PETITIONER'S EXHIBIT LCB-1

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 17-__________

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 AND IN SUPPORT OF THE CALCULATION OF THE 2017 CAPITAL RECOVERY RIDERS RECONCILIATION

SPONSORING PETITIONER'S EXHIBITS:

PETITIONER'S EXHIBIT -- CAPITAL RIDERS RECONCILIATION – LCB
PETITIONER'S EXHIBIT – CAPITAL RIDER CHARGES SUMMARY – LCB
PETITIONER'S EXHIBIT – WORK ORDER DETAIL SUMMARY – LCB
PETITIONER'S EXHIBIT – DECEMBER 2016 MONTHLY REPORT TO TRA – 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
PETITIONER'S EXHIBIT – ANNUAL APPROVED TARIFFS -- 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 Senior 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, 15-00029, 15-00111, 15-00131, 16-00022, and I've provided written testimony in TRA Docket Nos. 16-00126 and 16-00148. I have also provided both written and oral testimony in at least sixteen 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 American Water ("AWW") since 1989. I began as a distribution supervisor for Kentucky American Water ("KAWC") until 1990 when I was promoted to Planning Engineer. Following that I was promoted to 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 and on the Kentucky State Board of Licensure for Professional Engineers and Land Surveyors. I currently serve as Vice Chairman of the Board of Directors for the Kentucky Infrastructure Authority.

Q. WHAT ARE YOUR DUTIES AS SENIOR 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 Presidents of Tennessee American Water ("Tennessee American," "TAWC" or "Company") and KAWC dually. 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 2017 Capital Recovery Riders Reconciliation described in TAWC's Petition, for the period of January 1, 2016 through December 31, 2016. 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, commonly referred to as the "Capital Recovery Riders," and one was for a rider for Production Costs and Other Pass-throughs ("PCOP"). The three Capital Recovery Riders are the only items included in this current Petition.

On June 29, 2015, the TRA approved an adjustment to the three Capital Recovery Riders for 2015 in Docket No. 14-00121, with some modifications to one of the Capital

Recovery Riders. Those modifications, set forth in the TRA's February 1, 2016, *Order Granting, In Part, Denying, In Part, Petition*, have been incorporated into the current Petition for an adjustment for 2017. Additionally, TAWC has included the corrections made to the Capital Recovery Riders calculations in Docket No. 15-00111 and 16-00022.[1]

The purpose of TAWC's Petition, which this testimony accompanies (the "Petition"), is to provide the required information for the reconciliation of the 2016 review period to comply with the previously approved Capital Recover Riders tariffs, which as noted above were approved in TRA Docket No. 13-000130. The information provided in my testimony is consistent with Tenn. Code Ann. § 65-5-103 *et seq*. and the TRA's April 14, 2014, approval of the Capital Recovery Riders.

Q. ARE YOU SPONSORING ANY EXHIBITS?

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

<u>Petitioner's Exhibit – Capital Riders Reconciliation – LCB</u>
<u>Petitioner's Exhibit – Capital Rider Charges Summary – LCB</u>
<u>Petitioner's Exhibit – Work Order Detail Summary – LCB</u>
<u>Petitioner's Exhibit – December 2016 Monthly Report to TRA – 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>
<u>Petitioner's Exhibit – Annual Approved Tariffs -- 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.

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[1] [1] *See Order Approving Petition As Amended*, TRA Docket No. 15-00111 (May 16, 2016); *Pre-filed Testimony of TAWC Witness Linda C. Bridwell*, TRA Docket No. 16-00022; and Order Granting Petition, TRA Docket No. 16-00022 (Dec. 29, 2016).

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. The Company's filings in this TRA Docket are complete and accurate to the best of my knowledge and belief; the filing is compliant with TAWC's Capital Recovery Riders tariffs and all TRA orders and directives related to TAWC's Capital Recovery Riders tariffs; any changes in the Petition from previously approved Capital Recovery Riders' methodologies or calculations are identified in the Petition and supporting documentation; the accounting data set forth in this filing is reflected in the Company's General Ledger, or have been reconciled from the Company's General Ledger to the filing in the workpapers provided with the filing.

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, they do.

Q. WHAT ARE THE THREE CAPITAL RECOVERY RIDERS APPROVED BY THE TRA?

A. Pursuant to Tennessee Code Annotated Section 65-5-103 et seq., the three Capital Recovery Riders authorized in Docket No. 13-00130 are based on certain categories of capital expenditures to cover the investment period of calendar year 2014. 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. This means infrastructure that does not produce additional revenues. Examples of infrastructure that produces additional revenues are main extensions specifically for a new development, or new services or meters for new customers. As outlined in Docket No. 13-00130, aging water and wastewater infrastructure is a growing problem across the United States, including Tennessee, that will require significant investments over the next few decades to continue to provide clean and reliable water service. This rider helps TAWC address the replacement of this critical, aging infrastructure. The QIIP Rider 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 under this rider.

An adjustment to those three Capital Recovery Riders was authorized by the Authority in Docket No. 14-00121 to cover the investment period of the calendar year 2015. A reconciliation of the three Capital Recovery Riders for 2014 was authorized in Docket No. 15-00029. A second adjustment to the three Capital Recovery Riders was authorized in Docket No. 15-00111 to cover the investment period of the calendar year 2016. A second reconciliation of the three Capital Recovery Riders for 2015 was authorized in Docket No. 16-00022. A third adjustment to the three Capital Recovery Riders is pending in Docket No. 16-00126 to cover the investment period of the calendar year 2017. 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 Recovery Riders for the reconciliation of the investment period of calendar year 2016.

Attached to my testimony is **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 TRA Docket No. 13-00130, and as modified in TRA Docket No. 14-00121 and as further clarified in TRA Docket No. 15-00029, Docket No. 15-00111 and Docket No. 16-00022.

Q. HOW IS THE PROCESS UNDER THE APPROVED CAPITAL RECOVERY 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 in 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 or earlier. 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 is more efficient, timely and much less expensive. 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. ARE THE ITEMS EXCLUDED BY THE AUTHORITY EXCLUDED IN THIS PETITION?

A. Yes. In Docket No. 14-00121, the TRA made modifications to the eligible items within the EDI Capital Recovery Rider, removing new services, new meters, and the alternative fuel vehicles. These changes were recognized in Docket No. 15-00111 and are reflected fully in this Petition. TAWC removed those items from the EDI for 2014, 2015 and now 2016.

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 in an excel workbook similar to what was prepared in Docket No. 13-00130 and Docket No. 14-00121. TAWC then prepared a "Proof" 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 "Proof" worksheets are found at the end of the excel workbook. There are also worksheets that demonstrate the total additions, removals and retirements, and Contributions in the Aid of Construction ("CIAC") for 2016. This is consistent with previous dockets including 15-00111, 16-00022 and 16-00126.

Q. ARE THERE OTHER CHANGES TO THE EXCEL WORKBOOK OR CALCULATIONS FROM THE FILES FROM DOCKET NO. 16-00022 AND 16-00126?

A. Yes. In addition to any corrections that were carried forward from previous dockets, Tennessee American made changes to the excel workbook to make it more user-friendly. They are as follows:

1) Tennessee American added a "Workbook Info" worksheet to the excel workbook that gives a general description of each worksheet in the workbook. This is the very first worksheet or tab in the left-most position. This was first introduced in Docket No. 16-00126 and has been continued for the reconciliation files in this Petition.

2) Tennessee American reorganized the tabs and color coded the tabs labelled at the bottom of the workbook. There is a blank, blue coded tab labelled "Exhibits" that is to the left of all of the exhibit tabs which are coded green. There is a second blank, blue coded tab labelled "Workpapers" to the left of all of the workpaper tabs which are color coded red. A third blank, blue colored tab labelled "Reconciliations" is to the left and the start of all of the reconciliation tabs now colored purple. Finally, there is a fourth blank, blue coded tab labelled "Proofs" to the left of all of the proof tabs that are color coded yellow. This reorganization should make it much easier for anyone looking in the excel workbook to locate the information they are seeking. Again, this format was first introduced in Docket No. 16-00126 and has been continued for the reconciliation files.

3) Any hard-coded numbers within the workbook are now colored in a blue font to enable a reviewer to identify them easily and quickly. On the same tab as any blue hard coded numbers, there will be a footnote at the bottom of the tab identifying the reference

and source of the number. This color-coding was first introduced in Docket No. 16-00126 and has been continued for the reconciliation files.

4) Tennessee American added a workpaper tab in the file for CIAC. This is the first time that CIAC has occurred on any eligible projects under the Capital Recovery Riders.

