Electronically Filed in TPUC Docket Room on April 23, 2019 at 1:38 p.m.

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:	)	
	)	
PETITION OF TENNESSEE AMERICAN WATER COMPANY REGARDING THE 2019 INVESTMENT AND RELATED EXPENSES UNDER THE QUALIFIED INFRASTRUCTURE INVESTMENT PROGRAM RIDER, THE ECONOMIC DEVELOPMENT INVESTMENT RIDER, AND THE SAFETY AND ENVIRONMENTAL COMPLIANCE RIDER	)))))))))	**DOCKET NO. 18-00120**

DIRECT TESTIMONY

OF

DAVID N. DITTEMORE

April 23 , 2019

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:	)	
PETITION OF TENNESSEE AMERICAN WATER COMPANY REGARDING THE 2019 INVESTMENT AND RELATED EXPENSES UNDER THE QUALIFIED INFRASTRUCTURE INVESTMENT PROGRAM RIDER, THE ECONOMIC DEVELOPMENT INVESTMENT RIDER, AND THE SAFETY AND ENVIRONMENTAL COMPLIANCE RIDER	))))))))))	DOCKET NO. 18-00120

AFFIDAVIT

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

David N. Dittemore
DAVID N. DITTEMORE

Sworn to and subscribed before me
this 23 day of April, 2019.

Terra Allen
NOTARY PUBLIC

My commission expires: September 28, 2022.

Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION FOR THE RECORD.

A1. My name is David N. Dittemore. My business address is Office of the Tennessee Attorney General, War Memorial Building, 301 6th Ave. North, Nashville, TN 37243. I am a Financial Analyst employed by the Consumer Advocate Unit in the Financial Division of the Tennessee Attorney General's Office (Consumer Advocate).

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

A2. I received a Bachelor of Science Degree in Business Administration from the University of Central Missouri in 1982. I am a Certified Public Accountant licensed in the state of Oklahoma (#7562). I was previously employed by the Kansas Corporation Commission (KCC) in various capacities, including Managing Auditor, Chief Auditor, and Director of the Utilities Division. For approximately four years, I was self-employed as a Utility Regulatory Consultant representing primarily the KCC Staff in regulatory issues. I also participated in proceedings in Georgia and Vermont, evaluating issues involving electricity and telecommunications regulatory matters. Additionally, I performed a consulting engagement for Kansas Gas Service (KGS), my subsequent employer during this time frame. For eleven years I served as Manager and subsequently Director of Regulatory Affairs for KGS, the largest natural gas utility in Kansas serving approximately 625,000 customers. KGS is a division of ONE Gas, a natural gas utility serving approximately two million customers in Kansas, Oklahoma and Texas. I joined the Tennessee Attorney General's Office in September 2017 as a Financial Analyst. Overall, I have thirty years' experience in the field of public utility regulation. I have presented testimony as an expert witness on many occasions. Attached as Exhibit DND-1 is a detailed overview of my background.

Q3. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION (TPUC)?

A3. Yes. I have submitted testimony in a number of dockets before TPUC, including several Capital Riders dockets.

Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A4. The purpose of my testimony is to present the Consumer Advocate's position regarding the Tennessee American Water Company (TAWC or Company) proposal in this Docket, specifically its request to collect a cumulative total of nearly $9.6 million through the Capital Riders Surcharges, representing an increase of $1.86 million from the amount approved in Docket No. 17-00124.[1] The Company's proposal also includes an offsetting credit of $1.86 million to account for tax savings from the Tax Cut and Jobs Act (TCJA), resulting in no net increase to customers. The proposed TCJA credit is unrelated to the Capital Riders Surcharge, so the Company's proposal in this Docket should be viewed as a request to increase the surcharge $1.86 million.

My testimony will explain how the current Capital Riders Tariffs produce rates that are clearly unjust and excessive primarily because the Tariffs produce a Rate Base that is higher than TAWC's actual Rate Base. Thus, the Tariffs as currently constructed are not in the public interest. Therefore, I will offer restructured Tariffs that balance the interests of the Company and ratepayers in a rational manner and that will continue to incent TAWC to make infrastructure investments, while ensuring ratepayers pay rates on actual investment provided by TAWC's shareholders. My proposal eliminates the return on excessive Rate Base which is currently occurring within the Capital Riders calculation.

In addition to explaining the restructured Tariffs, I discuss the administrative benefits of moving from a process where TAWC submits two filings per year to a single annual Capital Riders filing. This transition will reduce regulatory burdens and enhance the efficiency for not only the Company but the Commission as well. I will discuss how such a transition from a two-step budgeted/true-up Capital Riders process to a single historic calculation can occur while also continuing to avoid regulatory lag.

Finally, I will discuss an adjustment I am sponsoring to the current filing.

[1] *See* Company Schedule TAW_SCH1_2019 Revised, Exhibit Summary Tab.

Q5. ARE THERE COMPLICATING FACTORS THAT AFFECT THIS DOCKET, AND IF SO, WHAT ARE THEY?

A5. Yes. There are two outstanding issues at the date of this writing that affect the existing Docket.

The first issue involves the litigation involving the Company's amended calculations, made pursuant to the Commission's determination in Docket No. 18-00022. The Company amended its original filing to (in its view) comply with the Commission's Order in Docket No. 18-00022, dated March 6, 2019. This dispute involved the appropriate calculation of the Accumulated Deferred Income Tax Liability (ADIT) to incorporate into the Capital Riders calculation, a deduction to Rate Base, and therefore materially affecting the resulting Capital Riders Surcharge.[2] The Consumer Advocate challenged the Company's revised calculations and on April 15, 2019, the Commission issued an oral decision ordering the Company to file revised calculations that matched a cumulative Net Operating Loss Carryforward with cumulative bonus depreciation and repairs deduction amounts.

Because I do not possess the data that would allow me to make these adjustments and there is little time for review even if I did have this data, I have not recalculated this information based on the Commission's April 15 decision. I therefore reserve the right to update my testimony and schedules within this Docket to reflect the Commission's decision on the calculation of the ADIT in Docket No. 18-00022. Also, the Company submitted an updated response to Consumer Advocate Request No. 2-5 on April 17. Due to the timing of this testimony I have not had an adequate opportunity to review this response and reserve the right to submit supplemental testimony related to this response, if necessary.

