The second is an adjustment for the over or under recovery of revenues as projected, including interest. In this way, the consumers are protected if sales exceed the amount authorized in the previous rate case proceeding. This may occur if there is a significant amount of customer growth, or if dry and hot conditions occur in any given year. This second adjustment also allows TAWC to adjust if sales are less than the amount authorized in the last case, as may occur with declining usage that TAWC has experienced in recent years. The reconciliation percentage, pending approval by April 1, 2016, as contemplated in the tariffs, will be applied to customer bills for 9 months in 2016.

Q. YOU ALSO INDICATED THAT TAWC HAS NOT FILED ANYTHING IN THIS PETITION TO INCLUDE THE RECONCILIATION OF THE PRODUCTION

COSTS AND OTHER PASS-THROUGHS RIDER. WHY IS TAWC NOT INCLUDING THE PCOP RECONCILIATION IN THIS PETITION?

A. The PCOP differs from the capital riders, in that at the end of a year, it looks at the historical period and compares the actual production expenses to the amount of production expenses authorized in the previous rate case. It then applies an adjustment over the next year to account for any differences between the two amounts, either over or under the authorized amount. The first review period for the approved PCOP looked at the amount of production expenses in the attrition year from the previous rate case, which was December 1, 2012 to November 30, 2013 compared to the actual amount of production expenses that occurred between December 1, 2012 and November 30, 2013. The expenses in the attrition period were actually less than authorized in the case, so TAWC under the approved PCOP applied a credit adjustment to customers.

The subsequent period approved for review in the tariff is defined as the twelve months subsequent to the attrition period, and every twelve-month period after that. Docket No. 15-00001 looked at the review period for the PCOP from December 1, 2013 through November 30, 2014. The next review period for the PCOP will be December 1, 2014 through November 30, 2015. Because that review period is not complete, there is nothing regarding the PCOP in this petition. Like the capital riders, an attempt to provide even a status of the year so far may paint an inaccurate picture. TAWC anticipates filing the reconciliation of the PCOP in a separate petition prior to the end of the year.

Q. WILL THE PCOP HAVE A TWO-STEP RECONCILIATION PROCEESS?

A. Yes. Similar to the Capital Recovery Riders, the PCOP reconciliation has 1) a reconciliation of the actual expenses in the historical review period to the authorized levels in the previous rate case; and 2) a reconciliation of the implementation of the PCOP during that same historical review period. In Docket No. 15-00001, the TRA approved a single reconciliation of the PCOP annually and this will be submitted to the TRA by the end of 2015.

Q. WHEN DOES TAWC ANTICIPATE FILING THE PCOP RECONCILIATION?

A. TAWC anticipates filing the reconciliation on the PCOP Rider by December 31, 2015. New PCOP rates are anticipated to be effective by January 30, 2016.

Q. WHAT IS THE PROPOSED NEW QIIP RIDER?

A. TAWC is proposing a QIIP rider that results in an annualized revenue recovery of $2,042,443 or a surcharge of 4.34%. This is an increase of $1,040,546 and an increase of 2.21%.

Q. HAS TENNESSEE AMERICAN FILED A TARIFF ADDRESSING THE PROPOSED QIIP RIDER?

A. Yes. A new tariff <u>Fourth Revised Sheet No. 12 – Riders – 1</u> reflects all three Capital Recovery Riders and is attached to my testimony as <u>**Petitioner's Exhibit Proposed Sheet No. 12- Riders - LCB**</u>.

Q. WHAT IS THE PROPOSED EDI RIDER?

A. TAWC is proposing an EDI rider that results in an annualized revenue recovery of $34,925 or a surcharge of 0.07%. This is an increase of $12,308 and an increase of 0.02%. Again, this is shown on the new tariff <u>Fourth Revised Sheet No. 12 – Riders – 1</u> which reflects all three Capital Recovery Riders and is attached to my testimony as <u>**Petitioner's Exhibit Proposed Sheet No. 12- Riders - LCB**</u>.

Q. WHAT IS PROPOSED SEC RIDER?

A. TAWC is proposing a SEC rider that results in an annualized revenue recovery of $2,687,609 or a surcharge of 5.71%. This is an increase of $1,022,797 and an increase of 2.17%. Again, this is shown on the new tariff <u>Fourth Revised Sheet No. 12 – Riders – 1</u> which reflects all three Capital Recovery Riders and is attached to my testimony as **<u>Petitioner's Exhibit Proposed Sheet No. 12- Riders - LCB</u>**.

Q. WHAT IS THE IMPACT TO THE AVERAGE CUSTOMER BILL?

A. The typical residential customer living in the City of Chattanooga, and using an average of 4,154 gallons per month will see an increase in their bill of $0.95 per month, or $11.40 per year. This is an increase of 4.40% over the current monthly average bill. A summary of this information is attached to my testimony as **<u>Petitioner's Exhibit Avg. Impact – LCB</u>**.

Q. ARE THE QIIP RIDER, THE EDI RIDER AND THE SEC RIDER STILL IN THE PUBLIC INTEREST?

A. Yes. As I noted at the outset herein, and as outlined by TAWC in much detail and with supporting documentation TRA Docket No. 13-00130, the QIIP, the EDI and the SEC Riders are mutually beneficial to the ratepayers, the public, and TAWC. Among other things, the capital riders reduce the need for general rate cases, lessen the occurrence of consumer "rate shock," support the maintenance and improvement of essential infrastructure, support opportunities for successful economic development, growth and job creation, ensure safety and reliability, and allow for more efficient, streamlined regulation. The ratepayers and the public benefit from the safety and reliability components and from the more seamless and timely capital investment in infrastructure, coupled with the related support to economic development, growth and job creation. The Company benefits from a more efficient, streamlined regulatory process that presents TAWC with the opportunity to timely recover its expenses and earn a fair rate of return on its investments. Without the approved alternative rate mechanisms, and specifically without the capital riders, TAWC would be preparing another general rate case. Tennessee American understands that the purpose of the new legislation — Tenn. Code Ann. § 65-5-103 *et. seq.*, — was, in part, to encourage an increase in certain types of infrastructure investment and recovery by utilities, while reducing the costs to consumers and utilities for regulatory review and implementation, and promoting rate gradualism for consumers. TAWC believes the approved capital recovery riders are achieving that goal.

As reflected in the evidentiary record in TRA Docket No. 13-00130, the US Environmental Protection Agency and the American Society of Civil Engineers have published reports regarding the significant capital needs for water and wastewater infrastructure in the United States, including here in Tennessee. A substantial portion of TAWC's distribution infrastructure is between 50 and 100 years old, and TAWC needs to continue to invest in replacing its infrastructure in order to meet its obligation to provide safe, reliable drinking water to its customers. The QIIP rider is assisting TAWC in responsibly and strategically addressing the systems' infrastructure replacement needs, while helping to increase the time between rate cases and reducing the cost of rate cases to its Customers. As testified to by Company witness Brent O'Neill, TAWC has strategically focused its efforts on mains with the highest maintenance concerns. As evidence of the success of the timely impact of the QIIP to the integrity of the TAWC system, main breaks are down 40% during the period of January 1, 2015 through August 31, 2015, as compared to the 10-year average.

As reflected in the evidentiary record in TRA Docket No. 14-00121, the presence of the new Coca Cola facility in Chattanooga, along with the accompanying jobs and other associated community and public benefits, shows that the EDI rider is working as intended by the Tennessee General Assembly. Moreover, the Company's cooperative and coordinated efforts with the City of Chattanooga to timely address crucial safety, health and reliability issues, including those identified in the US Environmental Protection Agency's April 2013 Consent Decree issued to the City of Chattanooga requiring improvements to the City's sanitary sewer system, demonstrates that the SEC rider is serving our Customers and the public interest as anticipated.

As it pledged to do when it first submitted the capital riders for review and consideration by the agency in TRA Docket No. 13-00130, TAWC has been able to partner with the community to promote economic development, which we believe to be consistent with Tenn. Code Ann. § 65-5-103 *et. seq.*, consistent with the approved QIIP rider, EDI Rider, and SEC Rider, and in the public interest. TAWC has been able to increase infrastructure replacement and meet environmental compliance needs on a timely basis, which we believe to be in the public interest.

Q. ARE YOU AWARE OF ANY CHANGES IN MARKET CONDITION OR OTHER FACTORS THAT MAY AFFECT WHETHER THESE RIDERS ARE STILL IN THE PUBLIC INTEREST?

A. No, I am not.

Q. WHAT DO YOU RECOMMEND WITH REGARD TO THIS PETITION?

A. I recommend that the petition be approved for the increase in the QIIP, EDI and SEC Riders, effective January 1, 2016.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Tennessee American Water Company
Qualified Infrastructure Improvement Program (QIIP)
Economic Development Investment Rider (EDI)
Safety and Environmental Compliance Rider (SEC)
Summary Page

Line Number	Rate Mechanism	Proposed Revenue Requirement*	Percentage Applied to Bill*	Revenue Requirement as Authorized - 2015	Percentage Applied to Bill as Authorized	Impact of Proposed Adjustments on Revenue Requirement	Impact of Proposed Adjustments on Bill Percentage
1							
2	QIIP	$ 2,042,443	4.34%	$ 1,001,897	2.13%	$ 1,040,546	2.21%
3							
4	EDI	34,925	0.07%	22,616	0.05%	$ 12,308	0.02%
5							
6	SEC	2,687,609	5.71%	1,664,812	3.54%	$ 1,022,797	2.17%
7							
8	**Total**	**$ 4,764,977**	**10.12%**	**$ 2,689,326**	**5.72%**	**$ 2,075,651**	**4.40%**
9							
10							

*Includes Def. Tax, Accum. Depreciation, Forfeited Discount Gross Up and does not include w/out TRA Gross Up

Petitioner's Exhibit -- Summary -- LCB
Page 1 of 1

Tennessee American Water Company
Qualified Infrastructure Improvement Program (QIIP)
Economic Development Rider (EDI)
Safety and Environmental Compliance Rider (SEC)
Average Residential Bill Impact
5/8" Meter and Usage of 5.55 CCF (or 41.54 100 Gallons)

Line Number	Area	Meter Fee	Volumetric Charges	Bill Before Surcharges	2015 Authorized Capital Surcharges at 5.72%	2015 PCOP at -0.73%	Total 2015 Authorized Surcharges	2016 QIIP Surcharge at 2.21%	2016 EDI Surcharge at 0.02%	2016 SEC Surcharge at 2.17%	2016 Proposed Capital Adjustments	Total Proposed Surcharges
1												
2	Chattanooga	$ 13.96	$ 7.60	$ 21.56	$ 1.23	$ (0.16)	$ 1.08	$ 0.48	$ 0.00	$ 0.47	$ 0.95	$ 2.02
3												
4	Lookout Mountain	$ 15.66	$ 12.39	$ 28.05	$ 1.60	$ (0.20)	$ 1.40	$ 0.62	$ 0.01	$ 0.61	$ 1.23	$ 2.63
5												
6	Lakeview	$ 15.66	$ 9.16	$ 24.82	$ 1.42	$ (0.18)	$ 1.24	$ 0.55	$ 0.00	$ 0.54	$ 1.09	$ 2.33
7												
8	Suck Creek	$ 30.60	$ 16.12	$ 46.72	$ 2.67	$ (0.34)	$ 2.33	$ 1.03	$ 0.01	$ 1.01	$ 2.06	$ 4.39
9												
10	Lone Oak	$ 42.03	$ 15.65	$ 57.68	$ 3.30	$ (0.42)	$ 2.88	$ 1.27	$ 0.01	$ 1.25	$ 2.54	$ 5.42
11												