5) Tennessee American also linked the prior year's amounts (2015 Actual Plant Additions) directly from the final version of the calculations in Docket No. 16-00022, which calculated the reconciliation for 2015. The final version was filed on October 5, 2016 in Docket No. 16-00022. For ease of reference and to make the excel workbook link correctly, Tennessee American has included an electronic version of that excel file labelled "TAW Final Version of Exhibits 1600022 10_4_16.xlsx." Because of the volume of pages to print that file, Tennessee American has not provided a pdf version of that file in the workpapers here.

6) Tennessee American added lines for new utility accounts under specific business units based on the first year activity of 2016.

7) Tennessee American added a reconciliation of amounts of Additions and Retirements on the information pulled from the General Ledger. This is reflected on the tab labelled "SAP" in columns O through S.

8) Tennessee American calculated an Earnings Test Adjustment. A new workpaper in excel has been included that calculates the Earnings Test Adjustment amount. The source of the information for the workpaper are the monthly reports provided to the TRA. That information is compiled directly from the General Ledger.

Although these changes may not translate well in verbal testimony, they will aid any review of the Petition and the underlying supporting documentation.

Q. HOW HAS THE APPLICATION OF THE EDI RIDER BEEN DIFFERENT FROM THE PREVIOUS INVESTMENT REGULATORY METHODS UTILIZED BY TAWC PRIOR TO THE APPROVAL OF THE RIDERS IN TRA DOCKET NO. 13-00130?

A. Without the EDI Rider, the projects included in that Capital Recovery Rider 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 the 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, jobs, and other positive attributes 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 and to the Authority.

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. YOU MENTIONED THAT THE COMPANY BENEFITS FROM THE RIDERS BECAUSE THE RIDERS PROVIDE THE COMPANY WITH THE OPPORTUNITY TO TIMELY RECOVER ITS EXPENSES AND EARN A FAIR RATE OF RETURN ON ITS INVESTMENTS. CAN YOU ELABORATE ON THIS?

A. Certainly. The Capital Recovery Riders permit TAWC to recover the cost of capital investment between rate cases in an efficient, streamlined regulatory process. As outlined in my testimony, each year Tennessee American estimates or forecasts the amount of qualified capital investment (QIIP), infrastructure investment and eligible expenses (EDI) and safety and environmental compliance investment and eligible expense (SEC) that it expects to spend for the upcoming calendar year. The Company will then calculate what it costs to recover the expenditures associated with such forecasted capital investment and expenses. For example, if the Company were to invest $1 million dollars on a QIIP project in the forecast year, the Company would not recover that entire $1 million that year. Rather, it will only recover a return on that investment (which includes a weighted return on equity and interest on debt as authorized in the most recent rate case), as well as depreciation expense and taxes. After it calculates what it costs to recover the expenditures associated with the forecasted capital investment and expenses, Tennessee American then determines – through a second calculation – the percentage of the costs to recover those expenditures as an amount of the overall revenue authorized in the last rate case. This is the surcharge amount. The surcharge then represents recovery for the costs to support the capital investments. So, under the Capital Recovery Rider tariffs as approved, the monthly surcharge over 12 months in the forecasted year would represent the annual recovery of the cost to support the capital investment.

The Reconciliation of the Capital Recovery Riders protects both the customers and Tennessee American in that it reviews the construction efforts to ensure projects are being completed as forecasted and determines if revenues are being collected as forecasted. It essentially allows for a true-up at the end of the 12-month period.

Q. BEFORE THE TRA APPROVED THE CAPITAL RECOVERY RIDERS, WHAT PROCESS DID TAWC USE TO RECOVER THE EXPENSES ASSOCIATED WITH CAPITAL INVESTMENT AND HAVE THE OPPORTUNITY TO EARN A FAIR RETURN?

A. Regulated utilities cannot increase their rates in Tennessee without approval of the TRA, which prior to the passage of the alternative regulation statute required a full rate case filing. So, TAWC employed rate cases for appropriate recovery.

Q. IS THERE A DRAWBACK TO RATE CASES?

A. In part, this goes back to my earlier testimony concerning the benefits of the Capital Recovery Riders to the public. Further, regulated utilities continue to invest money in infrastructure (utility plant) and expenses may continue to increase in between rate cases. This "regulatory lag" lessens the opportunity for the Company to earn its authorized return on equity.

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 average end-of-month balances and should 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 Recovery Riders additions in the calculation of applicable depreciation and property tax expense. As discussed earlier in my testimony, the EDI and SEC Riders can be increased by the appropriate operating expenses. However, TAWC has not included any operating expenses for the EDI or SEC riders in this Petition. In this case, Tennessee American is proposing to reconcile the review period for each of the Capital Recovery Riders beginning on January 1, 2016 and ending December 31, 2016.

This annual review period was established originally in the tariffs submitted on March 25, 2014, and approved in Docket No. 13-00130 on April 14, 2014. The tariffs establish a reconciliation period for each of the Capital Recovery Riders, which will occur 60 days after the close of the attrition period. The attrition period in Docket No. 13-00130 was for January 1, 2014 through December 31, 2014, and the first reconciliation occurred in Docket No. 15-00029. The attrition periods were to occur in subsequent 12-month periods after Docket No. 13-00130. As this is the third reconciliation filing, this Petition addresses only the third review period of January 1, 2016 through December 31, 2016. The 2017 Capital Recovery Riders rates are the subject of Docket. 16-00126 and not included in this Petition.

As approved, the Capital Recovery 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 Recovery Riders are then subsumed within Base Rates.

Q. ARE THE RECONCILIATION PORTIONS OF THE SURCHARGE AMOUNT ALSO CUMULATIVE?

A. No. In the filing in Docket No. 16-00126, Tennessee American utilized the actual 2014 and 2015 amounts of plant additions. The reconciliation period is only for 2016, and includes four components: 1) the comparison of actual 2016 plant additions to the amount forecasted; 2) the comparison of revenues authorized in 2016 with the revenues actually collected from customers; 3) an earnings adjustment based on a comparison of 2016 earnings with the authorized earnings from Docket No. 12-00049; and 4) interest on the difference.

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 Recovery Riders. The Capital Recovery 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"), CIAC, and Cost of Removal Spending net of Salvage value for the attrition period. To determine the rate of return recovery, an average of the month-end balances of new utility plant in service is averaged calculated, 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. As discussed in Docket No. 16-00022, in the first year TAWC used a 12-month average to calculate the Capital Recovery Riders, representing all of the activity within the 12 months of the attrition period. Beginning in the second year, TAWC used a 13-month average from the end of the previous year through the end of the attrition period. 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 Rider and SEC Rider, 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 Recovery Riders collection of prior periods would be added or subtracted as applicable ("R"). The purpose of this Petition specifically is to address the over or under Capital Recovery Riders collection for the review period of 2016. This total is then divided by the authorized annual level of general metered service and private fire service customer revenues ("PAR") from the prior docket (Docket No. 12-00049), i.e. not including any other revenues, to render each of the new Capital Recovery Rider percentages.

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 reconciliation percentage individually and in total. The calculation of the reconciliation percentage for each rider is attached to my testimony as **Petitioner's Exhibit -- Capital Riders Reconciliation - LCB**. The detailed calculations are attached in to the Petition in the workpapers. The calculations are consistent with the calculations that were made in the approved tariffs in Docket No. 13-00130, Docket No. 14-00121, and Docket No. 15-00111, as well as the reconciliations of Docket No. 15-00029 and Docket No. 16-00022. 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 tariffs in Docket No. 13-00130, Docket No. 14-00121 and again in Docket No. 15-00111. The workpapers are also consistent with the calculations made to support the reconciliations in TRA Docket No. 15-00029 and TRA Docket No. 16-00022.

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 capital expenditures included in the QIIP, EDI and SEC Riders for 2016.

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

A. The QIIP, EDI and SEC Riders are expressed as a percentage. The current tariff Sixth 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 Ninth 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 Recovery Riders are combined into one line item on the bill of each customer along with the reconciliation amounts.

Q. HAS TAWC INCLUDED A CHART SHOWING THE PROGRESSION OF THE APPROVED RIDERS IN EACH DOCKET SINCE THE LAST RATE CASE?

A. Yes. I have included a chart reflecting each of the annual approvals with its filing. This is shown as **Petitioner's Exhibit – Annual Approved Tariffs – LCB**.

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

A. The QIIP, EDI, and SEC Riders 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 Recovery Riders. Thereafter, and consistent with the tariffs, only the new QIIP, EDI, and SEC Rider qualified plant additions and expenses not previously included in rate base and Base Rates will be reflected in the future filings subject to TRA Approval.

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

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, 15-00029, 15-00111, 16-00022 and 16-00126.

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 RIDERS?

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, 15-00029, 15-00111, 16-00022 and 16-00126.

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

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 Recovery Riders. These are the same annual revenues used in Docket Nos. 13-00130, 14-00121, 15-00029, 15-00111, 16-00022 and 16-00126.