The next outstanding issue involves the treatment of tax savings which are the subject of Docket No. 18-00039 as they relate to this Docket. Docket No. 18-00039 is a bifurcated Docket established to address issues arising from the TCJA. Unlike the ADIT issue mentioned above, I have incorporated the Consumer Advocate's position in

[2] For purposes of this testimony, there is no need to differentiate the Qualified Infrastructure Improvement Program Rider (QIIP), the Economic Development Infrastructure Rider (EDI), or the Safety and Environmental Compliance Rider (SEC). Collectively I will refer to these three mechanisms as the Capital Riders Surcharge.

that Docket into the recommended revenue requirement in this case. I will discuss this adjustment to the Company's proposal later in my testimony.

Q6. PLEASE PROVIDE AN OUTLINE OF YOUR TESTIMONY.

A6. My testimony outline is as follows:

I. EXISTING CAPITAL RIDER CALCULATION DEFECT

a. What is Rate Base and Why Is It Important?
b. Goal of the Capital Riders Surcharge
c. Overview of Existing TAWC Rate Base – Using Company Data
d. Overview of Calculated Rate Base upon Which Customers Are Paying Rates
e. Sources of Rate Base Imbalance
f. Conclusions from Rate Base Imbalance

II. BENEFITS OF A SINGLE ANNUAL FILING

III. PROPOSED MODIFICATIONS TO THE EXISTING TARIFF

a. One Annual Filing
b. Reliance on Historic Information
c. Simplification of Calculation
d. Transition Issues
e. Consistency with Statutory Requirements
f. Elimination of Excessive Payments by Ratepayers

IV. ADJUSTMENT TO CURRENT BUDGETED CAPITAL RIDER REVENUE REQUIREMENT

My testimony provides support for significant modifications to the Company's existing Capital Riders. This modification serves two public policy goals: 1) it corrects a significant defect within the calculation; and 2) it changes the calculation to one annual filing, thus producing administrative benefits for all stakeholders. Both goals can be accomplished while ensuring the resulting Tariffs strike an appropriate balance between the interests of the Company's shareholders and its ratepayers.

The Company's Capital Riders calculation is very complex. It's important with any mechanism, especially one as complex as the Capital Riders, to step back, look at the big picture, and determine whether the resulting calculations are reasonable. My analysis will demonstrate that the existing Capital Riders mechanism does not produce reasonable results and significant modifications to the mechanism are required to ensure the surcharge continues to be in the public interest.

I also wish to emphasize that while I have significant concerns with the mechanics of the existing mechanism, the Consumer Advocate continues to support a regulatory policy in which prudently incurred costs associated with qualifying investment are recovered outside of a comprehensive rate case filing.

EXISTING CAPITAL RIDER DEFECT

Q7. BEGIN BY DEFINING RATE BASE AND EXPLAINING ITS IMPORTANCE.

A7. Rate Base represents the net book cost of those assets (less liabilities) that are required to provide utility service. The purpose of defining Rate Base is to determine the appropriate level of investment provided by the Company's shareholders. This level of investment is applied to the Company's rate of return to provide an opportunity to recover the Company's Interest Expense and Return on Equity (in other words, the Company's profit). For a regulated utility, the level of Rate Base dictates its Net Income Level. The higher the Rate Base, the greater its calculated returns under the basic ratemaking formula used by utility regulators. Ratepayers also provide funding for capital investment through such items as Accumulated Depreciation and ADIT. The balances within these accounts are netted against the original cost of Plant in Service to arrive at the "Net" Rate Base, representing the level of funds provided by shareholders. This net level of investment, or Rate Base, represents the level of funding upon which shareholders should have an opportunity to earn a return.

Regulatory agencies, including this Commission, have an obligation to ensure rates are just and reasonable. The appropriate measurement of Rate Base is a central element in the calculation of a utility's revenue requirement from which rates are determined. Therefore, this Commission should closely consider the Company's Rate Base when considering the reasonableness of rates, whether they be base rates arising from a comprehensive rate review or within a surcharge rider filing such as the Capital Riders Surcharge.

Q8. WHAT IS THE GOAL OF THE CAPITAL RIDERS SURCHARGE MECHANISM?

A8. The goal of the Capital Riders Surcharge Mechanism, consistent with the statutory provisions of Tenn. Code Ann. § 65-5-103, is to provide the Company with the opportunity to earn a return on qualifying investments without the need to file a comprehensive rate case. While not stated explicitly in the statute, the Commission has implemented the alternative ratemaking mechanism to avoid the concept of Regulatory Lag, which I will discuss later in my testimony.

Q9. WILL THE GOALS OF THE MECHANISM CONTINUE TO BE MET IF YOUR RECOMMENDATIONS ARE ADOPTED?

A9. Yes. My recommendation preserves the strong incentive for the Company to make capital investments, maintains the absence of Regulatory Lag, and increases administrative efficiency, while at the same time eliminating flaws in the calculation that enrich the Company at the expense of TAWC's ratepayers.

Q10. WHAT IS THE LEVEL OF RATE BASE UNDERLYING EXISTING BASE RATES?

A10. Existing base rates were approved in Docket No. 12-00049. The adopted Rate Base in that case was $132,015,472.[3]

Q11. WHAT IS THE LEVEL OF CAPITAL RIDERS RATE BASE FOR 2018 SUPPLIED BY THE COMPANY IN ITS RECONCILIATION FILING, DOCKET NO. 19-00031, AND WHAT DOES THIS BALANCE REPRESENT?

A11. On March 1, 2019, the Company filed its Capital Riders Reconciliation Petition covering qualifying investment for the calendar year 2018. The sum of the Average Year to Date investment levels for the Capital Riders was identified as $62,924,426.[4] This amount constitutes the Capital Riders Rate Base as the Company's overall rate of

---

[3] Schedule 3 of Settlement Exhibits, Docket No. 12-00049.

[4] It should be noted that these balances are those reflected in the Company's filing in Docket No. 18-00120 and do not reflect the ADIT balances calculated pursuant to the Commission's ruling on the Consumer Advocate's Motion to Determine that the TAWC calculation is not in Compliance with the Commission's order (issued on April 15, 2019). Those amended ADIT calculations have not been provided as of the date of this testimony.

return is applied to this investment level to compute the necessary return on investment just like the application of a return on Rate Base in a base rate case.

Q12. WHAT IS THE SUM OF THESE TWO AMOUNTS AND WHAT DO THESE TWO RATE BASE VALUES REPRESENT?

A12. The sum of these two values is approximately $194.9 million. This sum represents the amount upon which the Company's ratepayers are paying rates. Ratepayers are providing a return calculated upon $194.9 million, referred to as the Compensated Rate Base.