Petitioner's Exhibit -- Avg Impact -- LCB
Page 1 of 1

Tennessee American Water
Qualified Infrastructure Improvement Program (QIIP)
Calculation of QIIP Revenue Requirement

Line Number	Description		QIIP Company Totals
1	Additions Subject to QIIP:	$	15,180,466
2	Plus: Cost of Removal less Salvage		844,707
3	Less: Contributions in Aid to Construction (CIAC)		-
4	Less: Deferred Income Taxes		63,026
5	Less: Accumulated Depreciation		302,523
6	Net Investment Supplied QIIP Additions:	$	15,659,624
7			
8	Pre-Tax Rate of Return:		9.45%
9	Pre-Tax Return on Additions:	$	1,480,520
10			
11	Depreciation Expense on QIIP Additions:		293,345
12			
13	Property and Franchise Taxes Associated with QIIP:		203,404
14			
15	QIIP Revenues:	$	1,977,269
16			
17	Revenue Taxes		3.19%
18	Total QIIP Revenues with Revenue Taxes	$	2,042,443
19			
20	Volumetric and Metered Revenue as Per Docket No. 12-00049	$	47,073,724
21			
22	QIIP Percentage to Apply to Bill:		4.34%
23			

Petitioner's Exhibit -- QIIP 1 --LCB
Page 1 of 1

Tennessee American Water Company
Qualified Infrastructure Improvement Program (QIIP)
Investment Worksheet

Line #	Investment by Plant Account	QIIP Account Description	1 Additions	2 Retirements	3 CIAC	4 = 1 + 2 Net Investments (for Prop Tax)	5 Cost of Removal Net of Salvage	B Accumulated Deferred Income Taxes	C Accumulated Depreciation	6 = 1 + 3 + 5 + B Earnings Basis Net Investment	7 = 6 x 9.4544% Earnings Basis x PTR
1	320100	WT Equip Non-Media									
2	Recurring Projects		$ 2,337,229	$ -	$ -	$ 2,337,229	$ -	$ (34,507)	$ (49,002)	$ 2,253,721	$ 213,075
3	Investment Projects		4,432,970	-	-	4,432,970	-	(7,912)	(24,160)	4,400,898	416,078
4	Total QIP		$ 6,770,199	$ -	$ -	$ 6,770,199	$ -	$ (42,419)	$ (73,161)	$ 6,654,619	$ 629,153
5											
6	330000	Dist Reservoirs & Standpipes									
7	Recurring Projects		$ 22,832	$ -	$ -	$ 22,832	$ 0	$ (175)	$ (938)	$ 21,719	$ 2,053
8	Investment Projects		-	-	-	-	-	-	-	-	-
9	Total QIP		$ 22,832	$ -	$ -	$ 22,832	$ 0	$ (175)	$ (938)	$ 21,719	$ 2,053
10											
11	330003	Tank Repainting									
12	Recurring Projects		$ 500,000	$ -	$ -	$ 500,000	$ -	$ 11,988	$ (38,482)	$ 473,506	$ 44,767
13	Investment Projects		-	-	-	-	-	-	-	-	-
14	Total QIP		$ 500,000	$ -	$ -	$ 500,000	$ -	$ 11,988	$ (38,482)	$ 473,506	$ 44,767
15											
16	330200	Ground Level Tanks									
17	Recurring Projects		$ -	$ (446)	$ -	$ (446)	$ 977	$ (8)	$ 24	$ 994	$ 94
18	Investment Projects		-	-	-	-	-	-	-	-	-
19	Total QIP		$ -	$ (446)	$ -	$ (446)	$ 977	$ (8)	$ 24	$ 994	$ 94
20											
21	331001	Transmission & Distribution Mains									
22	Recurring Projects		$ 4,865,398	$ (81,327)	$ -	$ 4,784,071	$ 426,166	$ (35,462)	$ (73,285)	$ 5,182,816	$ 490,003
23	Investment Projects		-	-	-	-	-	-	-	-	-
24	Total QIP		$ 4,865,398	$ (81,327)	$ -	$ 4,784,071	$ 426,166	$ (35,462)	$ (73,285)	$ 5,182,816	$ 490,003
25											
26	333000	Services									
27	Recurring Projects		$ 868,216	$ (9,520)	$ -	$ 858,696	$ 143,391	$ (8,471)	$ (13,491)	$ 989,645	$ 93,565
28	Investment Projects		-	-	-	-	-	-	-	-	-
29	Total QIP		$ 868,216	$ (9,520)	$ -	$ 858,696	$ 143,391	$ (8,471)	$ (13,491)	$ 989,645	$ 93,565
30											
31	334100	Meters									
32	Recurring Projects		$ 809,902	$ (2,828)	$ -	$ 807,075	$ 149,905	$ 13,868	$ (53,058)	$ 920,617	$ 87,039
33	Investment Projects		-	-	-	-	-	-	-	-	-
34	Total QIP		$ 809,902	$ (2,828)	$ -	$ 807,075	$ 149,905	$ 13,868	$ (53,058)	$ 920,617	$ 87,039
35											
36	334200	Meter Installations									
37	Recurring Projects		$ 909,242	$ (7,552)	$ -	$ 901,690	$ 106,917	$ (832)	$ (36,425)	$ 978,901	$ 92,549
38	Investment Projects		-	-	-	-	-	-	-	-	-
39	Total QIP		$ 909,242	$ (7,552)	$ -	$ 901,690	$ 106,917	$ (832)	$ (36,425)	$ 978,901	$ 92,549
40											
41	335000	Hydrants									
42	Recurring Projects		$ 434,677	$ (23,794)	$ -	$ 410,883	$ 17,352	$ (1,515)	$ (13,707)	$ 436,807	$ 41,29[illegible]
43	Investment Projects		-	-	-	-	-	-	-	-	-
44	Total QIP		$ 434,677	$ (23,794)	$ -	$ 410,883	$ 17,352	$ (1,515)	$ (13,707)	$ 436,807	$ 41,297
45											
46	Expense:										
47			$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
48			-	-	-	-	-	-	-	-	-
49			-	-	-	-	-	-	-	-	-
50	Total		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
51											

Petitioner's Exhibit – QIIP 2 – LCB
Page 1 of 4

Tennessee American Water Company
Qualified Infrastructure Improvement Program (QIIP)
Investment Worksheet

			1	2	3	4	5	B	C	6	7
		QIIP				= 1 + 2				= 1 + 3 + 5 +B	= 6 x 9.4544%
Line #	Investment by Plant Account	Account Description	Additions	Retirements	CIAC	Net Investments (for Prop Tax)	Cost of Removal Net of Salvage	Accumulated Deferred Income Taxes	Accumulated Depreciation	Earnings Basis Net Investment	Earnings Basis x PTR
52	Total		$ 15,180,466	$ (125,466)	$ -	$ 15,055,000	$ 844,707	$ (63,026)	$ (302,523)	$ 15,659,624	$ 1,480,520
53											
54											
55											

Line #	Investment by Plant Account	Account Description	Depr Exp	Prop Tax & Franchise Fees	Operational Expenses	Total Before Revenue Tax	Total With Revenue Tax
		QIIP	8	9	10	11	12
			=(1+2+3)x Depreciation Rate	= (4 x Prop Tax Rate) + (4 x Franchise Rate)		= 7 + 8 + 9 + 10	= 11 / (1 - 4.482%)
1	320100	WT Equip Non-Media					
2	Recurring Projects		$ 25,476	$ 31,578	$ -	$ 270,129	$ 279,033
3	Investment Projects		48,319	59,893	-	524,290	541,571
4	Total QIP		$ 73,795	$ 91,470	$ -	$ 794,418	$ 820,604
5							
6	330000	Dist Reservoirs & Standpipes					
7	Recurring Projects		$ 475	$ 308	$ -	$ 2,837	$ 2,930
8	Investment Projects		-	-	-	-	-
9	Total QIP		$ 475	$ 308	$ -	$ 2,837	$ 2,930
10							
11	330003	Tank Repainting					
12	Recurring Projects		$ 55,400	$ 6,755	$ -	$ 106,922	$ 110,447
13	Investment Projects		-	-	-	-	-
14	Total QIP		$ 55,400	$ 6,755	$ -	$ 106,922	$ 110,447
15							
16	330200	Ground Level Tanks					
17	Recurring Projects		$ (12)	$ (6)	$ -	$ 76	$ 78
18	Investment Projects		-	-	-	-	-
19	Total QIP		$ (12)	$ (6)	$ -	$ 76	$ 78
20							
21	331001	Transmission & Distribution Mains					
22	Recurring Projects		$ 59,801	$ 64,636	$ -	$ 614,440	$ 634,693
23	Investment Projects		-	-	-	-	-
24	Total QIP		$ 59,801	$ 64,636	$ -	$ 614,440	$ 634,693
25							
26	333000	Services					
27	Recurring Projects		$ 9,532	$ 11,602	$ -	$ 114,698	$ 118,479
28	Investment Projects		-	-	-	-	-
29	Total QIP		$ 9,532	$ 11,602	$ -	$ 114,698	$ 118,479
30							
31	334100	Meters					
32	Recurring Projects		$ 60,288	$ 10,904	$ -	$ 158,231	$ 163,447
33	Investment Projects		-	-	-	-	-
34	Total QIP		$ 60,288	$ 10,904	$ -	$ 158,231	$ 163,447
35							
36	334200	Meter Installations					
37	Recurring Projects		$ 24,616	$ 12,182	$ -	$ 129,348	$ 133,611
38	Investment Projects		-	-	-	-	-
39	Total QIP		$ 24,616	$ 12,182	$ -	$ 129,348	$ 133,611
40							
41	335000	Hydrants					
42	Recurring Projects		$ 9,450	$ 5,551	$ -	$ 56,299	$ 58,155
43	Investment Projects		-	-	-	-	-
44	Total QIP		$ 9,450	$ 5,551	$ -	$ 56,299	$ 58,155
45							
46	Expense:						
47			$ -	$ -	$ -	$ -	$ -
48			-	-	-	-	-
49			-	-	-	-	-
50	Total		$ -	$ -	$ -	$ -	$ -
51							

		QIIP	8 =(1+2+3)x Depreciation Rate	9 = (4 x Prop Tax Rate) + (4 x Franchise Rate)	10	11 = 7 + 8 + 9 + 10	12 = 11 / (1 - 4.482%)
Line #	**Investment by Plant Account**	**Account Description**	**Depr Exp**	**Prop Tax & Franchise Fees**	**Operational Expenses**	**Total Before Revenue Tax**	**Total With Revenue Tax**
52	**Total**		**$ 293,345**	**$ 203,404**	**$ -**	**$ 1,977,269**	**$ 2,042,443**
53							
54							
55							