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 Rider operating expenses, as those expenses would be captured 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 and evaluate potential and appropriate operating expenses for the EDI and SEC Riders and submit them for consideration as appropriate.

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

A. No.

Q. DID 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. There were three things that varied during 2016. First, there was a difference between the actual and the allowed water operating revenues upon which the Capital Recovery Riders are based. Second, the Plant Additions for 2016 were actually greater than projected. Third, the 2016 Capital Recovery Riders and the 2016 Reconciliation of the Capital Recovery Riders, as authorized, were applied over a shorter duration than originally proposed in the tariffs.

Q. **CAN YOU EXPLAIN THE DIFFERENCE BETWEEN THE ACTUAL AND ALLOWED WATER OPERATING REVENUES UPON WHICH THE CAPITAL RECOVERY RIDERS ARE BASED?**

A. Yes. The projected annual revenues were calculated based on the authorized amount of sales in Docket No. 12-00049. The overall sales in 2016 were greater than the amount authorized in Docket No. 12-00049. This is the first time that this has occurred since the conclusion of Docket No. 12-00049 and is based on the unusually hot, dry conditions in eastern Tennessee in 2016. Therefore, the Capital Recovery Riders, which are a percentage of water charges, were greater than authorized. What this means in practical terms is that there were more water sales to apply the percentage to, resulting in more actual revenues billed for the Capital Recovery Riders than were authorized.

Q. **CAN YOU EXPLAIN HOW THE CAPITAL EXPENDITURES FOR 2016 WERE GREATER THAN PROJECTED?**

A. Yes. In early 2016, Tennessee American experienced a significant break in the water main that crosses the Tennessee River. The first phase of that replacement work was completed in 2016, which was not a forecasted project for 2016. For all other construction expenditures, the project expenditures and timing of in-service was close to the expected amounts.

Q. **CAN YOU EXPLAIN HOW THE 2016 CAPITAL RECOVERY RIDERS AND THE 2016 RECONCILIATION OF THE CAPITAL RECOVERY RIDERS OVER A SHORTER DURATION IMPACTED THE REVENUES COLLECTED?**

A. Yes. The authorized surcharge amount was proposed based on revenues collected over 2016. For the 2016 Capital Recovery Riders, this was proposed assuming the entire calendar year, but the 2016 Capital Recovery Riders had an effective date of March 15, 2016. The surcharge amount did not change, but was simply applied for a shorter duration than originally proposed. This reduced the overall amount of revenues collected. What this means in practical terms is that there were less actual water revenues to apply the Capital Recovery Riders to than originally proposed.

Additionally, the 2016 Capital Recovery Riders Reconciliation in Docket No. 16-00022 assumed a recovery from April 1, 2016 through December 31, 2016. However, the effective date of the 2016 Capital Recovery Riders Reconciliation was October 11, 2016 and it ended December 31, 2016. This further reduced the overall amount of the revenues collected in 2016.

Q. AS A REGULATORY SAFEGUARD TO CONSUMERS AND TO SERVE THE PUBLIC INTEREST, DOES EACH OF THE CAPITAL RECOVERY 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 or true-up in which the revenue received under each of the Capital Recovery 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 Rider year. As I stated earlier, this Petition is only for the reconciliation to the 2016 QIIP, EDI and SEC. The 2017 proposed QIIP, EDI and SEC riders are included as Docket No. 16-00126 and are not included in this Petition.

Q. HOW DOES THE RECONCILIATION WORK?

A. Consistent with the approved tariffs, Tennessee American has filed a reconciliation for all three Capital Recovery Riders no later by March 1, 2017. 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 does not occur (up or down) as forecasted. The second is an adjustment for the over or under recovery of revenues as projected, including interest. This is another regulatory oversight and public interest component of the mechanism. In this way, the consumers are protected from paying too much if sales exceed the amount authorized in the previous rate case proceeding. This could 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 could occur with declining usage that TAWC has experienced in recent years. The reconciliation percentage, pending approval by April 1, 2017, as contemplated in the tariffs, will be applied to customer bills for 9 months in 2017.

Finally, there is also a consumer safeguard in the reconciliation process that reviews the earnings for Tennessee American during the attrition period. If it is determined that Tennessee American earned a rate of return above the authorized amount from the previous rate case during the attrition period, the amount above the authorized is an adjustment to the customers, with interest. This could occur if sales exceed the amount authorized in the previous rate case due to significantly hot and dry conditions as were experienced in 2016.

Q. WHAT ARE THE RESULTS FOR THE FIRST ADJUSTMENT OF THE ACTUAL COMPARED TO THE BUDGET?

A. The amount of actual in-service capital investment was higher than the projected levels in Docket No. 15-00111. This is shown on the **Petitioner's Exhibit -- Capital Riders Reconciliation – LCB** attached to my testimony at Line 1. This is due primarily to TAWC spending more in its overall capital expenditures in 2016 as discussed in Mr. O'Neill's testimony. As demonstrated in the exhibit, TAWC had an average balance of plant additions of $38,338,715 in service under the capital recovery riders, compared to $36,630,720 budgeted. Additionally, the cost of removal and depreciation expenses were actually more than projected in the riders in Docket No. 15-00111. So overall, the amount of the revenue requirement for these capital expenditures was more than originally projected in the riders. As shown on Line 18 of the same exhibit, the Actual Revenues Required was $5,250,095 while the projected amount was $4,886,267.

Q. DID TENNESSEE AMERICAN COLLECT ALL OF THE REVENUES AUTHORIZED FOR THE CAPITAL RECOVERY RIDERS SURCHARGES IN 2016 FROM DOCKET NO. 15-00111?

A. No, it did not.

Q. DID TENNESSEE AMERICAN COLLECT ALL OF THE REVENUES AUTHORIZED FOR THE CAPITAL RECOVERY RIDERS RECONCILIATION COMPONENT IN 2016 FROM DOCKET NO. 16-00022?

A. No, it did not. That revenue difference is also included in this Petition filing.

Q. BASED ON THE SHORTER PERIOD FOR COLLECTIONS, AND THE HIGHER THAN EXPECTED WATER SALES, WHAT ARE THE RESULTS FOR THE SECOND ADJUSTMENT FOR OVER/UNDER REVENUE BILLINGS?

A. The revenues billed were $4,426,167, or $460,100 less than the authorized amount. This is primarily for three reasons. First, the Capital Recovery Riders were only in place nine months and not a full year as proposed in the calculation of the amount of the Capital Recovery Riders in Docket No. 15-00111. This was offset somewhat in that the water sales and revenues were more than the base amount authorized in Docket No. 12-00049. However, Tennessee American has lost two Sales for Resale customers since Docket No. 12-00049, so the overall sales were not as much higher as might have been with those two customers. Third, the Capital Recovery Riders reconciliation component was only in place 3 months and not the 9 months as proposed in the calculation in Docket No. 16-00022.

Q. WHAT PURPOSE DOES THE EARNINGS TEST ADJUSTMENT SERVE AS PART OF THE TARIFF?

A. As developed by the parties in TRA Docket No. 13-00130, and as approved by the Authority, the tariffs include a number of inherent safeguards and protections. For instance, the oversight and safeguards set forth within the tariffs guard against the occurrence of a rise of net operating income for TAWC as revenue requirements would increase annually without a general rate case to review all revenues, expenses and investment. This might occur, for instance, if there were an operational improvement that reduced expenses or created additional income, drought conditions that result in significantly higher water sales, or significant growth that leads to much higher water sales and revenues. In order to provide for sufficient oversight, the Capital Recovery Riders tariffs include an earnings test adjustment. The Earnings Test determines if the Company's attained earnings for the review period exceed the earnings allowed for the Annual Review Period by applying the overall rate of return authorized in the last rate case. If the earnings attained exceed that amount, then the revenues will be reduced by that same amount, referred to as the Earnings Test Adjustment.

Q. DID TENNESSEE AMERICAN EARNINGS EXCEED THE AUTHORIZED AMOUNT FROM DOCKET NO. 12-00049?

A. Yes. For the first time since the authorization of the Capital Recovery Riders, Tennessee American earned a higher rate of return that the authorized 7.23% from Docket No. 12-00049. Therefore, Tennessee American, consistent with the tariffs, appropriately has included an earnings test adjustment in the filing.