Q13. WHAT IS THE COMPANY'S ACTUAL RATE BASE FOR 2018?

A13. The thirteen-month average Rate Base of TAWC, relying upon the Company's own 2018 Revised Reports, is $173.5 Million.[5]

Q14. WHAT IS THE NET AMOUNT OF COMPENSATED RATE BASE IN EXCESS OF ACTUAL RATE BASE?

A14. The Rate Base costs incurred by ratepayers is $194.9 million, whereas the Company's actual Rate Base reflecting funds provided by shareholders is only $173.5 million, resulting in a difference of $21.4 million. Thus, ratepayers are paying rates on a level of investment that is not truly reflective of the actual investment made by TAWC's shareholders.

Q15. WHAT ARE THE SOURCES OF THE RATE BASE IMBALANCE?

A15. The individual components comprising the Rate Base imbalance are shown in Table 1 on the following page and are contained in Exhibit DND-2.

---

[5] The Company's December 2018 revised report reflects a twelve-month average of $173.9 Million, or an increase of approximately $400,000 from the thirteen-month average I have reflected above. Thus, there is only a slight difference between the calculation of the Company's Rate Base using a twelve-month versus thirteen-month average. The benefit of a thirteen-month average is that it includes the outstanding level of investment at the beginning of the period, whereas the twelve-month average does not.

Table 1

Line No.	Item	A/ Settlement 12-00049	B/ TAWC 2018 Reconciliation Docket No. 19-00031	C/ (Col A + B) Total Compensated Rate Base	D/ Actual 13-Month Average Rate Base Per Company	E/ Overstated Rate Base
1	Utility Plant in Service	$ 250,455,533	$ 64,105,148	$ 314,560,681	$ 316,882,891	$ 2,322,210
2	Construction Work in Progress	3,581,671		$ 3,581,671	6,747,572	$ 3,165,901
3	Accumulated Depreciation	(81,011,226)	4,371,709 (1)	$ (76,639,517)	(87,357,123)	$ (10,717,606)
4	Accumulated Deferred Income Taxes	(26,733,940)	(3,227,234)	$ (29,961,174)	(46,719,132)	$ (16,757,958)
5	Customer Advances for Construction	(5,173,724)	-	$ (5,173,724)	(3,619,112)	$ 1,554,612
6	Contributions in Aid of Construction	(12,466,115)	(2,325,198)	$ (14,791,313)	(17,590,138)	$ (2,798,825)
7	Other Rate Base Components	3,363,273		$ 3,363,273	5,183,793	$ 1,820,520
		$ 132,015,472	$ 62,924,425	$ 194,939,897	$ 173,528,751	$ (21,411,146)

Exhibit DND-2A is a supporting schedule identifying the Company's monthly revised Rate Base information supplied in response to Consumer Advocate Request No. 2-2.

As noted above, the two items causing the largest portion of the imbalance are Accumulated Depreciation and ADIT. These two balances reflect customer-provided capital, and the fact that such balances are greater than what is reflected in rates paid by customers reflects the reality that customers have provided funding available to the Company to finance qualifying Capital Riders investment. Due to the passage of time, updates have not been made reflecting the level of customer-provided capital that has occurred, thereby greatly overstating the level of Rate Base funding by TAWC shareholders.

As reflected above, the Company has little Plant in Service that is not otherwise reflected in the Capital Riders Surcharge or base rates. On the other hand, ratepayers have provided the Company with significant funding in terms of the increase in Accumulated Depreciation and ADIT on legacy plant which is not reflected within the Capital Riders Surcharge calculation.

Q16. WHAT ARE THE IMPLICATIONS OF THE RATE BASE IMBALANCE?

A16. Ratepayers are providing funding to the Company to fund Capital Investments; therefore, it is not accurate to imply (as is done through the Capital Riders mechanism) that all capital projects are funded by shareholders. This examination of Rate Base demonstrates that ratepayers are providing funding of Rate Base that is not recognized within the Capital Riders calculation.

The fact that the Company is earning a return on approximately $21 million of Rate Base that does not exist in reality is clear evidence that Capital Rider rates paid by the Company's ratepayers are not just and reasonable. In other words, the Capital Riders mechanism fully accounts for items that increase reported Capital Riders Rate Base but fails to reduce Rate Base to reflect ratepayer-provided funding that is also put to use for Capital Riders investments. The Company is therefore provided a return on $21 million of Rate Base that was not funded by the Company shareholders.

BENEFITS OF A SINGLE ANNUAL FILING

Q17. ARE THERE BENEFITS ARISING FROM A SINGLE ANNUAL FILING CONTRASTED WITH THE TWO ANNUAL FILINGS THAT ARE CURRENTLY FILED BY THE COMPANY?

A17. Yes. First, a single annual filing, if structured properly, can eliminate the obvious excess Rate Base recovery that currently exists. The existing mechanism as calculated is not in the public interest as the overall rates are based upon an artificially inflated level of Rate Base. Second, there are many administrative efficiencies that would be gained by the Company, the Commission and Commission Staff, and the Consumer Advocate from an annual filing. A single annual filing would represent a streamlined approach as contemplated by Tenn. Code Ann. § 65-5-103, while still providing the Company with a return on its qualifying Capital Riders investment. The elimination of one filing per year represents regulatory simplification which benefits all stakeholders.

It is important to emphasize that none of the modifications discussed below alter the types of expenditures which are eligible for recovery. The same types of projects which have previously been included in the Capital Riders Surcharge will continue to be eligible for the Surcharge.

Q18. WHAT IS REGULATORY LAG?

A18. Regulatory Lag represents the delay that utilities may experience between the date utilities incur a cost or place Plant in Service and the date such costs or return on assets is recovered from ratepayers. This time-delay may result in a utility earning less than its authorized rate of return.

Q19. ARE THERE BENEFITS TO RATEPAYERS FROM THE IMPOSITION OF REGULATORY LAG ON UTILITIES?

A19. Yes. One positive aspect of Regulatory Lag is that it imposes a degree of financial discipline on utility expenditures that does not otherwise exist in an environment without Regulatory Lag. When there is no Regulatory Lag, companies do not have the same incentive to constrain expenditures that they have in an environment where there is a delay in rate recovery.

Q20. DOES THE EXISTING CAPITAL RIDERS MECHANISM CONTAIN REGULATORY LAG?

A20. No.

Q21. IS IT POSSIBLE TO DEVELOP A SINGLE ANNUAL MECHANISM THAT RETAINS THE ABSENCE OF REGULATORY LAG CURRENTLY EMBEDDED IN THE EXISTING CAPITAL RIDERS MECHANISM?