Petitioner's Exhibit -- QIIP 2 -- LCB
Page 4 of 4

Tennessee American Water
Economic Development Investment (EDI)
Calculation of EDI Revenue Requirement

Line Number	Description		EDI Company Totals
1	Additions Subject to EDI:	$	279,034
2	Plus: Cost of Removal less Salvage		-
3	Less: Contributions in Aid to Construction (CIAC)		-
4	Less: Deferred Income Taxes		1,134
5	Less: Accumulated Depreciation		4,588
6	Net Investment Supplied EDI Additions:	$	273,313
7			
8	Pre-Tax Rate of Return:		9.45%
9	Pre-Tax Return on Additions:	$	25,840
10			
11	Depreciation Expense on EDI Additions:		4,200
12			
13	Operational Expenses Related to EDI		-
14			
15	Property and Franchise Taxes Associated with EDI:		3,770
16			
17	EDI Revenues:	$	33,810
18			
19	Revenue Taxes		3.19%
20	Total EDI Revenues with Revenue Taxes	$	34,925
21			
22	Volumetric and Metered Revenue as Per Docket No. 12-00049	$	47,073,724
23			
24	EDI Percentage to Apply to Bill:		0.07%
25			

Petitioners' Exhibit - EDI 1 - LCB
Page 1 of 1

Tennessee American Water Company
Economic Development Investment (EDI)
Investment Worksheet

			1	2	3	4	5	B	C	6	7
		EDI				= 1 + 2				= 1 + 3 + 5 + B	= 6 x 9.4544%
Line #	**Investment by Plant Account**	**Account Description**	**Additions**	**Retirements**	**CIAC**	**Net Investments (for Prop Tax)**	**Cost of Removal Net of Salvage**	**Accumulated Deferred Income Taxes**	**Accumulated Depreciation**	**Earnings Basis Net Investment**	**Earnings Basis x PTR**
1	**331001**	**Transmission & Distribution Mains**									
2	Recurring Projects		$ 211,190	$ -	$ -	$ 211,190	$ -	$ (882)	$ (2,249)	$ 208,059	$ 19,671
3	Investment Projects		-	-	-	-	-	-	-	-	-
4	Total QIP		$ 211,190	$ -	$ -	$ 211,190	$ -	$ (882)	$ (2,249)	$ 208,059	$ 19,671
5											
6	**335000**	**Hydrants**									
7	Recurring Projects		$ 67,844	$ -	$ -	$ 67,844	$ -	$ (251)	$ (2,339)	$ 65,253	$ 6,169
8	Investment Projects		-	-	-	-	-	-	-	-	-
9	Total QIP		$ 67,844	$ -	$ -	$ 67,844	$ -	$ (251)	$ (2,339)	$ 65,253	$ 6,169
10											
11	**Expense:**										
12			$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
13			-	-	-	-	-	-	-	-	-
14			-	-	-	-	-	-	-	-	-
15	Total		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
16											
17	**Total**		**$ 279,034**	**$ -**	**$ -**	**$ 279,034**	**$ -**	**$ (1,134)**	**$ (4,588)**	**$ 273,313**	**$ 25,840**
18											
19											

Petitioners' Exhibit - EDI 2 - LCB
Page 1 of 2

			8	9	10	11	12
		EDI	=(1+2+3)x Depreciation Rate	= (4 x Prop Tax Rate) + (4 x Franchise Rate)		= 7 + 8 + 9 + 10	= 11 / (1 - 4.482%)
Line #	Investment by Plant Account	Account Description	Depr Exp	Prop Tax & Franchise Fees	Operational Expenses	Total Before Revenue Tax	Total With Revenue Tax
1	331001	Transmission & Distribution Mains					
2	Recurring Projects		$ 2,640	$ 2,853	$ -	$ 25,164	$ 25,993
3	Investment Projects		-	-	-	-	-
4	Total QIP		$ 2,640	$ 2,853	$ -	$ 25,164	$ 25,993
5							
6	335000	Hydrants					
7	Recurring Projects		$ 1,560	$ 917	$ -	$ 8,646	$ 8,931
8	Investment Projects		-	-	-	-	-
9	Total QIP		$ 1,560	$ 917	$ -	$ 8,646	$ 8,931
10							
11	Expense:						
12			$ -	$ -		$ -	$ -
13			-	-		-	-
14			-	-	-	-	-
15	Total		$ -	$ -	$ -	$ -	$ -
16							
17	**Total**		**$ 4,200**	**$ 3,770**	**$ -**	**$ 33,810**	**$ 34,925**
18							
19							

Petitioners' Exhibit - EDI 2 - LCB
Page 2 of 2

Tennessee American Water
Safety and Environmental Compliance (SEC)
Calculation of SEC Revenue Requirement

Line Number	Description		SEC Company Totals
1	Additions Subject to SEC:	$	20,211,658
2	Plus: Cost of Removal less Salvage		98,664
3	Less: Contributions in Aid to Construction (CIAC)		-
4	Less: Deferred Income Taxes		(19,764)
5	Less: Accumulated Depreciation		711,243
6	Net Investment Supplied SEC Additions:	$	19,618,842
7			
8	Pre-Tax Rate of Return:		9.45%
9	Pre-Tax Return on Additions:	$	1,854,839
10			
11	Depreciation Expense on SEC Additions:		479,345
12			
13	Operational Expenses Related to SEC		-
14			
15	Property and Franchise Taxes Associated with SEC:		267,663
16			
17	SEC Revenues:	$	2,601,847
18			
19	Revenue Taxes		3.19%
20	Total SEC Revenues with Revenue Taxes	$	2,687,609
21			
22	Volumetric and Metered Revenue as Per Docket No. 12-00049	$	47,073,724
23			
24	SEC Percentage to Apply to Bill:		5.71%
25			

Petitioner's Exhibit -- SEC 1 -- LCB
Page 1 of 1

Tennessee American Water Company
Safety and Environmental Compliance (SEC)
Investment Worksheet

Line #	Investment by Plant Account	SEC Account Description	1 Additions	2 Retirements	3 CIAC	4 = 1 + 2 Net Investments (for Prop Tax)	5 Cost of Removal Net of Salvage	B Accumulated Deferred Income Taxes	C Accumulated Depreciation	6 = 1 + 3 + 5 +B Earnings Basis Net Investment
1	304100	Structures & Improvement-Supply								
2	Recurring Projects		$ 132,235	$ -	$ -	$ 132,235	$ 117	$ (28)	$ (4,425)	$ 127,898
3	Investment Projects		-	-	-	-	-	-	-	-
4	Total QIP		$ 132,235	$ -	$ -	$ 132,235	$ 117	$ (28)	$ (4,425)	$ 127,898
5										
6	304300	Structures & Improvement-WT								
7	Recurring Projects		$ -	$ (4,987)	$ -	$ (4,987)	$ 200	$ (128)	$ 363	$ 436
8	Investment Projects		23,077	(201)	-	22,876	23,077	94	(470)	45,778
9	Total QIP		$ 23,077	$ (5,187)	$ -	$ 17,890	$ 23,277	$ (34)	$ (107)	$ 46,213
10										
11	304400	Structures & Improvement-T&D								
12	Recurring Projects		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
13	Investment Projects		15,300,000	-	-	15,300,000	-	32,975	(360,462)	14,972,514
14	Total QIP		$ 15,300,000	$ -	$ -	$ 15,300,000	$ -	$ 32,975	$ (360,462)	$ 14,972,514
15										
16	304500	Structures & Improvement - General								
17	Recurring Projects		$ 276,193	$ (45,068)	$ -	$ 231,125	$ -	$ (477)	$ (2,094)	$ 273,622
18	Investment Projects		-	-	-	-	-	-	-	-
19	Total QIP		$ 276,193	$ (45,068)	$ -	$ 231,125	$ -	$ (477)	$ (2,094)	$ 273,622
20										
21	309000	Supply Mains								
22	Recurring Projects		$ 9,862	$ -	$ -	$ 9,862	$ -	$ (55)	$ (353)	$ 9,454
23	Investment Projects		-	-	-	-	-	-	-	-
24	Total QIP		$ 9,862	$ -	$ -	$ 9,862	$ -	$ (55)	$ (353)	$ 9,454
25										
26	310000	Power Generation Equip								
27	Recurring Projects		$ 25,066	$ -	$ -	$ 25,066	$ 115	$ 770	$ (6,713)	$ 19,238
28	Investment Projects		-	-	-	-	-	-	-	-
29	Total QIP		$ 25,066	$ -	$ -	$ 25,066	$ 115	$ 770	$ (6,713)	$ 19,238
30										
31	311200	Pump Eqp Electric								
32	Recurring Projects		$ -	$ (5,857)	$ -	$ (5,857)	$ 614	$ (90)	$ 299	$ 823
33	Investment Projects		-	-	-	-	-	-	-	-
34	Total QIP		$ -	$ (5,857)	$ -	$ (5,857)	$ 614	$ (90)	$ 299	$ 823
35										
36	311520	Pumping Equipment SOS								
37	Recurring Projects		$ 777,635	$ (43,090)	$ -	$ 734,546	$ 4,655	$ (3,038)	$ (14,144)	$ 765,108
38	Investment Projects		-	-	-	-	-	-	-	-
39	Total QIP		$ 777,635	$ (43,090)	$ -	$ 734,546	$ 4,655	$ (3,038)	$ (14,144)	$ 765,108
40										
41	320100	WT Equip Non-Media								
42	Recurring Projects		$ 2,082,568	$ (13,183)	$ -	$ 2,069,384	$ 5,934	$ 74,958	$ (248,438)	$ 1,915,021
43	Investment Projects		-	-	-	-	-	-	-	-
44	Total QIP		$ 2,082,568	$ (13,183)	$ -	$ 2,069,384	$ 5,934	$ 74,958	$ (248,438)	$ 1,915,021
45										
46	320200	Water Trmt Equip Filter Media								
47	Recurring Projects		$ 376,215	$ (140,862)	$ -	$ 235,353	$ 63,940	$ 10,690	$ (43,813)	$ 407,032
48	Investment Projects		-	-	-	-	-	-	-	-
49	Total QIP		$ 376,215	$ (140,862)	$ -	$ 235,353	$ 63,940	$ 10,690	$ (43,813)	$ 407,032
50										
51	340200	Computer & Peripheral Equipment								

Petitioner's Exhibit -- SEC 2 -- LCB
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Tennessee American Water Company
Safety and Environmental Compliance (SEC)
Investment Worksheet