Q. CAN YOU EXPLAIN HOW TENNESSEE AMERICAN CALCULATED THE EARNINGS TEST ADJUSTMENT?

A. Yes, I can. Tennessee American used a straightforward approach. Each month, Tennessee American files with the TRA a monthly report regarding its monthly earnings, and 12-month earnings. As of the end of December 2016, the 12-month earnings were 7.57%, which is well above the authorized 7.23% from Docket No. 12-00049. Tennessee American utilized the information provided in each monthly report, and calculated a rate of return using a 13-month average of the rate base calculation. This produced a slightly higher earning amount of 7.59%. Tennessee American then calculated the amount of earnings that would reduce the amount to 7.23% and included that amount as a reduction to the revenues required in the reconciliation. Because the adjustment for the 2016 actual plant additions and actual 2016 revenues collected resulted in an increase to the revenue requirement, the Earnings Test Adjustment offsets that increase. This is reflected on Line 26 of **Petitioner's Exhibit – Capital Riders Reconciliation – LCB**. The Earnings Test Adjustment is therefore not a separate refund to customers but a reduction to the proposed reconciliation of revenues in this Petition. The Earnings Test Adjustment results in an adjustment of $579,235 reduction to the reconciliation revenues.

Q. DO YOU BELIEVE THAT THIS ADJUSTMENT INDICATES THAT THE CAPITAL RECOVERY RIDERS ARE NO LONGER IN THE BEST INTEREST OF THE CUSTOMERS?

A. Not at all. In fact, I believe that the Earnings Test Adjustment for 2016 demonstrates the exact opposite. 2016 was an extremely unusual weather year with the Chattanooga area experiencing severe drought conditions. Like with all water utilities, this will lead to above normal water sales, and thus increased earnings. However, due to the inclusion of safeguards in the Capital Recovery Riders mechanisms, the amount of the increased earnings will be timely returned to the consumers.

Q. IS THE RECONCILIATION OF 2014 CAPITAL RECOVERY RIDERS, WHICH WAS AUTHORIZED IN DOCKET NO. 15-00029, INCLUDED IN THIS FILING?

A. Only in part. As I stated earlier, 2014 actual plant additions were used in the calculation of in Docket No. 15-00111 and in the currently pending 2017 Capital Recovery Riders in Docket No. 16-00126. This means that the first adjustment in the 2014 reconciliation of the Capital Recovery Riders, of budgeted plant additions to actual plant additions, does not roll forward. To the extent that the 2014 revenues varied from the authorized 2014 revenues, any remaining revenues that were not fully collected in 2015 will roll forward into this reconciliation. Likewise, in future reconciliations, any refunds that may need to be made that are not completed will carry forward into the following reconciliation.

Q. IS THE RECONCILIATION OF 2015 CAPITAL RECOVERY RIDERS, WHICH WAS AUTHORIZED IN DOCKET NO. 16-00022, INCLUDED IN THIS FILING?

A. As with the 2014 actual plant additions, the 2015 actual plant additions were used in the calculation in the currently pending 2017 Capital Recovery Riders in Docket No. 16-00126. By doing this, the only amount of plant additions to reconcile in this Petition is the 2016 actual plant additions. Again, to the extent that the 2015 revenues varied from the authorized 2015 revenues, any remaining revenues that were not fully collected in 2016 are a part of this reconciliation.

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 Recovery 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 analyzed 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 under the approved PCOP TAWC 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. Docket No. 15-00131 looked at the review period for the PCOP from December 1, 2014 through November 30, 2015. Docket No. 16-00148 is reviewing the period for the PCOP will be December 1, 2015 through November 30, 2016. Because that review period is not complete, there is nothing regarding the PCOP in this Petition.

Q. DOES THE PCOP HAVE A TWO-STEP RECONCILIATION PROCESS?

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.

Q. WHAT IS THE STATUS OF THE PCOP RECONCILIATION?

A. TAWC filed the reconciliation on the PCOP Rider on December 29, 2016. New PCOP rates are pending in Docket No. 16-00148.

Q. WHAT IS THE PROPOSED ADJUSTED QIIP RIDER?

A. TAWC is proposing a QIIP Rider that results in a total revenue recovery of $716,202 for nine months of 2017 year or a surcharge of 2.029%.

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

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

Q. WHAT IS THE PROPOSED EDI RIDER?

A. TAWC is proposing an EDI Rider that results in a total revenue recovery of ($15,050) for nine months of 2017 year or a surcharge of -0.043%. Again, this is shown on the new tariff Ninth Revised Sheet No. 12 – Riders – 1 which reflects all three Capital Recovery Riders and is attached to my testimony as **Petitioner's Exhibit -- Proposed Sheet No. 12- Riders - LCB**.

Q. WHAT IS PROPOSED SEC RIDER?

A. TAWC is proposing an SEC Rider that results in a total revenue recovery of ($138,940) for nine months of 2017 year or a surcharge of -0.394%. Again, this is shown on the new tariff Ninth Revised Sheet No. 12 – Riders – 1 which reflects all three Capital Recovery

Riders and is attached to my testimony as **Petitioner's Exhibit -- Proposed Sheet No. 12- Riders - LCB**. The sum of the three riders is an increase of 1.592% on the current base bill.

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 $0.35 per month, or $3.15 in 2017.

I am also providing a table reflecting the detailed changes for each Capital Recovery Rider, including the reconciliations. This is attached to my testimony as **Petitioner's Exhibit – Annual Approved Tariffs – LCB**.

Q. WHAT INFORMATION IS REQUIRED IN THE TARIFF TO BE INCLUDED IN THE ANNUAL RECONCILIATION FILING?

A. Each tariff states that 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 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 Investment Amount and Actual Operational Expense, 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, and (h) the cumulative amount collected from customers.

Q. HAS TAWC PROVIDED THE INFORMATION IN THIS PETITION FILING THAT IS REQUIRED FOR THE QIIP, EDI AND SEC TARIFFS?

A. Yes. In order to provide this information, (a) TAWC has provided in the workpapers all of the general ledger transactions for all of the capital expenditures in the capital recovery riders; (b) TAWC has provided the billing determinants by month from January 2016 to December 2016 in the workpapers; (c) a copy of the capitalization policy effective for the Annual Review Period was filed in Docket No. 15-00029 and has not been revised since that filing and is referenced; (d) TAWC has provided a computation of the Annual Reconciliation Factor Percentage Rate attached as **Petitioner's Exhibit -- Capital Riders Reconciliation – LCB** and has provided the detailed calculation of each component in the workpapers along with an explanation of the workpaper calculation; (e) TAWC has provided schedules of the Actual Investment Amount including the detailed general ledger support for each of the riders in the workpapers however there were no Actual Operational Expenses in 2016; (f) TAWC has not included any proposed prior period adjustments other than removing items in 2016 for the EDI rider consistent with the Orders in Docket No. 14-00121 and Docket No. 15-00029; (g) I discuss 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; and (h) TAWC has provided the cumulative amount collected from customers on the **Petitioner's Exhibit -- Capital Riders Reconciliation – LCB** along with the detailed information of the amount of revenues collected from customers for each of the capital recovery riders in the workpapers.

Q. HAS TENNESSEE AMERICAN PROVIDED INVOICES FOR ALL OF THE CAPITAL EXPENDITURES INCLUDED IN THE CAPITAL RECOVERY RIDERS?

A. No. TAWC has provided the detailed general ledger information for all transactions on all projects in the workpapers, and summarized the type of expenses for each rider in **Petitioner's Exhibit -- Capital Rider Charges Summary -- LCB**. Although individual invoices are available for some contract services under some projects, TAWC uses a purchase order system under blanket contracts that provides for billing for multiple projects on one invoice. Further, TAWC uses purchase orders for materials, bringing materials in and out of stock inventory on an average cost basis. Some material held in inventory may have been purchased in previous years and tracing those items to specific invoices or purchase order receipts will be extremely challenging. Finally, invoices for all projects would result in an extremely large filing that may contain more information than is feasible to review. TAWC has provided a summary of the work order detail of expenses in **Petitioner's Exhibit -- Work Order Detail Summary – LCB**. TAWC has filed this similar to Docket No. 16-00022, and fully anticipates filing sample documentation during the discovery process. It is important to develop a technique or process that provides adequate levels of assurance that TAWC continues to implement its construction program in the most cost effective manner for its customers while not developing a technique or process that becomes overwhelming or inefficient for all parties involved in the reconciliation process.

Q. IS THE COMPANY AWARE OF ANY CHANGES IN MARKET CONDITIONS OR OTHER FACTORS THAT MAY AFFECT WHETHER THE QIIP RIDER, THE EDI RIDER AND THE SEC RIDER ARE STILL IN THE PUBLIC INTEREST?

A. No, the Company is not aware of any changes in market conditions or other factors that affect whether the QIIP Rider, the EDI Rider and the SEC Rider are still in the public interest. Tennessee American believes that the QIIP Rider, the EDI Rider and the SEC Rider are all still in the public interest. Tennessee American understands that the purpose of the legislation 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. The market conditions are consistent with the conditions at the time that the Capital Recovery Riders were approved, with a continued need to increase infrastructure replacement and meet environmental compliance needs on a timely basis.

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 Recovery 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 pursuant to Tenn. Code Ann. Section 65-5-103 *et. seq*., and specifically without the Capital Recovery 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 goals.