A21. Yes. And while there are benefits to Regulatory Lag as I just discussed, my proposed mechanism will continue to create a Capital Riders recovery without Regulatory Lag.

PROPOSED MODIFICATIONS TO THE EXISTING TARIFF

Q22. PLEASE BEGIN BY DISCUSSING THE TARIFF MODIFICATIONS YOU ARE SUPPORTING.

A22. The red-lined Tariff of the proposed Capital Riders Surcharge mechanism is attached as Exhibit DND-3.[6] The clean version of the proposed Capital Riders Surcharge mechanism is attached as Exhibit DND-4. Both the existing Tariff and the proposed Tariff are structured in three sections, one for each component of the Capital Riders Surcharge mechanism. These three sections have been maintained within the proposed Tariff. Further, the language dealing with qualifying projects and account numbers has not changed. The portions of the Tariff related to providing budgeted information, the

[6] Exhibits DND-3 and DND-4 are based upon the Capital Riders Surcharge Tariffs resulting from the outcome of Docket No. 13-00130. Any Tariff changes occurring subsequent to that Docket may not be reflected within Exhibit DND-3 and Exhibit DND-4. Because my modifications result in a new Capital Riders mechanism that operates in a different fashion, comparing my proposal to the original Tariffs of Docket No. 13-00130, rather than modifications the Company may have inserted throughout subsequent dockets, is an appropriate way to analyze the Capital Riders Surcharge.

budget filing, and reconciling to budget information have been struck. As always, to the extent the Company has concerns with any of the proposed mechanics of the calculation, the Consumer Advocate welcomes the opportunity to work with the Company to resolve any potential issues, while still retaining the goals and public policy recommendations contained in this testimony.

The proposed Capital Riders Surcharge Tariff would result in one filing per year, rather than the two filings per year currently in place. The proposed filing would be based upon historic capital investment, thus avoiding the need to reconcile a budgeted level of capital expenditures with actual expenditures, which is an unnecessary complication.

A second important feature of the proposed Tariff is the calculation of the Rate Base Limitation Factor. The purpose of this factor, expressed as a percentage, is to ensure that the total compensated Rate Base does not exceed the actual Rate Base of the Company. The sum of the Rate Base currently existing in underlying base rates plus the Capital Riders Rate Base should not exceed the actual rate base of the Company. This is logical because basic ratemaking theory suggests that shareholders should have the opportunity to earn a return on their prudently incurred investment – nothing more, nothing less. For a regulated utility, shareholder investment is defined by the utility's Rate Base.[7] The inclusion of this factor is necessary to ensure just and reasonable rates. The Rate Base Limitation Factor is referenced within Exhibits DND-3 and DND-4.

Q23. CAN YOU PROVIDE AN EXAMPLE OF HOW THE RATE BASE LIMITATION FACTOR WOULD WORK BASED UPON INFORMATION PROVIDED IN TABLE 1?

A23. Yes. The example of how the Rate Base Limitation Factor is calculated is shown on Exhibit DND-5. It simply determines a percentage of Capital Riders investment that may be recovered from ratepayers to ensure it does not exceed the total level of investment made by shareholders in the provision of water service. This percentage is then applied to the overall Capital Riders Surcharge revenue requirement to arrive at the net revenue requirement to be collected from TAWC ratepayers. Thus, in this example,

[7] LEONARD SAUL GOODMAN, THE PROCESS OF RATEMAKING, p. 753 (Public Utilities Reports, Inc., First Printing, 1998) (internal citation omitted).

the calculation of the revenue requirement based upon historical data would be multiplied by 65.97% to arrive at the net revenue requirement upon which the surcharge percentage would be calculated.

Q23. HOW WILL THE PROPOSED CAPITAL RIDERS METHODOLOGY ELIMINATE REGUALTORY LAG?

A23. The proposed Capital Riders Surcharge includes the calculation of a return on qualifying Capital Riders Surcharge investment from the mid-point of the Attrition Period through the mid-point date of the Collection Year. In this manner, the Company will not experience Regulatory Lag as it will recoup revenue associated with investment from the average date in which the investment is made through the mid-point of the year in which the corresponding revenue is received from ratepayers. The collection of cash would not occur until the collection period, but the recognition of Net Income would be the same under this methodology as it would be under the existing Capital Riders Surcharge, subject to the Rate Base Limitation described above. The goal of this deferral mechanism is to permit the Company to earn a return on its qualifying investment (subject to limitations described above) during the period prior to reflecting such recoveries in customer rates.

Q24. DO YOU HAVE AN EXAMPLE OF THE CARRYING RATE THAT WOULD BE APPLICABLE TO QUALIFYING CAPITAL RIDER EXPENDITURES?

A24. Yes. Exhibit DND-6 sets out an example of how the carrying charge rate would be developed. The Company's current pre-tax return is 8.4515% as contained in the Company's Schedules.[8] This annual rate equates to a monthly rate of .7043%. This monthly rate would be applied to qualifying Capital Riders surcharge balances reflecting a return for the Company that would be collected in the subsequent Capital Riders surcharge filing. In this manner, the Company will earn a return on its investment without Regulatory Lag. There are two options for the application of the carrying charge. The simplified method would be to apply the Total Carrying Charge to the mid-point balance of qualifying shareholder-funded investment. The other option would be to apply the Monthly Carrying Charge Rate to the qualifying monthly balance

---

[8] *See* Schedule TAW Schedule 1 2019 Revised.

of shareholder-funded investment as it is incurred through the mid-point of the collection year.

Q24. WILL THE REVISED CAPITAL RIDERS TARIFF REPRESENT A SIMPLIFICATION OF THE CALCULATION COMPARED WITH THE METHODOLOGY USED WITHIN THE EXISTING TARIFF?

A24. Yes. The single annual filing represents a streamlined approach compared with the two annual filings currently in place. The existing Capital Riders Tariff calls for a budget filing containing forecasted capital expenditures in the upcoming year. The estimated expenditures require a comparison with the actual expenditures in the subsequent filing. In other words, the estimated capital expenditures must be trued-up in a subsequent filing, adding an unnecessary layer of complexity to the Capital Riders Surcharge calculation.

Q24. IS THE RATE BASE LIMITATION FACTOR NECESSARY IN LIGHT OF THE EXISTING EARNINGS TEST ADJUSTMENT?