			1	2	3	4	5	B	C	6
		SEC				= 1 + 2				= 1 + 3 + 5 +B
Line #	Investment by Plant Account	Account Description	Additions	Retirements	CIAC	Net Investments (for Prop Tax)	Cost of Removal Net of Salvage	Accumulated Deferred Income Taxes	Accumulated Depreciation	Earnings Basis Net Investment
52	Recurring Projects		$ 1,006,614	$ -	$ -	$ 1,006,614	$ -	$ (66,962)	$ (18,474)	$ 921,178
53	Investment Projects		-	-	-	-	-	-	-	-
54	Total QIP		$ 1,006,614	$ -	$ -	$ 1,006,614	$ -	$ (66,962)	$ (18,474)	$ 921,178
55										
56	**344000**	**Laboratory Equipment**								
57	Recurring Projects		$ -	$ (147,279)	$ -	$ (147,279)	$ 12	$ (827)	$ 2,358	$ 1,543
58	Investment Projects		-	-	-	-	-	-	-	-
59	Total QIP		$ -	$ (147,279)	$ -	$ (147,279)	$ 12	$ (827)	$ 2,358	$ 1,543
60										
61	**346100**	**Comm Equip Non-Telephone**								
62	Recurring Projects		$ 57,328	$ -	$ -	$ 57,328	$ -	$ (8,008)	$ (4,236)	$ 45,084
63	Investment Projects		-	-	-	-	-	-	-	-
64	Total QIP		$ 57,328	$ -	$ -	$ 57,328	$ -	$ (8,008)	$ (4,236)	$ 45,084
65										
66	**346190**	**Remote Control & Instrument**								
67	Recurring Projects		$ 144,865	$ -	$ -	$ 144,865	$ -	$ (20,110)	$ (10,642)	$ 114,114
68	Investment Projects		-	-	-	-	-	-	-	-
69	Total		$ 144,865	$ -	$ -	$ 144,865	$ -	$ (20,110)	$ (10,642)	$ 114,114
70										
71	**Expense:**									
72	Chemical Expense for WasteWater handling:		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
73	Electric Power Expense for Wasterwater handling:		-	-	-	-	-	-	-	-
74	Hauling Expense for Wasterwater handling:		-	-	-	-	-	-	-	-
75	Total		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
76										
77	**Total**		**$ 20,211,658**	**$ (400,526)**	**$ -**	**$ 19,811,132**	**$ 98,664**	**$ 19,764**	**$ (711,243)**	**$ 19,618,842**
78										

Petitioner's Exhibit -- SEC 2 -- LCB
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			7	8	9	10	11	12
		SEC	= 6 x 9.4544%	=(1+2+3)x Depreciation Rate	= (4 x Prop Tax Rate) + (4 x Franchise Rate)		= 7 + 8 + 9 + 10	= 11 / (1 - 4.482%)
Line #	Investment by Plant Account	Account Description	Earnings Basis x PTR	Depr Exp	Prop Tax & Franchise Fees	Operational Expenses	Total Before Revenue Tax	Total With Revenue Tax
1	304100	Structures & Improvement-Supply						
2	Recurring Projects		$ 12,092	$ 2,618	$ 1,787	$ -	$ 16,497	$ 17,041
3	Investment Projects		-	-	-	-	-	-
4	Total QIP		$ 12,092	$ 2,618	$ 1,787	$ -	$ 16,497	$ 17,041
5								
6	304300	Structures & Improvement-WT						
7	Recurring Projects		$ 41	$ (205)	$ (67)	$ -	$ (231)	$ (239)
8	Investment Projects		4,328	940	309	-	5,577	5,761
9	Total QIP		$ 4,369	$ 735	$ 242	$ -	$ 5,346	$ 5,522
10								
11	304400	Structures & Improvement-T&D						
12	Recurring Projects		$ -	$ -	$ -	$ -	$ -	$ -
13	Investment Projects		1,415,558	325,890	206,714	-	1,948,162	2,012,377
14	Total QIP		$ 1,415,558	$ 325,890	$ 206,714	$ -	$ 1,948,162	$ 2,012,377
15								
16	304500	Structures & Improvement - General						
17	Recurring Projects		$ 25,869	$ 2,612	$ 3,123	$ -	$ 31,604	$ 32,645
18	Investment Projects		-	-	-	-	-	-
19	Total QIP		$ 25,869	$ 2,612	$ 3,123	$ -	$ 31,604	$ 32,645
20								
21	309000	Supply Mains						
22	Recurring Projects		$ 894	$ 184	$ 133	$ -	$ 1,211	$ 1,251
23	Investment Projects		-	-	-	-	-	-
24	Total QIP		$ 894	$ 184	$ 133	$ -	$ 1,211	$ 1,251
25								
26	310000	Power Generation Equip						
27	Recurring Projects		$ 1,819	$ 3,091	$ 339	$ -	$ 5,248	$ 5,421
28	Investment Projects		-	-	-	-	-	-
29	Total QIP		$ 1,819	$ 3,091	$ 339	$ -	$ 5,248	$ 5,421
30								
31	311200	Pump Eqp Electric						
32	Recurring Projects		$ 78	$ (143)	$ (79)	$ -	$ (145)	$ (150)
33	Investment Projects		-	-	-	-	-	-
34	Total QIP		$ 78	$ (143)	$ (79)	$ -	$ (145)	$ (150)
35								
36	311520	Pumping Equipment SOS						
37	Recurring Projects		$ 72,336	$ 13,442	$ 9,924	$ -	$ 95,703	$ 98,857
38	Investment Projects		-	-	-	-	-	-
39	Total QIP		$ 72,336	$ 13,442	$ 9,924	$ -	$ 95,703	$ 98,857
40								
41	320100	WT Equip Non-Media						
42	Recurring Projects		$ 181,053	$ 22,556	$ 27,959	$ -	$ 231,569	$ 239,201
43	Investment Projects		-	-	-	-	-	-
44	Total QIP		$ 181,053	$ 22,556	$ 27,959	$ -	$ 231,569	$ 239,201
45								
46	320200	Water Trmt Equip Filter Media						
47	Recurring Projects		$ 38,482	$ 79,290	$ 3,180	$ -	$ 120,953	$ 124,939
48	Investment Projects		-	-	-	-	-	-
49	Total QIP		$ 38,482	$ 79,290	$ 3,180	$ -	$ 120,953	$ 124,939
50								
51	340200	Computer & Peripheral Equipment						

Petitioner's Exhibit – SEC 2 – LCB
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			7	8	9	10	11	12
		SEC	= 6 x 9.4544%	=(1+2+3)x Depreciation Rate	= (4 x Prop Tax Rate) + (4 x Franchise Rate)		= 7 + 8 + 9 + 10	= 11 / (1 - 4.482%)
Line #	**Investment by Plant Account**	**Account Description**	**Earnings Basis x PTR**	**Depr Exp**	**Prop Tax & Franchise Fees**	**Operational Expenses**	**Total Before Revenue Tax**	**Total With Revenue Tax**
52	Recurring Projects		$ 87,092	$ 22,045	$ 13,600	$ -	$ 122,737	$ 126,782
53	Investment Projects		-	-	-	-	-	-
54	Total QIP		$ 87,092	$ 22,045	$ 13,600	$ -	$ 122,737	$ 126,782
55								
56	**344000**	**Laboratory Equipment**						
57	Recurring Projects		$ 146	$ (1,488)	$ (1,990)	$ -	$ (3,332)	$ (3,441)
58	Investment Projects		-	-	-	-	-	-
59	Total QIP		$ 146	$ (1,488)	$ (1,990)	$ -	$ (3,332)	$ (3,441)
60								
61	**346100**	**Comm Equip Non-Telephone**						
62	Recurring Projects		$ 4,262	$ 2,414	$ 775	$ -	$ 7,450	$ 7,696
63	Investment Projects		-	-	-	-	-	-
64	Total QIP		$ 4,262	$ 2,414	$ 775	$ -	$ 7,450	$ 7,696
65								
66	**346190**	**Remote Control & Instrument**						
67	Recurring Projects		$ 10,789	$ 6,099	$ 1,957	$ -	$ 18,845	$ 19,466
68	Investment Projects		-	-	-	-	-	-
69	Total		$ 10,789	$ 6,099	$ 1,957	$ -	$ 18,845	$ 19,466
70								
71	**Expense:**							
72	Chemical Expense for WasteWater handling:		$ -	$ -	$ -	$ -	$ -	$ -
73	Electric Power Expense for Wasterwater handling:		-	-	-	-	-	-
74	Hauling Expense for Wasterwater handling:		-	-	-	-	-	-
75	Total		$ -	$ -	$ -	$ -	$ -	$ -
76								
77	**Total**		**$ 1,854,839**	**$ 479,345**	**$ 267,663**	**$ -**	**$ 2,601,847**	**$ 2,687,609**
78								

Petitioner's Exhibit -- SEC 2 -- LCB
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CLASSIFICATION OF SERVICE

ECONOMIC DEVELOPMENT INVESTMENT PROGRAM – RIDER

1. Applicability

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Economic Development Investment Program ("EDI") Rider will apply to customers in all service areas.

The above rider will be recomputed annually and be adjusted periodically to incorporate the Annual Reconciliation Factor.

2. Definitions

For the purposes of this Rider:

"Actual EDI Investment Amount" means the amount of actual capital investment and associated operating expenses of the Company for the Economic Development Investment Program and not otherwise included in current base rates. At the time of the Company's next general rate case proceeding, all prudently incurred Actual EDI Investment Amounts associated with this Rider shall be included in base rates.

"Annual Reconciliation Factor" means an adjustment factor to true-up rates from forecasted costs to the actual costs incurred through application of 1) the Budget-to-Actual Adjustment and 2) the Over-Under Collection Adjustment, and the 3) Earnings Test Adjustment, as adjusted for Interest.

"Annual Review Period" means the twelve-month period between the annual adjustments of the EDI Percentage Rate. For the first year beyond the attrition year of the base rate case, this review period may be shorter or longer than a twelve-month period to cover expenditures between the attrition year and the start of the subsequent calendar year.

"Authority" means the Tennessee Regulatory Authority.

"Budget-to-Actual Adjustment" means the adjustment to EDI for the applicable coming annual period due to the difference between the Forecasted EDI Investment and Expense Amount and the Actual EDI Investment and Expense Amount.

"Consumer Advocate" means the Consumer Advocate and Protection Division of the Office of the Tennessee Attorney General.

"Forecasted EDI Investment Amount" means the amount of forecasted capital investment of the Company for the Economic Development Investment Program and not otherwise included in current base rates.

"Over-Under Collection Adjustment" means the adjustment to EDI for the applicable coming annual period due to the net amount of over or under collections.

"Relevant Rate Order" means the final order of the Authority in the most recent rate case of the Company fixing the rates of the Company or the most recent final order of the Authority specifically prescribing or fixing the factors and procedures to be used in the application of this Rider.

3. General Description

EDI allows the Company to recover outside of a rate case its qualifying incremental non-revenue producing plant infrastructure investment and expenses. For purposes of this Rider, qualifying EDI investment includes the following:

Distribution, Production, and Other Infrastructure – Distribution, production, and other
(T) infrastructure that may be identified as being for the purpose of economic development ~~including~~
(T) ~~infrastructure designed to utilize alternative fuels~~.

Economic Development Expenses – Operational expenses that are specifically to support economic development and economic development investment utility plant.

EDI Investment is to be identifiable on the Company's books and segregated into the following general accounts:

Account 331 – Transmission & Distribution Mains;
Account 333 – Services;
Account 334 – Meters & Meter Installations;
Account 335 – Hydrants;
Account 320 – Water Treatment Equipment, Non-Media;
Account 311 – Pumping Equipment;
Account 303 – Land and Land Rights;
Account 304 – Structures and Improvements;
Account 306 – Lake, River and Other Intakes;

(T) Denotes change in text

Account 307 – Wells and Springs;
Account 309 – Supply Mains;
Account 310 – Power Generation Equipment;
(T) ~~Account 341 – Transportation Equipment;~~
Account 330 – Distribution Reservoirs and Standpipes; and
Account 330003 – Capitalized Tank Painting.