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 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 Recovery 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. Under the Authority's oversight and within the safeguards set forth in the approved tariffs, 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. 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 April 1, 2017 through December 31, 2017.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes. I reserve the ability to submit further testimony as is appropriate.

Tennessee American Water Company
Qualified Infrastructure Improvement Program Rider (QIIP)
Economic Development Investment Rider (EDI)
Safety and Environmental Compliance Rider (SEC)
Reconciliation of the Calculation of Revenue Requirement
As of 12/31/2016

		Qualified Infrastructure Investment Program QIIP Average YTD 12/31/2016			Economic Development Investment EDI Average YTD 12/31/2016			Safety and Environmental Compliance SEC Average YTD 12/31/2016			Total Average YTD 12/31/2016		
Line Number	Description	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
1	Additions Subject to Rider:	$17,526,136	$16,038,978	$1,487,158	$761,222	$380,084	$381,138	$20,051,357	$20,211,658	($160,301)	$38,338,715	$36,630,720	$1,707,995
2	Plus: Cost of Removal less Salvage	2,109,824	822,674	1,287,150	933	0	933	637,263	93,093	544,170	2,748,020	915,767	1,832,253
3	Less: Contributions in Aid to Construction (CIAC)	417,526	0	417,526	1,778	0	1,778	0	0	0	419,304	0	419,304
4	Less: Deferred Income Taxes	122,302	77,209	45,093	6,844	2,149	4,695	197,908	6,451	191,457	327,054	85,809	241,245
5	Less: Accumulated Depreciation	389,016	312,641	76,375	11,030	6,154	4,876	358,395	710,858	(352,463)	758,441	1,029,653	(271,212)
6	Net Investment Supplied Additions:	$18,707,117	$16,471,802	$2,235,315	$742,503	$371,781	$370,722	$20,132,316	$19,587,442	$544,874	$39,581,937	$36,431,025	$3,150,912
7													
8	Pre-Tax Authorized Rate of Return:	9.45%	9.45%		9.45%	9.45%		9.45%	9.45%		9.45%	9.45%	
9	Pre-Tax Return on Additions:	$1,768,642	$1,557,306	$211,335	$70,199	$35,150	$35,049	$1,903,385	$1,851,871	$51,514	$3,742,226	$3,444,327	$297,899
10													
11	Depreciation Expense on Additions:	466,610	304,249	162,361	10,235	5,463	4,772	372,362	488,293	(115,931)	849,206	798,005	51,201
12													
13	Property and Franchise Taxes Associated:	222,577	215,120	7,456	10,278	5,135	5,142	258,278	267,759	(9,481)	491,132	488,014	3,118
14													
15	Revenues:	2,457,828	2,076,676	381,152	90,711	45,748	44,964	2,534,025	2,607,923	(73,897)	5,082,564	4,730,346	352,218
16													
17	Revenue Taxes	3.19%	3.19%		3.19%	3.19%		3.19%	3.19%		3.19%	3.19%	
18	Total Capital Riders Revenues with Revenue Taxes	$2,538,842	$2,145,127	$393,715	$93,701	$47,256	$46,446	$2,617,551	$2,693,884	($76,333)	$5,250,095	$4,886,267	$363,828
19													
20													
21	Actual Capital Riders Revenues Billed		$1,973,584			$34,846			$2,417,737			$4,426,167	
22													
23	(Over)/Under Capital Riders Revenue Billings		171,542			12,410			276,148			460,100	
24	Budget to Actual Adjustment		393,715			46,446			(76,333)			363,828	
25	2015 Reconciliation Amount		411,519			(62,763)			(41,585)			307,171	
26	Earnings Test Adjustment		(273,757)			(10,866)			(294,613)			(579,235)	
27	Interest (Prime - 3.75%)		13,182			(277)			(2,557)			10,348	
28													
29	Reconciliation Amount		$716,202			($15,050)			($138,940)			$562,212	
30													
31	Authorized Capital Riders Revenues (9/12th)		$35,305,293			$35,305,293			$35,305,293			$35,305,293	
32													
33	Current Reconciliation Factor Percentage		2.029%			-0.043%			-0.394%			1.592%	
34													

Explanation:
Tennessee American Water has been authorized 3 capital riders based on a 13-month average of in-service capital projects in the forecasted period. The revenue requirement for each rider is calculated similar to how total ratebase is calculated by the Tennessee Regulatory Authority in a rate case. This table shows a comparison of the actual average over the reporting period to the proposed amount of each rider, and the total of the three.

*From Docket #15-00111 which was approved on 5/26/2016 as amended. It should be noted that the order appears to contain a $40 typo for the SEC rider total amount.

Tennessee American Water Company
For 12 Months Ended December 31, 2016
2016 Capital Riders Reconciliation - Charge Detail Summary by Rider

Line	Rider	Charge Type	Additions	Removals	CIAC	Total
1	QIIP	Labor	$ 769,827	$ 166,400	$ -	$ 936,227
2		Labor Overhead	381,612	81,470	-	463,082
3		Licenses, Permits & Misc Fees	61,721	14,641	-	76,363
4		Materials & Supplies	3,187,317	50,635	-	3,237,953
5		Contracted Services	6,392,728	1,377,547	-	7,770,275
6		Other - Paving	856,397	163,629	-	1,020,027
7		Other	641,791	173,305	-	815,097
8		Overhead	(1,167,028)	(119,311)	-	(1,286,339)
9		Salvage Cash	-	(106,475)	-	(106,475)
10		Service Company Charges	688,872	21,551	-	710,423
11		CWIP Accrual	36,940	(482)	-	36,458
12		CIAC Taxable	-	-	(7,202)	(7,202)
13		CIAC Non-Taxable	-	-	(486,237)	(486,237)
14		AFUDC Debt	105,372	-	-	105,372
15		AFUDC Equity	95,445	-	-	95,445
16						
17	QIIP Total		$ 12,050,995	$ 1,822,912	$ (493,440)	$ 13,380,468
18						
19	EDI	Labor	$ 9,379	$ 2,401	$ -	$ 11,780
20		Labor Overhead	4,479	1,186	-	5,665
21		Licenses, Permits & Misc Fees	1,530	-	-	1,530
22		Materials & Supplies	61,226	-	-	61,226
23		Contracted Services	82,509	-	-	82,509
24		Other - Paving	35,606	-	-	35,606
25		Other	823	11,636	-	12,458
26		Overhead	35,482	(15,223)	-	20,259
27		Salvage Cash	-	-	-	-
28		Service Company Charges	-	-	-	-
29		CWIP Accrual	(7,040)	-	-	(7,040)
30		CIAC Taxable	-	-	-	-
31		CIAC Non-Taxable	-	-	(3,845)	(3,845)
32		AFUDC Debt	1,272	-	-	1,272
33		AFUDC Equity	1,152	-	-	1,152
34						
35	EDI Total		$ 226,417	$ 0	$ (3,845)	$ 222,572
36						
37	SEC	Labor	$ 33,193	$ 2,259	$ -	$ 35,452
38		Labor Overhead	17,331	1,156	-	18,487
39		Licenses, Permits & Misc Fees	3,149	-	-	3,149
40		Materials & Supplies	812,558	4,185	-	816,743
41		Contracted Services	1,212,165	210,415	-	1,422,580
42		Other - Paving	37,620	-	-	37,620
43		Other	426,254	15,784	-	442,038
44		Overhead	249,164	20,421	-	269,585
45		Salvage Cash	-	-	-	-
46		Service Company Charges	14,689	-	-	14,689
47		CWIP Accrual	(1,042,621)	(10)	-	(1,042,631)
48		CIAC Taxable	-	-	-	-
49		CIAC Non-Taxable	-	-	-	-
50		AFUDC Debt	16,845	-	-	16,845
51		AFUDC Equity	15,258	-	-	15,258
52						
53	SEC Total		$ 1,795,604	$ 254,210	$ -	$ 2,049,814

Tennessee American Water Company
For 12 Months Ended December 31, 2016
2016 Capital Rider Reconciliation - Charge Detail Summary by Work Order