A24. Yes. The current Earnings Test Adjustment should not be considered a safety-net to ensure Capital Riders rates are just and reasonable. There are two challenges with the Earnings Test Adjustment as it is contained in the current Capital Riders Surcharge. First, the goal of the Capital Riders Surcharge is to recover capital costs, not to be a conduit to recover any shortfalls in earnings that the Company may experience in other areas of its operations. Evidence in this case clearly demonstrates that the existing mechanism provides a greater return on Rate Base than is provided by the Company's shareholders. To the extent the Company may have shortfalls in other components of its revenue requirement, such as revenues or operating expenses, the appropriate regulatory mechanism to address those issues is implementation of an Annual Rate Mechanism (ARM), which would then come with its own separate requirements. Second, the Earnings Test Adjustment is not structured to accommodate a thorough review of earnings by the Consumer Advocate as would occur within an ARM. Third, the reconciliation calculations are reduced for any calculated over-earnings produced in the prior year. The irony of this application of excess earnings test, as it currently stands, is that the Company may continue to receive a positive reconciliation amount for prior year results even if it had excess earnings in the prior year. If a Company has excess earnings associated with 2018 operations, there should be no positive reconciliation charge associated with 2018 Capital Riders results. I have modified the Earnings Test language within my proposed Capital Riders Tariff to reflect that no surcharge shall be necessary if the Company has earnings in excess of its authorized rate of return.

Another proposed modification to the calculation of the Earnings Test Adjustment is to incorporate the Earnings of the Company to reflect the Non-Revenue Water Limiter as contained in the Company's Production Costs and Other Pass-Throughs Rider (PCOP). The expenses excluded from recovery in the Company's PCOP calculation due to excess water loss should likewise be excluded from the calculation of the Company's expenses within the calculation of the Company's Earnings Test Adjustment. The elimination of costs associated with excess water loss as determined by the Commission for purposes of determining the excess earnings of the Company is similar to the elimination of a portion of incentive compensation costs that the Commission has determined to be non-recoverable.[9] This adjustment to expense associated with excess water loss is necessary to ensure symmetry between the Commission's findings within the PCOP calculation and the determination of the Earnings Test within the Capital Riders Surcharge calculation. This modification affects the proposed Capital Rider Tariff as well as the reconciliation calculation currently submitted in Docket No. 19-00031.

Q25. WHAT IS YOUR RECOMMENDATION REGARDING THE TRANSITION TO THE NEW TARIFF?

A25. As I have explained earlier in my testimony, the Company has experienced a Compensated Rate Base in excess of its Actual Rate Base for 2018 by approximately $21.4 million (Exhibit DND-2). As illustrated in Exhibit DND-7, the Company is anticipating an increase in Capital Riders investment in 2019 that is approximately $15 million greater than its cumulative forecasted Capital Riders investment through 2018. This $15 million reflects the Company's estimated year-over-year growth in Capital Riders Rate Base.

[9] *See* Order in Docket No. 18-00022, pages 13-14 (March 6, 2019).

Exhibit DND-8 compares the Excess Rate Base Recovery with the TAWC forecasted growth in Capital Riders expenditures. Since the existing Rate Base imbalance exceeds the Company's estimate of Rate Base growth by over $6 million, there is no need to increase rates associated with the Capital Riders Surcharge in this docket, and in fact, to do so would result in rates that are not just and reasonable. This of course excludes consideration of the appropriate deduction to the Capital Riders Surcharge associated with impacts of TCJA, which is discussed below. The effects of the TCJA is a separate issue from the Rate Base imbalance discussed above. The tax savings should flow back to customers regardless of what determination the Commission makes concerning the Rate Base imbalance issue.

Because ratepayers are paying rates on a Compensated Rate Base balance in excess of the Company's actual Rate Base, including the additional projects anticipated for 2019, existing Capital Riders rates (excluding the proposed deduction for TCJA impacts) should not be increased. The Capital Riders Surcharge approved in this case should reflect the Capital Riders Surcharge rates adopted in Docket No. 17-00124, modified for the results of the TAWC Reconciliation Docket No. 18-00022, less Income Tax Expense savings arising from TCJA as contained in Exhibit DND-9. The Income Tax Expense savings amount is at issue in Docket No. 18-00039.

The new proposed Tariff should incorporate the historic level of investment occurring throughout 2019. TAWC should submit its Capital Riders filing in early-2020 reflecting its actual investment in qualifying Capital Riders investment, increased by the deferral mechanism described above, limited to the extent necessary by the Rate Base Limitation Factor described earlier. This approach would permit the Company to recover its appropriate costs associated with 2019 investment subject to the Rate Base Limitation Factor contained in the proposed Tariff. The existing Capital Riders Reconciliation Docket No. 19-00031 continues to be necessary as it reconciles 2018 actual data.

Q26. IS THE PROPOSED TARIFF CONSISTENT WITH THE STATUTORY PROVISIONS GOVERNING THE CAPITAL RIDERS?

A26. Yes. The mechanism permits the recovery of shareholder-financed capital expenditures without the need for a comprehensive rate filing. This accelerated recovery, coupled with the deferral mechanism, provides the Company with the incentive to make capital improvements on its system.

Q27. WHAT IS THE RESULT FROM A RATEPAYER PERSPECTIVE REGARDING ADOPTION OF YOUR PROPOSED TARIFF?

A27. The rates resulting from this Tariff would meet the just and reasonable requirement as they would be based on a Rate Base that is no greater than the Company's actual Rate Base.

ADJUSTMENTS TO EXISTING PROPOSED CAPITAL RIDERS

Q28. PLEASE DISCUSS YOUR FIRST ADJUSTMENT TO THE COMPANY'S PROPOSED CAPITAL RIDERS.

A28. Exhibit DND-10 sets forth the annual reduction in the Capital Riders associated with the Consumer Advocate's recommendation in this Docket, inclusive of the Consumer Advocate's recommendations in Docket No. 18-00039. The total Capital Riders Surcharge adjustment for income taxes is comprised of $2,035,031 in annual savings plus $902,039 attributable to one-third of the base rate tax savings occurring from January 2018 through May 31, 2019, for a total Capital Riders Surcharge offset of $2,937,070.

Q29. DOES YOUR RECOMMENDATION INCLUDE THE IMPACTS OF THE COMMISSION'S ORDER ON APRIL 15, 2019, IN DOCKET NO. 18-00022?

A29. No. The impact of the reconciliation docket should be incorporated into the rate approved in this Docket. However, as I mentioned earlier, the necessary information for the modification to rates resulting from the Commission's decision in Docket No. 18-00022 will need to be provided by the Company, which has not yet occurred. Schedule DND-10 contains a line item (without a value) where this modification should be incorporated in arriving at the Consumer Advocate recommendation in this Docket. I reserve the right to file supplemental testimony upon receipt of this new information.