4. Determination of the Economic Development Investment Program Percentage Rate

(A) The EDI percentage shall be expressed as a percentage carried to two (2) decimal places. The EDI percentage shall be applied to the total amount billed to each Customer based on the Company's otherwise applicable rates and charges.

(B) The EDI percentage shall be calculated on an annual prospective basis as follows:

FORECASTED EDI Investment Amount
Less EDI Plant Retirements (Net of Cost of Removal & Salvage)
Less Contributions in Aid of Construction
Less Accumulated Depreciation
Less Accumulated Deferred Income Taxes
Net Forecasted EDI Qualifying Investment

Multiplied by the Pre-Tax ROR set forth in the Relevant Rate Order

Allowed Forecasted EDI Pre-Tax Return
Plus Depreciation Expense
Plus Property Taxes
Plus Franchise Taxes
Plus Economic Development Operational Expenses
Subtotal Forecasted EDI Revenue Requirement Before Revenue Tax

Divided by 1 minus the following:
Forfeited Discounts Rate
Plus Uncollectible Expense Rate
Plus Gross Receipts Tax Rate
Total Forecasted EDI Revenue Requirement

Divided by Relevant Rate Order Volumetric & Metered Revenue

(T) Denotes change in text

TENNESSEE-AMERICAN WATER COMPANY **TRA NO. 19**

First Revised Sheet No. 12-EDI-4
Cancelling Original Sheet No. 12-EDI-4

EDI Percentage Rate

Where:

Accumulated Depreciation = Accumulated depreciation calculated by debiting for Forecasted EDI plant removed from service, and crediting for new accumulations using rates approved in the Relevant Rate Order on new investments, less retirements and CIAC.

Accumulated Deferred Income Taxes = An average of the forecasted accumulated deferred income taxes related to qualified forecasted EDI investment at the beginning and end of the year.

Contributions in Aid of Construction = Non-investor supplied funds used in the construction of forecasted EDI infrastructure.

Depreciation Expense = Forecasted cumulative qualified EDI investment net of retirements and CIAC, multiplied by depreciation rates approved in the Relevant Rate Order.

Forfeited Discount Rate = Forecasted EDI Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite forfeited discount factor approved in the Relevant Rate Order.

Franchise Taxes = Forecasted cumulative qualified EDI investment multiplied by composite franchise tax rate approved in the Relevant Rate Order.

Gross Receipts Tax Rate = Forecasted EDI Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite gross receipts tax rate approved in the Relevant Rate Order.

Property Taxes = Forecasted cumulative qualified EDI investment multiplied by composite property tax rate approved in the Relevant Rate Order.

EDI Plant Retirements = Forecasted EDI plant removed from service net of any associated cost of removal and salvage.

ISSUED: August 28, 2015 **EFFECTIVE: August 28, 2015**

BY: Deron Allen

Deron E. Allen
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

Forecasted EDI Investment Amount = Average forecasted EDI additions to plant infrastructure as described in Section 3, computed by use of average of 12 end-of-month balances.

Economic Development Expenses = the incremental operational expenses that are specifically to support economic development or economic development utility plant.

Uncollectible Expense = Forecasted EDI Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite uncollectible factor approved in the Relevant Rate Order.

Volumetric & Metered Revenue = the revenues authorized in the Relevant Rate Order for volumetric water sales, meter charges, and private fire service charges.

(C) The total amount to be recovered through the EDI is the EDI Percentage Rate as adjusted for the Annual Reconciliation Factor Percentage Rate.

5. Determination of the Annual Reconciliation Factor Percentage Rate

(A) The Annual Reconciliation Factor Percentage shall be expressed as a percentage carried to two (2) decimal places. The Annual Reconciliation Factor Percentage shall be applied to the total amount billed to each Customer based on the Company's otherwise applicable rates and charges.

(B) The Annual Reconciliation Factor Percentage Rate will be computed as follows:

Budget-to-Actual Adjustment
Plus Over-Under Collection Adjustment
Plus Earnings Test Adjustment
Plus Interest
Annual Reconciliation Amount

Divided by 9/12 of the Relevant Rate Order Volumetric & Metered Revenue

Annual Reconciliation Factor Percentage Rate

(C) Computation of the Budget-to-Actual Adjustment.

The Budget-to-Actual Adjustment will be computed as follows:

TENNESSEE-AMERICAN WATER COMPANY **TRA NO. 19**

First Revised Sheet No. 12-EDI-6
Cancelling Original Sheet No. 12-EDI-6

ACTUAL EDI Investment Amount for the Annual Review Period
Less EDI Plant Retirements (Net of Cost of Removal & Salvage)
Less Contributions in Aid of Construction
Less Accumulated Depreciation
Less Accumulated Deferred Income Taxes
Net Actual EDI Qualifying Investment

Multiplied by the Pre-Tax ROR set forth in the Relevant Rate Order

Allowed Actual EDI Pre-Tax Return
Plus Depreciation Expense
Plus Property Taxes
Plus Franchise Taxes
Plus Economic Development Operational Expenses
Subtotal Actual EDI Revenue Requirement Before Revenue Tax

Divided by 1 minus the following:

Forfeited Discounts Rate
Plus Uncollectible Expense Rate
Plus Gross Receipts Tax Rate
Total Actual EDI Revenue Requirement

Less Total Forecasted EDI Revenue Requirement

Budget-to-Actual Adjustment

Where:

Accumulated Depreciation = Accumulated depreciation calculated by debiting for Forecasted EDI plant removed from service, and crediting for new accumulations using rates approved in the Relevant Rate Order on new investments, less retirements and CIAC

Accumulated Deferred Income Taxes = An average of the actual accumulated deferred income taxes related to actual EDI investment at the beginning and end of the year.

ISSUED: **August 28, 2015** **EFFECTIVE: August 28, 2015**

BY:

Deron E. Allen
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

Contributions in Aid of Construction = Non-investor supplied funds used in the construction of actual EDI infrastructure.

Depreciation Expense = Actual cumulative qualified EDI investment net of retirements and CIAC multiplied by depreciation rates approved in the Relevant Rate Order.

Forfeited Discount Rate = Actual EDI Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite forfeited discount factor approved in the Relevant Rate Order.

Franchise Taxes = Actual cumulative qualified EDI investment multiplied by composite franchise tax rate approved in the Relevant Rate Order.

Gross Receipts Tax Rate = Actual EDI Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite gross receipts tax rate approved in the Relevant Rate Order.

Property Taxes = Actual cumulative qualified EDI investment multiplied by composite property tax rate approved in the Relevant Rate Order.

EDI Plant Retirements = Actual EDI plant removed from service net of any associated cost of removal and salvage.

Actual EDI Investment Amount = Average actual EDI additions to plant infrastructure as described in Section 3, computed by use of average of 12 end-of-month balances.

Economic Development Expenses = the incremental operational expenses that are specifically to support economic development or economic development utility plant.

Uncollectible Expense = Actual EDI Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite uncollectible factor approved in the Relevant Rate Order.

Volumetric & Metered Revenue = the revenues authorized in the Relevant Rate Order for volumetric water sales, meter charges, and private fire service charges.

(D) Computation of the Over-Under Collection Adjustment.

The Company will identify and record the total amount of the EDI Collected from Customers for the Annual Review Period. The difference between the Total EDI Collected from Customers and the Total Actual EDI Revenue Requirement shall constitute the Over-Under Collection Adjustment.

(E) Computation of the Earnings Test Adjustment.

If the earnings attained by the Company for the Annual Review Period exceed the earnings allowed for the Annual Review Period by applying the overall rate of return authorized in the Relevant Rate Order, then any such earnings difference shall constitute the Earnings Test Adjustment. If the earnings attained by the Company for the Annual Review Period are less than the earnings allowed for the Annual Review Period by applying the overall rate of return authorized in the Relevant Rate Order, then no Earnings Test Adjustment shall be recognized.

Any Earnings Test Adjustment shall be allocated among the Qualified Infrastructure Improvement Program Rider, the Economic Development Investment Rider, and the Safety and Environmental Compliance Rider based on the pro-rata revenues collected under these riders for the Annual Review Period for purposes of computing new rate adjustments.

(F) Computation of Interest.

Interest will be computed as follows:

Budget-to-Actual Adjustment
Plus Over-Under Collection Adjustment
Plus Earnings Test Adjustment

Total Amount Subject to Interest
Interest Rate Multiplied by 50%

Total Interest

Where "Interest Rate" equals the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the most recent preceding month.

6. New Base Rates

The EDI rider will be reset at zero upon the establishment of new base rates to customer billings that provide for the prospective recovery of the annual costs that had theretofore been recovered under the EDI. Thereafter, only the costs of new EDI eligible plant additions that have not previously been reflected in the Company's rate base, would be reflected in new annual prospective EDI filings.

7. Annual EDI Percentage Rate Filing

On or before December 1 of each year, the Company shall submit to the Authority a calculation of the EDI Percentage Rate for the following calendar year. The Annual EDI Percentage Rate Filing shall be verified by an officer of the Company. The Annual EDI Percentage Rate Filing shall include a calculation to adjust revenue to recover costs related to the Forecasted EDI Investment Amount, with such revenue adjustment applied through the EDI Percentage Rate. The EDI Percentage Rate shall become effective on January 1 of each year and be applied as an adjustment to Customers' bills for the remainder of the calendar year.

The Company will include in its Annual EDI Percentage Rate Filing the following information at a minimum: (a) computation of the EDI Percentage Rate, including the detailed calculation of each component, (b) a budget of the Forecasted EDI Investment Amount and Forecasted Economic Development Operational Expenses adopted by the Company's Board of Directors, (c) any related Strategic Capital Expenditures Plans, (d) statements demonstrating how each projected capital investment comprising the Forecasted EDI Investment Amount and each projected operational expense comprising the Forecasted Economic Development Operational Expenses meet the requirements for recovery under this Rider set forth in Section 3, and (e) such other information as the Authority may direct.

The Company will simultaneously copy the Consumer Advocate on its Annual EDI Percentage Rate Filing.

8. Annual Reconciliation Filing with the Authority

On or before March 1 of each year, the Company shall submit to the Authority a reconciliation of the results of the operation of the EDI for the previous Annual Review Period. The Annual Reconciliation Filing shall be verified by an officer of the Company. The annual reconciliation shall include a calculation to adjust revenue collected under this EDI Rider in effect for the prior Annual Review Period to an amount equivalent to the actual level of prudently-incurred EDI cost for the prior Annual Review Period, with such revenue adjustment applied through the Annual Reconciliation Factor Percentage Rate. The Annual Reconciliation Factor Percentage Rate shall become effective on April 1 of each year and be applied as an adjustment to Customers' bills for the remainder of the calendar year.