Line	Rider	Work Order #	Work Order Description	Additions	Removals	CIAC	Total
1	QIIP	R26-02B1.12-P-0019	12TH ST MAIN EXTENSION	$ -	$ 2	$ -	$ 2
2		R26-02B1.15-P-0001	Work Order	39	-	-	39
3		R26-02B1.15-P-0002	Stuart Heights Flow Improvements	275,145	5,386	-	280,532
4		R26-02B1.15-P-0005	West 47th St Main Replacement	-	5,239	-	5,239
5		R26-02B1.15-P-0007	Signal View Main Replacement	(14,384)	3,911	-	(10,473)
6		R26-02B1.15-P-0008	Centro St Main Replace 1100' 6"	-	1,038	-	1,038
7		R26-02B1.15-P-0012	Pineview Lane Main Replacement	41,207	1,299	-	42,507
8		R26-02B1.15-P-0014	Fairy Trail Main Replacement	(6,563)	4,042	-	(2,521)
9		R26-02B1.15-P-0015	Dayton Blvd Main Replace	125,186	-	-	125,186
10		R26-02B1.16-P-0001	Work Order	(196)	-	-	(196)
11		R26-02B1.16-P-0002	Francis St Install 995' of 6"	140,879	-	-	140,879
12		R26-02B1.16-P-0003	Spears Ave N of Wert	44,743	2,823	-	47,566
13		R26-02B1.16-P-0004	Pirola St 525' 6" Main	76,626	-	-	76,626
14		R26-02C1.14-P-0001	Mains-Unscheduled	(0)	(0)	-	(0)
15		R26-02C1.15-P-0001	Work Order	16,369	12,413	-	28,782
16		R26-02C1.16-P-0001	Work Order	1,446,527	145,259	-	1,591,786
17		R26-02C1.16-P-0002	24" HDPE for River Crossing	758,765	42,262	-	801,027
18		R26-02C1.17-P-0001	Work Order	9,093	-	-	9,093
19		R26-02D1.09-P-0008	LOOKOUT CREEK BRIDGE MAIN REP AS	(0)	-	-	(0)
20		R26-02D1.11-P-0001	US27 BTN RIVERFRONT RELOCATION MAIN	12,762	-	-	12,762
21		R26-02D1.14-P-0001	Work Order	0	-	-	0
22		R26-02D1.14-P-0009	Calhoun Avenue 16" relocation with	(4)	37,489	-	37,485
23		R26-02D1.15-P-0002	Kellys Ferry Road Offset	-	493	-	493
24		R26-02D1.15-P-0003-CN	Reimbursement WBS for R2602D1.11-P	-	-	(486,237)	(486,237)
25		R26-02D1.15-P-0003-CO	Reimbursement WBS for R2602D1.11-P	-	-	(7,202)	(7,202)
26		R26-02D1.16-P-0002	14th St Market-Ross Av	101,132	3,297	-	104,429
27		R26-02D1.16-P-0003	Riverfront Pkwy Offset	7,529	5,872	-	13,401
28		R26-02D1.16-P-0005	McCutcheon@Gunbarrel Main Relo	13,306	-	-	13,306
29		R26-02F1.15-P-0001	Work Order	(14,463)	(440)	-	(14,903)
30		R26-02F1.16-P-0001	Work Order	113,407	2,162	-	115,570
31		R26-02F1.17-P-0001	Work Order	1,692	-	-	1,692
32		R26-02H1.15-P-0001	Work Order	2,552	5,861	-	8,413
33		R26-02H1.16-P-0001	Work Order	344,815	73,973	-	418,788
34		R26-02H1.17-P-0001	Work Order	105	-	-	105
35		R26-02J1.15-P-0001	Work Order	47,190	9,739	-	56,929
36		R26-02J1.16-P-0001	Work Order	762,591	131,220	-	893,811
37		R26-02R1.11-P-0001	Elder Mtn Receiving Tank AS	-	-	-	-
38		R26-02R1.13-P-0002	Aldrich Unit #7 and #8 Rehabilitati	(2,309,684)	0	-	(2,309,684)
39		R26-02R1.15-P-0002	E Brainerd Standpipe Rehab	(162,135)	205,907	-	43,772
40		R26-02R1.16-P-9002	Aldrich Units 7 and 8 Rehab True-UP	1,563,361	957,730	-	2,521,091
41		R26-03C1.14-P-0001	Work Order	(2,834)	(0)	-	(2,834)
42		R26-03C1.15-P-0001	Work Order	-	-	-	-
43		R26-03C1.16-P-0001	Unscheduled Mains SCUD 2016	2,834	-	-	2,834
44		R26-03F1.15-P-0001	Work Order	(315)	-	-	(315)
45		R26-03F1.15-P-0002	PRV Station Upgrades	11,787	0	-	11,787
46		R26-03F1.16-P-0001	Replaced Hydrants / Valves SCUD 201	363	-	-	363
47		R26-03H1.15-P-0001	Work Order	(243)	(0)	-	(243)
48		R26-03H1.16-P-0001	Renewed Services SCUD 2016	3,870	-	-	3,870
49		R26-03J1.15-P-0001	Work Order	(62)	-	-	(62)

Tennessee American Water Company
For 12 Months Ended December 31, 2016
2016 Capital Rider Reconciliation - Charge Detail Summary by Work Order

Line	Rider	Work Order #	Work Order Description	Additions	Removals	CIAC	Total
50		R26-03J1.16-P-0001	Renewed Meters / Settings SCUD 2016	32,157	-	-	32,157
51		R26-05B1.16-P-0002	Mount Calvary Road Main Replacement	56,801	2,837	-	59,638
52		R26-05C1.14-P-0001	Unscheduled Main Replacements	(98,071)	-	-	(98,071)
53		R26-05C1.15-P-0001	Work Order	98,506	877	-	99,383
54		R26-05C1.16-P-0001	Work Order	51,904	8,661	-	60,565
55		R26-05F1.14-P-0001	Work Order	(31,283)	0	-	(31,283)
56		R26-05F1.15-P-0001	Work Order	31,308	703	-	32,011
57		R26-05F1.16-P-0001	Work Order	2,880	230	-	3,110
58		R26-05H1.14-P-0001	Work Order	(100,596)	-	-	(100,596)
59		R26-05H1.15-P-0001	Work Order	100,597	36,529	-	137,126
60		R26-05H1.16-P-0001	Work Order	60,333	20,171	-	80,504
61		R26-05H1.17-P-0001	Work Order	1,383	-	-	1,383
62		R26-05J1.14-P-0002	Whitwell Meter Change Program	-	77,759	-	77,759
63		R26-05J1.14-P-0003	Replace Whitwell High School Meter	-	0	-	0
64		R26-05J1.15-P-0001	Work Order	19,882	10,832	-	30,714
65		R26-05J1.16-P-0001	Work Order	25,003	7,335	-	32,337
66		I26-020028-01	Citico Plant Improvements Phase 1B	8,387,200	-	-	8,387,200
67							
68	QIIP Total			$ 12,050,995	$ 1,822,912	$ (493,440)	$ 13,380,468
69							
70	EDI	R26-02A1.15-P-0002	Obey Street Main Extension	$ (2,168)	$ -	$ -	$ (2,168)
71		R26-02A1.15-P-0003	Mountain Creek Road Cross Tie	9	-	-	9
72		R26-02A1.15-P-0005	Dayton Blvd Main Extension	14,208	-	-	14,208
73		R26-02A1.16-P-0002	Camp Jordan 12" Main Install	110,778	-	-	110,778
74		R26-02E1.14-P-0001	Hydrants - Valves and Manholes-New	-	-	-	-
75		R26-02E1.15-P-0001	Work Order	(244)	-	-	(244)
76		R26-02E1.15-P-0002	Installed Inserta Valve in E. 11th	16,494	0	-	16,494
77		R26-02E1.16-P-0001	New Hydrants / Valves 2016	10,292	-	-	10,292
78		R26-02E1.16-P-0002	Morris Hill Rd Inserta Valve	14,507	-	-	14,507
79		R26-02E1.16-P-0003	Fire Hydrant Install 617 Hudson Rd	3,845	-	-	3,845
80		R26-02E1.16-P-0003-CN	Fire Hydrant Install 617 Hudson Rd	-	-	(3,845)	(3,845)
81		R26-03E1.15-P-0001	Work Order	(17,129)	-	-	(17,129)
82		R26-03E1.16-P-0001	New Hydrants / Valves SCUD 2016	16,807	-	-	16,807
83		R26-05A1.15-P-0002	Whitwell / Dunlap Interconnect	46,065	-	-	46,065
		R26-05A1.15-P-0003	Hwy 27 6" Main Extension	6,555	-	-	6,555
		R26-05E1.14-P-0001	Work Order	(9,704)	-	-	(9,704)
84		R26-05E1.15-P-0001	Work Order	9,609	-	-	9,609
85		R26-05E1.16-P-0001	Work Order	6,492	-	-	6,492
86							
87	EDI Total			$ 226,417	$ 0	$ (3,845)	$ 222,572
88							
89	SEC	R26-02L1.14-P-0003	UPGRADE COMMUNICATIONS EQUIPMENT FO	$ 4,597	$ 93	$ -	$ 4,691
90		R26-02L1.15-P-0002	(2) Controllers for Filter Plant -	5,811	2,108	-	7,919
91		R26-02L1.15-P-0003	FiberConduit Run WashWaterPumpBldg	(139)	75	-	(64)
92		R26-02L1.16-P-0002	Repl Obsolete Remote Site RTUs	170,091	-	-	170,091
93		R26-02M1.15-P-5002	Citico security wiring	(197)	-	-	(197)
94		R26-02M1.16-P-6001	Chattanooga Return to dress wiring\	8,337	-	-	8,337
95		R26-02M1.16-P-6002	Citico Plant Gate, Inv #3439	29,333	-	-	29,333