Q30. DOES THIS CONCLUDE YOUR TESTIMONY?

A30. Yes.

Exhibit DND-1

David Dittemore

Experience

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

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

Kansas Gas Service; **Director Regulatory Affairs 2014 – 2017; Manager Regulatory Affairs, 2007 - 2014**
Responsible for directing the regulatory activity of Kansas Gas Service (KGS), a division of ONE Gas, serving approximately 625,000 customers throughout central and eastern Kansas. In this capacity I have formulated strategic regulatory objectives for KGS, formulated strategic legislative options for KGS and led a Kansas inter-utility task force to discuss those options, participated in ONE Gas financial planning meetings, hired and trained new employees and provided recommendations on operational procedures designed to reduce regulatory risk. Responsible for the overall management and processing of base rate cases (2012 and 2016). I also played an active role, including leading negotiations on behalf of ONE Gas in its Separation application from its former parent, ONEOK, before the Kansas Corporation Commission. I have monitored regulatory earnings, and continually determine potential ratemaking outcomes in the event of a rate case filing. I ensure that all required regulatory filings, including surcharges are submitted on a timely and accurate basis. I also am responsible for monitoring all electric utility rate filings to evaluate competitive impacts from rate design proposals.

Strategic Regulatory Solutions; 2003 -2007
Principal; Serving clients regarding revenue requirement and regulatory policy issues in the natural gas, electric and telecommunication sectors

Williams Energy Marketing and Trading; 2000-2003
Manager Regulatory Affairs; Monitored and researched a variety of state and federal electric regulatory issues. Participated in due diligence efforts in targeting investor owned electric utilities for full requirement power contracts. Researched key state and federal rules to identify potential advantages/disadvantages of entering a given market.

MCI WorldCom; 1999 - 2000

Manager, Wholesale Billing Resolution; Manage a group of professionals responsible for resolving Wholesale Billing Disputes greater than $50K. During my tenure, completed disputes increased by over 100%, rising to $150M per year.

Kansas Corporation Commission; 1984- 1999

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

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

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

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

Amoco Production Company 1982 - 1984

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

<u>Education</u>

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

Tennessee American Water Compay
Comparison of TAWC Compensated Rate Base vs. Actual Rate Base
Docket 18-00120

Exhibit DND-2

Line No.	Item	A/ Settlement 12-00049	B/ TAWC 2018 Reconciliation Docket No. 19-00031	C/ (Col A + B) Total Compensated Rate Base	D/ Actual 13-Month Average Rate Base Per Company	E/ Overstated Rate Base
1	Utility Plant in Service	$ 250,455,533	$ 64,105,148	$ 314,560,681	$ 316,882,891	$ 2,322,210
2	Construction Work in Progress	3,581,671		$ 3,581,671	6,747,572	$ 3,165,901
3	Accumulated Depreciation	(81,011,226)	4,371,709 (1)	$ (76,639,517)	(87,357,123)	$ (10,717,606)
4	Accumulated Deferred Income Taxes	(26,733,940)	(3,227,234)	$ (29,961,174)	(46,719,132)	$ (16,757,958)
5	Customer Advances for Construction	(5,173,724)	-	$ (5,173,724)	(3,619,112)	$ 1,554,612
6	Contributions in Aid of Construction	(12,466,115)	(2,325,198)	$ (14,791,313)	(17,590,138)	$ (2,798,825)
7	Other Rate Base Components	3,363,273		$ 3,363,273	5,183,793	$ 1,820,520
		$ 132,015,472	$ 62,924,425	$ 194,939,897	$ 173,528,751	$ (21,411,146)

A/ Schedule 3 of Settlement Exhibits; Docket No. 12-00049.
B/ TAW_2018_Capital_Rider_Recon; Docket No. 19-00031
C/ Sum of A and B
D/ Amounts per TAWC Revised 2018 Monthly Reports
E/ Excess Calculated Rate Base over Actual Rate Base (Col D - Col C).

(1) Positive Amount reflects the Cost of Removal exceeds Accumulated Depreciation.

Office of the Tennessee Attorney General
Consumer Advocate Unit, Financial Division
Docket No. 19-00010
REVISED Calculation of TAWC 13 Month Average Plant In Service

Exhibit DND-2A

Line #			Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	13 Month Average
1	Additions:															
2	Plant in Service	$	312,344,667	312,914,868	314,161,550	314,419,406	315,433,611	315,944,323	316,716,562	317,016,258	317,597,616	318,937,485	319,267,736	321,146,916	323,576,583	316,882,891
3	Plant Under Construction		4,065,376	4,302,364	3,618,906	4,120,037	3,939,391	4,115,487	5,119,144	6,368,646	7,982,161	9,259,264	10,856,004	12,432,467	11,539,185	6,747,572
4	Property Held for Future Use		-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Materials and Supplies		914,411	909,768	951,458	927,201	870,891	918,704	886,219	893,955	903,629	888,955	901,010	906,941	893,746	905,145
6	Other Additions:															
7	Leased Utility Plant		-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Unamortized Painting - net		-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Working Capital		3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884
10																
11	**Total Additions**		320,734,338	321,536,884	322,141,798	322,876,528	323,653,777	324,388,398	326,131,809	327,688,743	329,893,290	332,495,588	334,434,634	337,896,208	339,419,398	327,945,492
12																
13	Deductions															
14	Accumulated Depreciation and Amortization		89,805,736	85,324,758	85,348,893	85,561,837	85,652,593	86,219,313	86,812,638	87,690,126	87,958,823	88,430,971	88,820,761	89,365,424	88,650,720	87,357,123
15	Accumulated Deferred Income Taxes		42,037,767	46,946,191	46,838,795	46,905,958	46,800,695	46,848,256	47,281,889	47,349,168	47,621,917	47,304,125	47,097,532	47,117,245	47,199,183	46,719,132
16	Unamortized Investment Credit - Pre 1971		6,775	6,517	6,259	6,001	5,743	5,485	5,227	4,969	4,711	4,453	4,195	3,937	3,679	5,227
17	Customer Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Other Deductions:															
19	Contributions in Aid of Construction		17,119,159	17,299,418	17,312,882	17,295,956	17,605,751	17,789,021	17,763,152	17,741,283	17,736,418	17,710,742	17,685,065	17,815,319	17,797,628	17,590,138
20	Customer Advances for Construction		3,281,859	3,461,373	3,544,215	3,589,850	3,804,566	3,609,481	3,618,679	3,634,327	3,650,517	3,655,599	3,642,093	3,786,124	3,769,777	3,619,112
21	All Other		(1,084,545)	(1,853,541)	(1,624,386)	(924,214)	(811,735)	(1,286,693)	(736,463)	(950,742)	(889,240)	(506,225)	(681,326)	(430,575)	417,801	(873,991)
22																
23																
24																
25																
26	**Total Deductions**		151,166,751	151,184,716	151,426,658	152,435,388	153,057,613	153,184,863	154,745,122	155,469,131	156,083,146	156,599,665	156,568,320	157,657,474	157,838,788	154,416,741
27																
28	**Rate Base**		169,567,587	170,352,168	170,715,140	170,441,140	170,596,164	171,203,535	171,386,687	172,219,612	173,810,144	175,895,923	177,866,314	180,238,734	181,580,610	173,528,751