The Company will include in its Annual Reconciliation Filing the following information at a minimum: (a) a schedule of all journal entries made related to this Rider for the Annual Review Period, including any related general ledger support, (b) actual billing determinants by month as used in the computation of the Total EDI Collected from Customers for the Annual Review Period, (c) capitalization policy effective for the Annual Review Period, (d) computation of the Annual Reconciliation Factor Percentage Rate, including the detailed calculation of each component, (e) schedules of the Actual EDI Investment Amount and Actual Economic Development Operational Expenses, including related general ledger support, (f) a schedule of any proposed prior period adjustments, (g) an affirmative statement of whether the Company is aware of any changes in market conditions or other factors that may affect whether the Rider is still in the public interest, including the identification of such factors if they exist, (h) the cumulative amount of EDI collected from customers under this Rider, and (i) such other information as the Authority may direct.

The Company will simultaneously copy the Consumer Advocate on its Annual Reconciliation Filing.

9. Notice Requirements

The Company will file revised tariffs for Authority approval upon 30 days' notice to implement a decrement or an increment each January 1 and April 1. Along with the tariff filing, the Company will include a copy of the computation of the new rate adjustment. The Company will simultaneously copy the Consumer Advocate on this filing.

10. Public Interest Review

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

CLASSIFICATION OF SERVICE

QUALIFIED INFRASTRUCTURE IMPROVEMENT PROGRAM – RIDER

1. Applicability

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider will apply to customers in all service areas.

The above rider will be recomputed annually and be adjusted periodically to incorporate the Annual Reconciliation Factor.

2. Definitions

For the purposes of this Rider:

"Actual QIIP Investment Amount" means the amount of actual capital investment of the Company for the Qualified Infrastructure Improvement Program and not otherwise included in current base rates. At the time of the Company's next general rate case proceeding, all prudently incurred Actual QIIP Investment Amounts associated with this Rider shall be included in base rates.

"Annual Reconciliation Factor" means an adjustment factor to true-up rates from forecasted costs to the actual costs incurred through application of 1) the Budget-to-Actual Adjustment and 2) the Over-Under Collection Adjustment, and the 3) Earnings Test Adjustment, as adjusted for Interest.

"Annual Review Period" means the twelve-month period between the annual adjustments of the QIIP Percentage Rate.

"Authority" means the Tennessee Regulatory Authority.

"Budget-to-Actual Adjustment" means the adjustment to QIIP for the applicable coming annual period due to the difference between the Forecasted QIIP Investment Amount and the Actual QIIP Investment Amount.

"Consumer Advocate" means the Consumer Advocate and Protection Division of the Office of the Tennessee Attorney General.

"Forecasted QIIP Investment Amount" means the amount of forecasted capital investment of the Company for the Qualified Infrastructure and Investment Program and not otherwise included in current base rates.

"Over-Under Collection Adjustment" means the adjustment to QIIP for the applicable coming annual period due to the net amount of over or under collections.

"Relevant Rate Order" means the final order of the Authority in the most recent rate case of the Company fixing the rates of the Company or the most recent final order of the Authority specifically prescribing or fixing the factors and procedures to be used in the application of this Rider.

3. General Description

QIIP allows the Company to recover outside of a rate case its qualifying incremental non-revenue producing plant infrastructure investment. For purposes of this Rider, qualifying QIIP investment includes the following:

Distribution Infrastructure – Replacement distribution and transmission mains and valves installed as replacements for existing facilities, reinforcement of existing facilities or otherwise insuring reliability of existing facilities; Hydrants, Services, Meters and Meter Installations – installed as in-kind replacements, reinforcements or insuring reliability of existing facilities; Unreimbursed funds related to capital projects to relocate facilities required by governmental highway projects; Capitalized tank repairs and maintenance that serve to replace, reinforce, or otherwise insure reliability of existing facilities.

Production and Pumping Infrastructure – Replacement of water treatment facilities and equipment installed as replacements for existing facilities, reinforcement of existing facilities or otherwise insuring reliability of existing facilities; Raw Water and Finished Water pumping equipment and structures installed as replacements, reinforcements or otherwise insuring reliability of existing facilities.

(T) *Other Infrastructure* – Infrastructure designed to utilize alternative fuels.

QIIP Investment is to be identifiable on the Company's books and segregated into the following general accounts:

Account 331 – Transmission & Distribution Mains;

(T) Denotes change in text

Account 333 – Services;
Account 334 – Meters & Meter Installations;
Account 335 – Hydrants;
Account 320 – Water Treatment Equipment, Non-Media;
Account 311 – Pumping Equipment;
Account 303 – Land and Land Rights;
Account 304 – Structures and Improvements;
Account 306 – Lake, River and Other Intakes;
Account 307 – Wells and Springs;
Account 309 – Supply Mains;
Account 310 – Power Generation Equipment
Account 330 – Distribution Reservoirs and Standpipes;
(T) Account 341 – Transportation Equipment; and
Account 330003 – Capitalized Tank Painting.

4. **Determination of the Qualified Infrastructure Improvement Program Percentage Rate**

(A) The QIIP percentage shall be expressed as a percentage carried to two (2) decimal places. The QIIP percentage shall be applied to the total amount billed to each Customer based on the Company's otherwise applicable rates and charges.

(B) The QIIP percentage shall be calculated on an annual prospective basis as follows:

FORECASTED QIIP Investment Amount
Less QIIP Plant Retirements (Net of Cost of Removal & Salvage)
Less Contributions in Aid of Construction
Less Accumulated Depreciation
Less Accumulated Deferred Income Taxes
Net Forecasted QIIP Qualifying Investment

Multiplied by the Pre-Tax ROR set forth in the Relevant Rate Order

Allowed Forecasted QIIP Pre-Tax Return
Plus Depreciation Expense
Plus Property Taxes
Plus Franchise Taxes
Subtotal Forecasted QIIP Revenue Requirement Before Revenue Tax

(T) Denotes change in text

ISSUED: **August 28, 2015** **EFFECTIVE: August 28, 2015**

BY: Deron E. Allen
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

Divided by 1 minus the following:
Forfeited Discounts Rate
Plus Uncollectible Expense Rate
Plus Gross Receipts Tax Rate
Total Forecasted QIIP Revenue Requirement

Divided by Relevant Rate Order Volumetric & Metered Revenue

QIIP Percentage Rate

Where:

Accumulated Depreciation = Accumulated depreciation calculated by debiting for Forecasted QIIP plant removed from service, and crediting for new accumulations using rates approved in the Relevant Rate Order on new investments, less retirements and CIAC.

Accumulated Deferred Income Taxes = An average of the forecasted accumulated deferred income taxes related to qualified forecasted QIIP investment at the beginning and end of the year.

Contributions in Aid of Construction = Non-investor supplied funds used in the construction of forecasted QIIP infrastructure.

Depreciation Expense = Forecasted cumulative qualified QIIP investment net of retirements and CIAC, multiplied by depreciation rates approved in the Relevant Rate Order.

Forfeited Discount Rate = Forecasted QIIP Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite forfeited discount factor approved in the Relevant Rate Order.

Franchise Taxes = Forecasted cumulative qualified QIIP investment multiplied by composite franchise tax rate approved in the Relevant Rate Order.

Gross Receipts Tax Rate = Forecasted QIIP Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite gross receipts tax rate approved in the Relevant Rate Order.

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BY: Deron E. Allen

Deron E. Allen
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

Property Taxes = Forecasted cumulative qualified QIIP investment multiplied by composite property tax rate approved in the Relevant Rate Order.

QIIP Plant Retirements = Forecasted QIIP plant removed from service net of any associated cost of removal and salvage.

Forecasted QIIP Investment Amount = Average forecasted QIIP additions to plant infrastructure as described in Section 3, computed by use of average of 12 end-of-month balances.

Uncollectible Expense = Forecasted QIIP Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite uncollectible factor approved in the Relevant Rate Order.

Volumetric & Metered Revenue = the revenues authorized in the Relevant Rate Order for volumetric water sales, meter charges, and private fire service charges.

(C) The total amount to be recovered through the QIIP is the QIIP Percentage Rate as adjusted for the Annual Reconciliation Factor Percentage Rate.

5. Determination of the Annual Reconciliation Factor Percentage Rate

(A) The Annual Reconciliation Factor Percentage shall be expressed as a percentage carried to two (2) decimal places. The Annual Reconciliation Factor Percentage shall be applied to the total amount billed to each Customer based on the Company's otherwise applicable rates and charges.

(B) The Annual Reconciliation Factor Percentage Rate will be computed as follows:

Budget-to-Actual Adjustment
    Plus Over-Under Collection Adjustment
    Plus Earnings Test Adjustment
    Plus Interest
Annual Reconciliation Amount

Divided by 9/12 of the Relevant Rate Order Volumetric & Metered Revenue

Annual Reconciliation Factor Percentage Rate

(C) Computation of the Budget-to-Actual Adjustment.

The Budget-to-Actual Adjustment will be computed as follows:

ACTUAL QIIP Investment Amount for the Annual Review Period
Less QIIP Plant Retirements (Net of Cost of Removal & Salvage)
Less Contributions in Aid of Construction
Less Accumulated Depreciation
Less Accumulated Deferred Income Taxes
Net Actual QIIP Qualifying Investment

Multiplied by the Pre-Tax ROR set forth in the Relevant Rate Order

Allowed Actual QIIP Pre-Tax Return
Plus Depreciation Expense
Plus Property Taxes
Plus Franchise Taxes
Subtotal Actual QIIP Revenue Requirement Before Revenue Tax

Divided by 1 minus the following:

Forfeited Discounts Rate
Plus Uncollectible Expense Rate
Plus Gross Receipts Tax Rate
Total Actual QIIP Revenue Requirement

Less Total Forecasted QIIP Revenue Requirement

Budget-to-Actual Adjustment

Where:

Accumulated Depreciation = Accumulated depreciation calculated by debiting for Forecasted QIIP plant removed from service, and crediting for new accumulations using rates approved in the Relevant Rate Order on new investments, less retirements and CIAC

Accumulated Deferred Income Taxes = An average of the actual accumulated deferred income taxes related to actual QIIP investment at the beginning and end of the year.

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Deron E. Allen
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

Contributions in Aid of Construction = Non-investor supplied funds used in the construction of actual QIIP infrastructure.

Depreciation Expense = Actual cumulative qualified QIIP investment net of retirements and CIAC multiplied by depreciation rates approved in the Relevant Rate Order.

Forfeited Discount Rate = Actual QIIP Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite forfeited discount factor approved in the Relevant Rate Order.

Franchise Taxes = Actual cumulative qualified QIIP investment multiplied by composite franchise tax rate approved in the Relevant Rate Order.

Gross Receipts Tax Rate = Actual QIIP Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite gross receipts tax rate approved in the Relevant Rate Order.

Property Taxes = Actual cumulative qualified QIIP investment multiplied by composite property tax rate approved in the Relevant Rate Order.

QIIP Plant Retirements = Actual QIIP plant removed from service net of any associated cost of removal and salvage.

Actual QIIP Investment Amount = Average actual QIIP additions to plant infrastructure as described in Section 3, computed by use of average of 12 end-of-month balances.

Uncollectible Expense = Actual QIIP Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite uncollectible factor approved in the Relevant Rate Order.