Tennessee American Water Company
For 12 Months Ended December 31, 2016
2016 Capital Rider Reconciliation - Charge Detail Summary by Work Order

Line	Rider	Work Order #	Work Order Description	Additions	Removals	CIAC	Total
96		R26-02M1.16-P-6003	Chattanooga gate ops & Safety	39,897	-	-	39,897
97		R26-02M1.16-P-6004	Signage, #25080	3,893	-	-	3,893
98		R26-02M1.16-P-6005	Server Refresh	16,086	-	-	16,086
99		R26-02Q1.14-P-0027	Slope Stability Study Citico Pump T	83,201	-	-	83,201
100		R26-02Q1.15-P-0002	Replace Underdrain 11 in Filter Hse	(1,488)	59,878	-	58,390
101		R26-02Q1.15-P-0003	Replace Underdrain 1 in Filter Hse	-	36,653	-	36,653
102		R26-02Q1.15-P-0004	Replace Underdrain 2 in Filter Hse	-	12,446	-	12,446
103		R26-02Q1.15-P-0005	Replace Underdrain 5 in Filter Hse	-	36,352	-	36,352
104		R26-02Q1.15-P-0006	Replace Underdrain 6 in Filter Hse	-	36,362	-	36,362
105		R26-02Q1.15-P-0007	Replace Underdrain 9 in Filter Hse	-	34,163	-	34,163
106		R26-02Q1.15-P-0010	Citico Pump Station Air Compressor	-	1,676	-	1,676
107		R26-02Q1.15-P-0013	Gate & Check Vlv #7 S MissionRidge	1	2,032	-	2,033
108		R26-02Q1.15-P-0015	Missionary Ridge Tank Stair	25	0	-	25
109		R26-02Q1.15-P-0016	GE Mulitin 469 Switch	3,799	38	-	3,837
110		R26-02Q1.15-P-0017	Install 13 (Custom) Shaft Guards	-	750	-	750
111		R26-02Q1.15-P-0020	12" Cone Vlv w/Hyd Cylinder	46,709	3,215	-	49,924
112		R26-02Q1.15-P-0021	16" Cone Vlv w/Hyd Cylinder	5,660	4,038	-	9,698
113		R26-02Q1.15-P-0022	18" Cone Vlv w/Hyd Cylinder #1	1,979	3,930	-	5,908
114		R26-02Q1.15-P-0023	18" Cone Vlv w/Hyd Cylinder #2	127,275	6,592	-	133,866
115		R26-02Q1.15-P-0024	Replace H.S. #16 Valve	-	272	-	272
116		R26-02Q1.15-P-0027	Citico 20" Cross Tie Piping	20,744	-	-	20,744
117		R26-02Q1.15-P-0028	Actuator for Sludge Vault	-	42	-	42
118		R26-02Q1.15-P-0029	Sample Fridge/Freezer for WTP Lab	50	2	-	52
119		R26-02Q1.15-P-0030	Mag Meter for Sludge Flow	-	51	-	51
120		R26-02Q1.15-P-0031	Repl Soft Start Missionary Rdg Boos	(110)	171	-	61
121		R26-02Q1.15-P-0032	Stuart Heights Booster Upgrade	412,736	-	-	412,736
122		R26-02Q1.15-P-0034	Vault 3A 54" Tap Saddle Install	1,632	1,911	-	3,542
123		R26-02Q1.15-P-0035	Replace Valve Machine Controller	3,294	-	-	3,294
124		R26-02Q1.15-P-0036	Missionary Ridge Tank Stairs Retire	-	1,616	-	1,616
125		R26-02Q1.15-P-0037	Rotating Element #16 High Service	137,173	-	-	137,173
126		R26-02Q1.15-P-0038	Lab Sample Oven	5,518	56	-	5,574
127		R26-02Q1.15-P-0039	2100N LAB TURBIDIMETER	3,654	-	-	3,654
128		R26-02Q1.15-P-0040	Filter Hse 2 Foyer Roof Repl	1,643	87	-	1,730
129		R26-02Q1.16-P-0002	Repl Drop Ceiling Filter Bldg	4,343	85	-	4,428
130		R26-02Q1.16-P-0003	Drain System Filter Hse 2	12,668	-	-	12,668
131		R26-02Q1.16-P-0005	North Traveling Screen	24,247	2,484	-	26,730
132		R26-02Q1.16-P-0006	Platform & Stairs Filter Aid Bldg	5,798	622	-	6,420
133		R26-02Q1.16-P-0008	Turbidimeter Head Replacements	30,443	1,541	-	31,984
134		R26-02Q1.16-P-0009	Crestwood Power Service Renovation	2,322	98	-	2,421
135		R26-02Q1.16-P-0011	Lab Sample Refrigerator	1,452	14	-	1,466
136		R26-02Q1.16-P-0012	Discharge Valve Actuator #12 Low Sr	4,072	126	-	4,198
137		R26-02Q1.16-P-0014	Filter drain #19 actuator	4,015	-	-	4,015
138		R26-02Q1.16-P-0017	Replace Plant Analyzers	12,910	-	-	12,910
139		R26-05L1.14-P-0004	Automation of Wiley Ross Booster St	(199)	-	-	(199)
140		R26-05M1.15-P-5001	Whitwell Security gate	465	1,932	-	2,397
141		R26-05M1.15-P-5002	Whitwell building security	5,268	-	-	5,268
142		R26-05Q1.14-P-0007	REP Plant Turbidimeters	-	1,005	-	1,005
143		R26-05Q1.15-P-0009	replace backwash flow control valve	11,110	596	-	11,706
144		R26-05Q1.16-P-0002	Replaced pump bowl assemply #2 raw	18,101	919	-	19,020
145		R26-05Q1.16-P-0003	VFD @ Wiley Ross and Red Hill Boost	1,682	-	-	1,682
146		R26-05Q1.16-P-0005	replaced flush valves raw water int	3,565	178	-	3,743
147		I26-020032-01	Wastewater Treatm't & Handling Impr	522,140	-	-	522,140
148							
149	SEC Total			$ 1,795,604	$ 254,210	$ -	$ 2,049,814
150							
151	**Grand Total**			**$ 14,073,016**	**$ 2,077,122**	**$ (497,284)**	**$ 15,652,854**
152							
153							

TENNESSEE REGULATORY AUTHORITY
MONTHLY REPORT
Dec-16

Listed below is the gross amount of changes, which would affect operating income and are not fully reflected in the r
shown in the report. Also, attached is an analysis of meters in service by size and by revenue classification.

ITEM		AVG. MONTHLY INCREASE	NO. OF PERIODS	12 MONTHS TO DATE
Salary: 1-1-12 Increase		$ 37,678.16	7	$ 263,747.12
Hourly: 11-1-12 Increase		$ 7,000.93	4	$ 28,003.72
Sub-total				**$ 291,750.84**
Plus: Pensions, Insurance and Taxes	0.564			$ 164,547.47
Total				**$ 456,298.31**

ACCOUNTS PAYABLE IN	Dec-16
Applicable to Utility Plant in Service	$ -
Applicable to Construction Work in Progress	$ -
Unpaid for Materials and Supplies	$ -

TENNESSEE-AMERICAN WATER COMPANY
METERS IN SERVICE AT THE END OF THE PERIOD
Dec-16

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,670	4,959	22	177	68,828
37. 3/4"	102	120	2	11	235
38. 1"	246	1,504	22	142	1,914
39. 1 1/2"	16	398	6	74	494
40. 2"	21	1,098	75	303	1,497
41. 3"	0	59	0	7	66
42. 4" & Over	0	54	24	37	115
43. **Totals**	64,055	8,192	151	751	73,149

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 2-28, 2017

(Signed) Linda C. Bridwell

Title and Address: Sr. Manager - Rates & Regulation
109 Wiehl Street
Chattanooga, TN 37403