Source: Compillation of Monthly Reports submitted in Response to CA Discovery Request 2

EXHIBIT DND-3

TENNESSEE AMERICAN WATER COMPANY

CONSUMER ADVOCATE PROPOSED

RED-LINE TARRIF

CLASSIFICATION OF SERVICE

QUALIFIED INFRASTRUCTURE IMPROVEMENT PROGRAM – -RIDER

~~1.~~ 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~~computed annually ~~and be adjusted periodically to incorporate the Annual Reconciliation Factor~~.

~~2.~~ 2. **Definitions**

ISSUED: ~~January 10, 2014~~ August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~**August 28, 2015**

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee -37403

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~~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 Review Period"** means the historic twelve-month period ending December 31st, covering the qualifying Capital Rider investment.

"Annual Reconciliation Factor"" means ~~an~~the adjustment factor necessary to ~~true-up~~increase/decrease base rates ~~from forecasted costs to~~based upon the calculation methodologies described within this tariff.

"Reconciliation Period" means the preceding years' Annual Review Period, by which the authorized Capital Rider recovery shall be compared with the actual ~~costs incurred through application of 1) the Budget-to-Actual Adjustment~~Capital Rider recovery. The difference between the authorized recoveries and ~~2) the~~ actual recoveries

"Commission" means the Tennessee Public Utility Commission.

"Consumer Advocate" means the Consumer Advocate Unit in the Financial Division of the Office of the Tennessee Attorney General.

"Over-Under Collection Adjustment~~, and the 3) Earnings Test Adjustment, as adjusted for Interest.~~

ISSUED: ~~January 10, 2014~~
August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~August 28, 2015

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee -37403

~~**"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~~ to the historic test period ~~due to~~associated with 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~~ authorized revenue amount and actual collections for the ~~amount of forecasted capital investment of~~ preceding period, also referred to as the ~~Company for the Qualified Infrastructure and Investment Program and not otherwise included in current base rates.~~ Reconciliation Period.

~~**"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.~~

ISSUED: ~~**January 10, 2014**~~ **August 28, 2015** **EFFECTIVE:** ~~**February 10, 2014**~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee 37403

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

~~3.~~ 3. General Description

QIIP allows the Company to recover outside of a rate case its qualifying incremental non-revenue producing plant infrastructure investment, subject to the limitations described elsewhere in this tariff. 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

ISSUED: ~~January 10, 2014~~ August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~August 28, 2015

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee 37403

Water pumping equipment and structures installed as replacements, reinforcements or otherwise insuring reliability of existing facilities.

Other Infrastructure — Infrastructure designed to utilize alternative fuels.

QIIP Investment is to be identifiable on the ~~Company's~~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;
Account 341 — Transportation Equipment; and
Account 330003 — Capitalized Tank Painting.

ISSUED: ~~January 10, 2014~~ August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~August 28, 2015

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee -37403

~~4.~~ 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~~Company's otherwise applicable rates and charges.

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

~~FORECASTED~~ Historic 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~~Historic QIIP Pre-Tax Return

ISSUED: ~~January 10, 2014~~
August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~**August 28, 2015**

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street
PRESIDENT
Chattanooga, Tennessee 37403

Plus Depreciation Expense on QIIP Investment during the Annual Review Period

Plus: Property Taxes on QIIP Investment incurred during the Annual Review Period

Plus: Franchise Taxes

Plus: Deferred Return (QIIP)

Subtotal ~~Forecasted~~Historic 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 Forecasted~~ Subtotal Historic QIIP Revenue Requirement

Multiplied by: Rate Base Limitation Factor

Equals: Total Historic QIIP Revenue Requirement

Plus/Minus: Over/Under Recovery Amount of QIIP revenue from preceding filing

Subject To: Excess Earnings (if applicable)

ISSUED: ~~**January 10, 2014**~~ **August 28, 2015** **EFFECTIVE:** ~~**February 10, 2014**~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee -37403

Equals: Total QIIP Revenue Requirement

Divided by: Relevant Rate Order Volumetric & Metered Revenue

QIIP Percentage Rate

Where:

Accumulated Depreciation = Accumulated depreciation calculated by debiting for ~~Forecasted~~ Historic 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~~historic accumulated deferred income taxes related to qualified ~~forecasted~~historic 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~~historic QIIP infrastructure.

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

Forfeited Discount Rate = ~~Forecasted~~Historic 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~~Historic cumulative qualified QIIP investment multiplied by composite franchise tax rate approved in the Relevant Rate Order.

Gross Receipts Tax Rate = ~~Forecasted~~Historic 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~~Historic cumulative qualified QIIP investment~~.~~, net of any tax-exempt property multiplied by composite property tax rate approved in the Relevant Rate Order.

ISSUED: ~~January 10, 2014~~ August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~August 28, 2015

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee 37403

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

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

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

Over/Under Recovery Amount = The difference between the amount of QIIP revenue requirement authorized in the most recent QIIP filing and that QIIP revenue actually recovered through the QIIP surcharge. **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~~Over /Under balance

ISSUED: ~~January 10, 2014~~
August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee 37403

from the preceding year, any excess earnings and subject to the Rate Base Limitation Factor. .

~~5.~~(D) Determination of the ~~**Annual Reconciliation**~~Rate Base Limitation Factor ~~**Percentage Rate**~~

1. ~~(A)~~ The ~~Annual Reconciliation~~Rate Base Limitation Factor ~~Percentage~~ shall be expressed as a percentage carried to two (2) decimal places. The ~~Annual Reconciliation~~Rate Base Limitation Factor ~~Percentage~~ shall be applied ~~to the total amount billed to each Customer based on the Company's otherwise applicable rates and charges~~the calculation of Historic Net Capital Rider Investment.