Volumetric & Metered Revenue = the revenues authorized in the Relevant Rate Order for volumetric water sales, meter charges, and private fire service charges.

(D) Computation of the Over-Under Collection Adjustment.

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BY:

Deron E. Allen
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

The Company will identify and record the total amount of the QIIP Collected from Customers for the Annual Review Period. The difference between the Total QIIP Collected from Customers and the Total Actual QIIP Revenue Requirement shall constitute the Over-Under Collection Adjustment.

(E) Computation of the Earnings Test Adjustment.

If the earnings attained by the Company for the Annual Review Period exceed the earnings allowed for the Annual Review Period by applying the overall rate of return authorized in the Relevant Rate Order, then any such earnings difference shall constitute the Earnings Test Adjustment. If the earnings attained by the Company for the Annual Review Period are less than the earnings allowed for the Annual Review Period by applying the overall rate of return authorized in the Relevant Rate Order, then no Earnings Test Adjustment shall be recognized.

Any Earnings Test Adjustment shall be allocated among the Qualified Infrastructure Improvement Program Rider, the Economic Development Investment Rider, and the Safety and Environmental Compliance Rider based on the pro-rata revenues collected under these riders for the Annual Review Period for purposes of computing new rate adjustments.

(F) Computation of Interest.

Interest will be computed as follows:

Budget-to-Actual Adjustment
Plus Over-Under Collection Adjustment
Plus Earnings Test Adjustment

Total Amount Subject to Interest
Interest Rate Multiplied by 50%

Total Interest

Where "Interest Rate" equals the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the most recent preceding month.

6. New Base Rates

The QIIP rider will be reset at zero upon the establishment of new base rates to customer billings that provide for the prospective recovery of the annual costs that had theretofore been recovered under the QIIP. Thereafter, only the costs of new QIIP eligible plant additions that have not previously been reflected in the Company's rate base, would be reflected in new annual prospective QIIP filings.

7. Annual QIIP Percentage Rate Filing

On or before December 1 of each year, the Company shall submit to the Authority a calculation of the QIIP Percentage Rate for the following calendar year. The Annual QIIP Percentage Rate Filing shall be verified by an officer of the Company. The Annual QIIP Percentage Rate Filing shall include a calculation to adjust revenue to recover costs related to the Forecasted QIIP Investment Amount, with such revenue adjustment applied through the QIIP Percentage Rate. The QIIP Percentage Rate shall become effective on January 1 of each year and be applied as an adjustment to Customers' bills for the remainder of the calendar year.

The Company will include in its Annual QIIP Percentage Rate Filing the following information at a minimum: (a) computation of the QIIP Percentage Rate, including the detailed calculation of each component, (b) a budget of the Forecasted QIIP Investment Amount adopted by the Company's Board of Directors, (c) any related Strategic Capital Expenditures Plans, (d) a statement demonstrating how each projected capital investment comprising the Forecasted QIIP Investment Amount meets the requirements for recovery under this Rider set forth in Section 3, and (e) such other information as the Authority may direct.

The Company will simultaneously copy the Consumer Advocate on its Annual QIIP Percentage Rate Filing.

8. Annual Reconciliation Filing with the Authority

On or before March 1 of each year, the Company shall submit to the Authority a reconciliation of the results of the operation of the QIIP for the previous Annual Review Period. The Annual Reconciliation Filing shall be verified by an officer of the Company. The annual reconciliation shall include a calculation to adjust revenue collected under this QIIP Rider in effect for the prior Annual Review Period to an amount equivalent to the actual level of prudently-incurred QIIP cost for thc prior Annual Review Period, with such revenue adjustment applied through the Annual Reconciliation Factor Percentage Rate. The Annual Reconciliation Factor Percentage Rate shall become effective on April 1 of each year and be applied as an adjustment to Customers' bills for the remainder of the calendar year.

The Company will include in its Annual Reconciliation Filing the following information at a minimum: (a) a schedule of all journal entries made related to this Rider for the Annual Review Period, including any related general ledger support, (b) actual billing determinants by month as used in the computation of the Total QIIP Collected from Customers for the Annual Review Period, (c) capitalization policy effective for the Annual Review Period, (d) computation of the Annual

Reconciliation Factor Percentage Rate, including the detailed calculation of each component, (e) a schedule of any proposed prior period adjustments, (f) an affirmative statement of whether the Company is aware of any changes in market conditions or other factors that may affect whether the Rider is still in the public interest, including the identification of such factors if they exist, (g) the cumulative amount of QIIP collected from customers under this Rider, and (h) such other information as the Authority may direct.

The Company will simultaneously copy the Consumer Advocate on its Annual Reconciliation Filing.

9. Notice Requirements

The Company will file revised tariffs for Authority approval upon 30 days' notice to implement a decrement or an increment each January 1 and April 1. Along with the tariff filing, the Company will include a copy of the computation of the new rate adjustment. The Company will simultaneously copy the Consumer Advocate on this filing.

10. Public Interest Review

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

CLASSIFICATION OF SERVICE

SAFETY AND ENVIRONMENTAL COMPLIANCE – RIDER

1. Applicability

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Safety and Environmental Compliance Program ("SEC") Rider will apply to customers in all service areas.

The above rider will be recomputed annually and be adjusted periodically to incorporate the Annual Reconciliation Factor.

2. **Definitions**

For the purposes of this Rider:

"Actual SEC Investment Amount" means the amount of actual capital investment and associated operating expenses of the Company for the Safety and Environmental Compliance Program and not otherwise included in current base rates. At the time of the Company's next general rate case proceeding, all prudently incurred Actual SEC Investment Amounts associated with this Rider shall be included in base rates.

"Annual Reconciliation Factor" means an adjustment factor to true-up rates from forecasted costs to the actual costs incurred through application of 1) the Budget-to-Actual Adjustment and 2) the Over-Under Collection Adjustment, and the 3) Earnings Test Adjustment, as adjusted for Interest.

"Annual Review Period" means the twelve-month period between the annual adjustments of the SEC Percentage Rate. For the first year beyond the attrition year of the base rate case, this review period may be shorter or longer than a twelve-month period to cover expenditures between the attrition year and the start of the subsequent calendar year.

"Authority" means the Tennessee Regulatory Authority.

"Budget-to-Actual Adjustment" means the adjustment to SEC for the applicable coming annual period due to the difference between the Forecasted SEC Investment and Expense Amount and the Actual SEC Investment and Expense Amount.

"Consumer Advocate" means the Consumer Advocate and Protection Division of the Office of the Tennessee Attorney General.

"Forecasted SEC Investment Amount" means the amount of forecasted capital investment of the Company for the Safety and Environmental Compliance Program and not otherwise included in current base rates.

"Over-Under Collection Adjustment" means the adjustment to SEC for the applicable coming annual period due to the net amount of over or under collections.

"Relevant Rate Order" means the final order of the Authority in the most recent rate case of the Company fixing the rates of the Company or the most recent final order of the Authority specifically prescribing or fixing the factors and procedures to be used in the application of this Rider.

3. **General Description**

SEC allows the Company to recover outside of a rate case its qualifying incremental non-revenue producing plant infrastructure investment and expenses. For purposes of this Rider, qualifying SEC investment includes the following:

Distribution and Production Infrastructure – Distribution, production, and other infrastructure that may be identified as being for the purpose of safety and environmental compliance.

Safety and Environmental Expenses – Operational expenses similar to other expenses authorized in previous rate cases that are specifically new expenses for safety and environmental compliance or to support safety and environmental compliance utility plant.

SEC Investment is to be identifiable on the Company's books and segregated into the following general accounts:

Account 331 – Transmission & Distribution Mains;
Account 333 – Services;
Account 334 – Meters & Meter Installations;
Account 335 – Hydrants;
Account 320 – Water Treatment Equipment, Non-Media;
Account 311 – Pumping Equipment;
Account 303 – Land and Land Rights;
Account 304 – Structures and Improvements;
Account 306 – Lake, River and Other Intakes;

Account 307 – Wells and Springs;
Account 309 – Supply Mains;
Account 310 – Power Generation Equipment
Account 330 – Distribution Reservoirs and Standpipes; and
Account 330003 – Capitalized Tank Painting.

4. **Determination of the Safety and Environmental Compliance Program Percentage Rate**

(A) The SEC percentage shall be expressed as a percentage carried to two (2) decimal places. The SEC percentage shall be applied to the total amount billed to each Customer based on the Company's otherwise applicable rates and charges.

(B) The SEC percentage shall be calculated on an annual prospective basis as follows:

FORECASTED SEC Investment Amount
Less SEC Plant Retirements (Net of Cost of Removal & Salvage)
Less Contributions in Aid of Construction
Less Accumulated Depreciation
Less Accumulated Deferred Income Taxes
Net Forecasted SEC Qualifying Investment

Multiplied by the Pre-Tax ROR set forth in the Relevant Rate Order

Allowed Forecasted SEC Pre-Tax Return
Plus Depreciation Expense
Plus Property Taxes
Plus Franchise Taxes
Plus Safety and Environmental Compliance Operational Expenses
Subtotal Forecasted SEC Revenue Requirement Before Revenue Tax

Divided by 1 minus the following:
Forfeited Discounts Rate
Plus Uncollectible Expense Rate
Plus Gross Receipts Tax Rate
Total Forecasted SEC Revenue Requirement

Divided by Relevant Rate Order Volumetric & Metered Revenue

SEC Percentage Rate

Where:

Accumulated Depreciation = Accumulated depreciation calculated by debiting for Forecasted SEC plant removed from service, and crediting for new accumulations using rates approved in the Relevant Rate Order on new investments, less retirements and CIAC.

Accumulated Deferred Income Taxes = An average of the forecasted accumulated deferred income taxes related to qualified forecasted SEC investment at the beginning and end of the year.

Contributions in Aid of Construction = Non-investor supplied funds used in the construction of forecasted SEC infrastructure.

Depreciation Expense = Forecasted cumulative qualified SEC investment net of retirements and CIAC, multiplied by depreciation rates approved in the Relevant Rate Order.

Forfeited Discount Rate = Forecasted SEC Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite forfeited discount factor approved in the Relevant Rate Order.

Franchise Taxes = Forecasted cumulative qualified SEC investment multiplied by composite franchise tax rate approved in the Relevant Rate Order.

Gross Receipts Tax Rate = Forecasted SEC Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite gross receipts tax rate approved in the Relevant Rate Order.

Property Taxes = Forecasted cumulative qualified SEC investment multiplied by composite property tax rate approved in the Relevant Rate Order.

SEC Plant Retirements = Forecasted SEC plant removed from service net of any associated cost of removal and salvage.

Forecasted SEC Investment Amount = Average forecasted SEC additions to plant infrastructure as described in Section 3, computed by use of average of 12 end-of-month balances.

Safety and Environmental Compliance Expenses = the incremental operational expenses similar to other expenses authorized in previous rate cases that are specifically for safety and environmental compliance or to support safety and environmental compliance utility plant.

Uncollectible Expense = Forecasted SEC Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite uncollectible factor approved in the Relevant Rate Order.

Volumetric & Metered Revenue = the revenues authorized in the Relevant Rate Order for volumetric water sales, meter charges, and private fire service charges.