CONTINUING SURVEILLANCE CONSIDERATIONS- Dec-16

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	278,798.27

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

PSC--3.06

Company Name: Tennessee-American Water Company
Month of Report: December 2016

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,781,145	1,609,256	23,913,429	21,230,424	23,913,429	21,230,424
2. Commercial Sales	1,289,845	1,122,898	17,339,732	15,436,866	17,339,732	15,436,866
3. Industrial Sales	339,949	340,289	4,409,937	4,016,564	4,409,937	4,016,564
4. Other Sales	709,148	615,817	8,976,735	8,265,228	8,976,735	8,265,228
5. Total Operating Revenues (Item 1-4)	4,120,087	3,688,260	54,639,833	48,949,082	54,639,833	48,949,082
Operating Expenses						
6. Source of Supply Expense	28,934	52,405	246,374	281,015	246,374	281,015
7. Pumping and Water Treatment Expense	663,564	424,691	5,997,479	5,313,804	5,997,479	5,313,804
8. Transmission and Distribution-Operation	86,637	122,150	1,070,150	1,254,715	1,070,150	1,254,715
9. Transmission and Distribution-Maintenance	245,904	72,861	1,724,583	1,170,582	1,724,583	1,170,582
10. Customer Accounts and Sales Expense	372,620	115,496	2,252,812	1,975,287	2,252,812	1,975,287
11. Administrative and General Expense	1,884,432	1,400,952	13,640,309	12,759,625	13,640,309	12,759,625
12. Depreciation and Amortization	628,321	598,941	7,735,163	6,900,992	7,735,163	6,900,992
13. Taxes Other Than Income Taxes	416,623	254,921	4,723,666	4,841,982	4,723,666	4,841,982
14. Income Taxes	(162,766)	159,075	5,639,888	5,149,949	5,639,888	5,149,949
15. Total Operating Expenses (Item 6-14)	4,164,270	3,201,492	43,030,424	39,647,951	43,030,424	39,647,951
16. Net Operating Income (Item 5 less 15)	(44,182)	486,769	11,609,409	9,301,131	11,609,409	9,301,131
Gain/Loss on Sale	0					
17. Other Income	(3,189)	2,361	17,756	(23,855)	17,756	(23,855)
18. Miscellaneous Income Deductions	(3,293)	2,674	25,093	27,074	25,093	27,074
19. Interest Charges	307,388	285,444	3,498,880	3,555,512	3,498,880	3,555,512
20. Net Income	(345,088)	196,289	8,103,192	5,694,690	8,103,192	5,694,690

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	297,481,240	282,919,038	290,747,789	265,441,822
22. Construction Work in Progress	2,247,280	4,004,785	4,488,968	13,245,098
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	84,867,111	81,362,311	83,717,580	79,109,291
26. Materials and Supplies	799,279	750,083	761,932	782,883
27. Unamortized Investment Credit	428,952	505,320	463,954	540,322
28. Deferred Income Tax	38,266,527	35,860,570	37,163,818	31,675,231
29. Contributions in Aid of Construction	15,011,694	13,439,172	14,218,476	12,891,746
30. Customer Advances for Construction	3,786,559	5,199,870	4,385,637	5,111,486
31. Preferred Stock	0	0	0	0
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	34,445,812	26,419,241	27,097,080	26,242,260
34. Retained Earnings	30,735,027	28,487,471	30,939,507	28,505,189
35. Long Term Debt...........(1)	72,384,770	64,438,953	65,767,773	64,708,567

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED December 2016

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$297,481,240	$290,747,789
3	Plant Under Construction	2,247,280	4,488,968
4	Property Held For Future Use	0	0
5	Materials and Supplies	799,279	761,932
6	Other Additions:		
7	Leased Utility Plant	0	0
8	Unamortized Painting - net	0	0
9	Working Capital C/	3,409,884	3,409,884
10			
11	Total Additions	303,937,683	299,408,573
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	84,867,111	83,717,580
16	Accumulated Deferred Income Taxes	38,266,527	37,163,818
17	Unamortized Investment Credit - Pre 1971	9,871	11,290
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	15,011,694	14,218,476
21	Customer Advances for Construction	3,786,559	4,385,637
22	All Other A/	(8,930)	(224,925)
23			
24			
25			
26	Total Deductions	141,932,832	139,271,876
27			
28	Rate Base	$162,004,851	$160,136,697
29			
30	Net Operating Income	($44,182)	$11,609,409
31	Adjustments to NOI		
32	Allowance for funds used during construction	5,083	302,556
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	18,381	218,028
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	($20,719)	$12,129,993
40			
41			
42	Rate of return B/	-0.15%	7.57%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	268,625	53,825
Unpaid for materials and supplies	38,256	50,084
Taxes on CIAC-DEF. FIT & SIT	(315,811)	(328,834)
	($8,930)	($224,925)

B/ Rate of return - Monthly (L39 / L28) x 12

C/ Per order

Cash working capital Lead Lag Study	$591,674
Incidental collection	(116,192)
Average cash	0
Other components	2,934,402
Working cash	$3,409,884

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

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.

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:

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.

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.

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.

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.

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 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 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.

TENNESSEE-AMERICAN WATER COMPANY | TRA NO. 19
Original Sheet No. 12-SEC-1

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.

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

BY:

Deron E. Allen
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

"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. <u>General Description</u>

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.

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

BY: Deron E. Allen

Deron E. Allen
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

(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. New Base Rates

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.

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.

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	4.56 %	
EDI	0.10 %	
SEC	5.72 %	
Subtotal of all Capital Recovery Riders	10.38 %	
QIIP Annual Reconciliation Percentage	1.166 %	(I)
EDI Annual Reconciliation Percentage	-0.178 %	(D)
SEC Annual Reconciliation Percentage	-0.118 %	(D)
Subtotal of all Reconciliation Percentages	0.870 %	
Total of Capital Recovery Riders and Reconciliation Percentages	11.25%	
PCOP	-0.36 %	

(D) Indicates Decrease
(I) Indicates Increase

ISSUED: **October 14, 2016** **EFFECTIVE: October 11, 2016 – December 31, 2016**

BY: Valoria Armstrong

Valoria Armstrong
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	7.52 %	
EDI	0.34 %	
SEC	6.09 %	
Subtotal of all Capital Recovery Riders	13.95 %	
QIIP Annual Reconciliation Percentage	2.029 %	(I)
EDI Annual Reconciliation Percentage	-0.043 %	(D)
SEC Annual Reconciliation Percentage	-0.394 %	(D)
Subtotal of all Reconciliation Percentages	1.592 %	(I)
Total of Capital Recovery Riders and Reconciliation Percentages	15.542%	
PCOP	-0.89 %	

(D) Indicates Decrease
(I) Indicates Increase

ISSUED: **March 1, 2017** **EFFECTIVE: April 1, 2017**

BY:

Valoria Armstrong
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

Authorization of Tennessee American Water Capital Recovery Riders
Since Last Rate Case (Docket No. 12-00049)

TRA Docket No.	Effective Date	Rider	Authorized Annual Change	Total Cumulative Rider	Reconciliation Authorized	Individual Authorized Rider Total	Capital Riders Cumulative Total
13-00130	4/15/2014	QIIP	0.790%	0.790%	0.000%	0.790%	
		EDI	0.180%	0.180%	0.000%	0.180%	
		SEC	0.110%	0.110%	0.000%	0.110%	
		Total	1.080%		0.000%		**1.080%**
14-00121	6/30/2015	QIIP	1.340%	2.130%	0.000%	2.130%	
		EDI	-0.130%	0.050%	0.000%	0.050%	
		SEC	3.430%	3.540%	0.000%	3.540%	
		Total	4.640%		0.000%		**5.720%**
15-00029*	11/1/2015	QIIP	0.000%	2.130%	0.254%	2.384%	
		EDI	0.000%	0.050%	-0.150%	-0.100%	
		SEC	0.000%	3.540%	0.064%	3.604%	
		Total	0.000%	5.720%	0.168%		**5.888%**
15-00111	3/15/2016	QIIP	2.430%	4.560%	0.000%	4.560%	
		EDI	0.050%	0.100%	0.000%	0.100%	
		SEC	2.180%	5.720%	0.000%	5.720%	
		Total	4.660%		0.000%		**10.380%**
16-00022*	10/11/2016	QIIP	0.000%	4.560%	1.166%	5.726%	
		EDI	0.000%	0.100%	-0.178%	-0.078%	
		SEC	0.000%	5.720%	-0.118%	5.602%	
		Total	0.000%		0.870%		**11.250%**
16-00126 **	1/1/2017	QIIP	2.960%	7.520%	0.000%	7.520%	
		EDI	0.240%	0.340%	0.000%	0.340%	
		SEC	0.370%	6.090%	0.000%	6.090%	
		Total	3.570%		0.000%		**13.950%**
Proposed*	4/1/2017	QIIP	0.000%	7.520%	2.029%	9.549%	
		EDI	0.000%	0.340%	-0.043%	0.297%	
		SEC	0.000%	6.090%	-0.394%	5.696%	
		Total	0.000%		1.592%		**15.542%**

* Reconciliations are only effective until December 31 of the year authorized by the TRA.

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 28th day of February, 2017.

Peggy A. Slone

Notary Public

My Commission Expires: 10-3-2020

Peggy A. Slone
Notary Public, ID No. 564370
State at Large, Kentucky
My Commission Expires on Oct. 3, 2020