(C) The total amount to be recovered through the SEC is the SEC Percentage Rate as adjusted for the Annual Reconciliation Factor Percentage Rate.

5. **Determination of the Annual Reconciliation Factor Percentage Rate**

(A) The Annual Reconciliation Factor Percentage shall be expressed as a percentage carried to two (2) decimal places. The Annual Reconciliation Factor Percentage shall be applied to the total amount billed to each Customer based on the Company's otherwise applicable rates and charges.

(B) The Annual Reconciliation Factor Percentage Rate will be computed as follows:

Budget-to-Actual Adjustment
Plus Over-Under Collection Adjustment
Plus Earnings Test Adjustment
Plus Interest
Annual Reconciliation Amount

Divided by 9/12 of the Relevant Rate Order Volumetric & Metered Revenue

Annual Reconciliation Factor Percentage Rate

(C) Computation of the Budget-to-Actual Adjustment.

The Budget-to-Actual Adjustment will be computed as follows:

ACTUAL SEC Investment Amount for the Annual Review Period
Less SEC Plant Retirements (Net of Cost of Removal & Salvage)
Less Contributions in Aid of Construction
Less Accumulated Depreciation
Less Accumulated Deferred Income Taxes
Net Actual SEC Qualifying Investment

Multiplied by the Pre-Tax ROR set forth in the Relevant Rate Order

Allowed Actual SEC Pre-Tax Return
Plus Depreciation Expense
Plus Property Taxes
Plus Franchise Taxes
Plus Safety and Environmental Compliance Operational Expenses
Subtotal Actual SEC Revenue Requirement Before Revenue Tax

Divided by 1 minus the following:

Forfeited Discounts Rate
Plus Uncollectible Expense Rate
Plus Gross Receipts Tax Rate
Total Actual SEC Revenue Requirement

Less Total Forecasted SEC Revenue Requirement

Budget-to-Actual Adjustment

Where:

Accumulated Depreciation = Accumulated depreciation calculated by debiting for Forecasted SEC plant removed from service, and crediting for new accumulations using rates approved in the Relevant Rate Order on new investments, less retirements and CIAC

Accumulated Deferred Income Taxes = An average of the actual accumulated deferred income taxes related to actual SEC investment at the beginning and end of the year.

Contributions in Aid of Construction = Non-investor supplied funds used in the construction of actual SEC infrastructure.

Depreciation Expense = Actual cumulative qualified SEC investment net of retirements and CIAC multiplied by depreciation rates approved in the Relevant Rate Order.

Forfeited Discount Rate = Actual SEC Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite forfeited discount factor approved in the Relevant Rate Order.

Franchise Taxes = Actual cumulative qualified SEC investment multiplied by composite franchise tax rate approved in the Relevant Rate Order.

Gross Receipts Tax Rate = Actual SEC Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite gross receipts tax rate approved in the Relevant Rate Order.

Property Taxes = Actual cumulative qualified SEC investment multiplied by composite property tax rate approved in the Relevant Rate Order.

SEC Plant Retirements = Actual SEC plant removed from service net of any associated cost of removal and salvage.

Actual SEC Investment Amount = Average actual SEC additions to plant infrastructure as described in Section 3, computed by use of average of 12 end-of-month balances.

Safety and Environmental Compliance Expenses = the incremental operational expenses similar to other expenses authorized in previous rate cases that are specifically for safety and environmental compliance or to support safety and environmental compliance utility plant.

Uncollectible Expense = Actual SEC Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite uncollectible factor approved in the Relevant Rate Order.

Volumetric & Metered Revenue = the revenues authorized in the Relevant Rate Order for volumetric water sales, meter charges, and private fire service charges.

(D) Computation of the Over-Under Collection Adjustment.

The Company will identify and record the total amount of the SEC Collected from Customers for the Annual Review Period. The difference between the Total SEC Collected from Customers and the Total Actual SEC Revenue Requirement shall constitute the Over-Under Collection Adjustment.

(E) Computation of the Earnings Test Adjustment.

If the earnings attained by the Company for the Annual Review Period exceed the earnings allowed for the Annual Review Period by applying the overall rate of return authorized in the Relevant Rate Order, then any such earnings difference shall constitute the Earnings Test Adjustment. If the earnings attained by the Company for the Annual Review Period are less than the earnings allowed for the Annual Review Period by applying the overall rate of return authorized in the Relevant Rate Order, then no Earnings Test Adjustment shall be recognized.

Any Earnings Test Adjustment shall be allocated among the Qualified Infrastructure Improvement Program Rider, the Economic Development Investment Rider, and the Safety and Environmental Compliance Rider based on the pro-rata revenues collected under these riders for the Annual Review Period for purposes of computing new rate adjustments.

(F) Computation of Interest.

Interest will be computed as follows:

Budget-to-Actual Adjustment
Plus Over-Under Collection Adjustment
Plus Earnings Test Adjustment

Total Amount Subject to Interest
Interest Rate Multiplied by 50%

Total Interest

Where "Interest Rate" equals the prime rate value published in the "Federal Reserve Bulletin" or in the Federal Reserve's "Selected Interest Rates" for the most recent preceding month.

6. <u>New Base Rates</u>

ISSUED: **March 25, 2014** **EFFECTIVE: April 15, 2014**

BY: Deron E. Allen

Deron E. Allen
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

The SEC rider will be reset at zero upon the establishment of new base rates to customer billings that provide for the prospective recovery of the annual costs that had theretofore been recovered under the SEC. Thereafter, only the costs of new SEC eligible plant additions that have not previously been reflected in the Company's rate base, would be reflected in new annual prospective SEC filings.

7. **Annual SEC Percentage Rate Filing**

On or before December 1 of each year, the Company shall submit to the Authority a calculation of the SEC Percentage Rate for the following calendar year. The Annual SEC Percentage Rate Filing shall be verified by an officer of the Company. The Annual SEC Percentage Rate Filing shall include a calculation to adjust revenue to recover costs related to the Forecasted SEC Investment Amount, with such revenue adjustment applied through the SEC Percentage Rate. The SEC Percentage Rate shall become effective on January 1 of each year and be applied as an adjustment to Customers' bills for the remainder of the calendar year.

The Company will include in its Annual SEC Percentage Rate Filing the following information at a minimum: (a) computation of the SEC Percentage Rate, including the detailed calculation of each component, (b) a budget of the Forecasted SEC Investment Amount and Forecasted Safety and Environmental Compliance Operational Expenses adopted by the Company's Board of Directors, (c) any related Strategic Capital Expenditures Plans, (d) statements demonstrating how each projected capital investment comprising the Forecasted SEC Investment Amount and each projected operational expense comprising the Forecasted Safety and Environmental Compliance Operational Expenses meet the requirements for recovery under this Rider set forth in Section 3, and (e) such other information as the Authority may direct.

The Company will simultaneously copy the Consumer Advocate on its Annual SEC Percentage Rate Filing.

8. **Annual Reconciliation Filing with the Authority**

On or before March 1 of each year, the Company shall submit to the Authority a reconciliation of the results of the operation of the SEC for the previous Annual Review Period. The Annual Reconciliation Filing shall be verified by an officer of the Company. The annual reconciliation shall include a calculation to adjust revenue collected under this SEC Rider in effect for the prior Annual Review Period to an amount equivalent to the actual level of prudently-incurred SEC cost for the prior Annual Review Period, with such revenue adjustment applied through the Annual Reconciliation Factor Percentage Rate. The Annual Reconciliation Factor Percentage Rate shall become effective on April 1 of each year and be applied as an adjustment to Customers' bills for the remainder of the calendar year.

ISSUED: **March 25, 2014** **EFFECTIVE: April 15, 2014**

BY:

Deron E. Allen
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

The Company will include in its Annual Reconciliation Filing the following information at a minimum: (a) a schedule of all journal entries made related to this Rider for the Annual Review Period, including any related general ledger support, (b) actual billing determinants by month as used in the computation of the Total SEC Collected from Customers for the Annual Review Period, (c) capitalization policy effective for the Annual Review Period, (d) computation of the Annual Reconciliation Factor Percentage Rate, including the detailed calculation of each component, (e) schedules of the Actual SEC Investment Amount and Actual Safety and Environmental Compliance Operational Expenses, including related general ledger support, (f) a schedule of any proposed prior period adjustments, (g) an affirmative statement of whether the Company is aware of any changes in market conditions or other factors that may affect whether the Rider is still in the public interest, including the identification of such factors if they exist, (h) the cumulative amount of SEC collected from customers under this Rider, and (i) such other information as the Authority may direct.

The Company will simultaneously copy the Consumer Advocate on its Annual Reconciliation Filing.

9. Notice Requirements

The Company will file revised tariffs for Authority approval upon 30 days' notice to implement a decrement or an increment each January 1 and April 1. Along with the tariff filing, the Company will include a copy of the computation of the new rate adjustment. The Company will simultaneously copy the Consumer Advocate on this filing.

10. Public Interest Review

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

TENNESSEE-AMERICAN WATER COMPANY **TRA NO. 19**
Third Revised Sheet No. 12-Riders-1

CLASSIFICATION OF SERVICE

SUMMARY OF RIDERS

1. Applicability

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider (SEC"), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

For the Riders defined in the tariffs :

QIIP	2.13 %	
EDI	0.05 %	
SEC	3.54 %	
Subtotal of all Capital Recovery Riders	5.72 %	
QIIP Annual Reconciliation Percentage	0.254 %	(I)
EDI Annual Reconciliation Percentage	-0.150 %	(I)
SEC Annual Reconciliation Percentage	0.06 4%	(I)
Subtotal of all Reconciliation Percentages	0.16 8%	(I)
Total of Capital Recovery Riders and Reconciliation Percentages	5.888 %	(I)
PCOP	-0.73 %	

ISSUED: **October 28, 2015** **EFFECTIVE: November 1- December 31, 2015**

BY: Deron E. Allen

Deron E. Allen
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

CLASSIFICATION OF SERVICE

SUMMARY OF RIDERS

1. Applicability

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider (SEC"), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

For the Riders defined in the tariffs :

QIIP	4.34 %	(I)
EDI	0.07 %	(I)
SEC	5.71 %	(I)
Subtotal of all Capital Recovery Riders	10.12 %	
QIIP Annual Reconciliation Percentage	0.00 %	
EDI Annual Reconciliation Percentage	0.00 %	
SEC Annual Reconciliation Percentage	0.00 %	
Subtotal of all Reconciliation Percentages	0.00 %	
Total of Capital Recovery Riders and Reconciliation Percentages	10.12%	
PCOP	-0.73 %	

(I) Indicates Increase

ISSUED: **November 12, 2015** **EFFECTIVE: January 1, 2016**

BY: Valoria Armstrong

Valoria Armstrong
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

STATE OF Kentucky)
)
COUNTY OF Fayette)

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Linda C. Bridwell, being by me first duly sworn deposed and said that:

She is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, her testimony would be as set forth in her pre-filed testimony in this matter.

Linda C. Bridwell
Linda C. Bridwell

Sworn to and subscribed before me
this 9th day of November, 2015.

Peggy A. Stone
Notary Public

My Commission Expires: 10/3/2016