2. ~~(B)~~ The ~~Annual Reconciliation~~Rate Base Limitation 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~~

ISSUED: ~~**January 10, 2014**~~ **August 28, 2015** **EFFECTIVE:** ~~**February 10, 2014**~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee 37403

~~Divided by 9/12 of the~~ Current Rate Base

Less: Relevant Rate Order ~~Volumetric & Metered Revenue~~ Rate Base

~~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~~ Maximum Capital Rider 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~~ Divided by Sum of:

Net 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~~

Plus: Net SEC Qualifying Investment

Plus: Net EDI Qualifying Investment

Equals: Rate Base Limitation Factor (not to exceed 100%)

Where:

ISSUED: ~~January 10, 2014~~ August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~ August 28, 2015

~~BY:~~

BY:

Deron E. Allen

109 ~~Weihl~~Wiehl Street

PRESIDENT

Chattanooga, Tennessee 37403

Current Rate Base = The thirteen (13) month average Rate Base using methods adopted in the Company's most recent rate case. The source of this information will be the monthly 3.06 reports submitted by the Company to the Commission.

Relevant Rate Order Rate Base = The final ordered rate base in most recent final order of the Authority specifically prescribing or fixing the general rates of the Company.

QIIP Qualifying Investment = The Net QIIP Qualifying Investment as determined in the calculation of the Qualified Infrastructure Improvement Program Percentage Rate.

SEC Qualifying Investment = The Net SEC Qualifying Investment as determined in the calculation of the Safety and Environmental Compliance Program Percentage Rate.

EDI Qualifying Investment = The Net EDI Qualifying Investment as determined in the calculation of the Economic Development Investment Program Percentage Rate.

(E)

~~**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**~~ Determination of the Deferred ~~**Income Taxes** = An average of the actual accumulated deferred income taxes~~Return

1. Purpose: The purpose of the Deferred Return is to eliminate Regulatory Lag related to ~~actual QIIP~~ qualifying Capital Rider investment ~~at the beginning and end~~.
2. The Deferred Return shall be expressed as a dollar amount. The Deferred Return shall be subject to the Rate Base Limitation Factor.
3. The Deferred Return will be computed as follows:

Net QIIP Qualifying Investment

Multiplied by:

Carrying Percent:

Pretax Rate of Return as Calculated in the Company's most recent rate case.

Divided by:

Twelve (12)

Multiplied by:

Carrying Charge Period

Equals: Carrying Percent

Equals: Deferred Return

4. The Carrying Charge Period will be expressed as a number of months, measured as the mid-point of the Annual Review Period through the mid-point of the year~~.~~ in which corresponding Capital Rider Surcharge rates are collected:

~~**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.~~

ISSUED: ~~January 10, 2014~~ **August 28, 2015** **EFFECTIVE:** ~~February 10, 2014~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen

109 ~~Weihl~~Wiehl Street

PRESIDENT

Chattanooga, Tennessee 37403

~~**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.~~

ISSUED: ~~January 10, 2014~~ August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~August 28, 2015

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee 37403

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

Collection Period Months = The twelve-month period in which the surcharge is collected.

Example: Assume an attrition period of the twelve-month period ending December 31, 2019. The mid-point of the Attrition Period would be July 1, 2019. Assume a filing on March 1, 2020, with a Commission decision issued July 1, 2020. The collection period would be the twelve-month period from July 1, 2020 through June 30, 2021, with a mid-point of January 1, 2021, producing an eighteen-month Carrying Charge Period.

(F)

~~(E)~~ Computation of the Earnings Test Adjustment.

~~If the earnings~~ If the earnings, adopted to reflect regulatory adjustments adopted by the Commission in the Company's most recent rate case, 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,~~

ISSUED: ~~January 10, 2014~~ August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~ **August 28, 2015**

~~BY:~~

BY:

Deron E. Allen

109 ~~Weihl~~ Wiehl Street

PRESIDENT

Chattanooga, Tennessee 37403

~~then~~ no ~~Earnings Test Adjustment~~such Capital Rider surcharge shall be ~~recognized.~~applied.

~~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)~~ (G) 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.~~ **5. 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~~Company's rate base, would be reflected in new annual prospective QIIP filings.

~~7.~~ **6. Annual ~~QIIP Percentage Rate~~ Filing**

~~On or before December 1 of each year,~~ **with the Commission**

On or before March 1 of each year, the Company shall submit to the ~~Authority~~Commission a calculation of the QIIP ~~Percentage Rate~~ for the ~~following calendar year. The Annual QIIP Percentage Rate~~ Annual Review Period, including a reconciliation of the actual QIIP revenue from the Reconciliation Period with authorized revenue. The Annual 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~~The Annual Reconciliation Factor Percentage Rate shall become effective on ~~January~~May 1 of each year and be applied as an adjustment to ~~Customers'~~ 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.~~

ISSUED: ~~January 10, 2014~~ **August 28, 2015** **EFFECTIVE:** ~~February 10, 2014~~ **August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen
109 ~~Weihl~~ Wiehl Street

PRESIDENT
Chattanooga, Tennessee 37403

~~The Company will include in its Annual Reconciliation Filing the following information at a minimum:~~ The Company will include in its Annual 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~~Reconciliation 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.~~ 7. Notice Requirements

——_The Company will file revised tariffs for Authority approval upon 30 ~~days~~ days' notice to implement a decrement or an increment each January 1 and April ~~1.~~ 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.~~ 8. 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.

ISSUED: ~~January 10, 2014~~ August 28, 2015 EFFECTIVE: ~~February 10, 2014~~ August 28, 2015

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~ Wiehl Street

PRESIDENT
Chattanooga, Tennessee 37403

CLASSIFICATION OF SERVICE

SAFETY AND ENVIRONMENTAL COMPLIANCE — RIDER

~~1.~~ **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~~Rider will be recomputed annually~~ and be adjusted periodically to incorporate the Annual Reconciliation Factor~~.

~~2.~~ **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~~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~~the adjustment factor necessary to ~~true-up~~ increase/decrease base rates ~~from forecasted costs to the actual costs incurred through application of 1)~~based upon the ~~Budget-to-Actual Adjustment and 2) the Over-Under Collection Adjustment, and the 3) Earnings Test Adjustment, as adjusted for Interest.~~calculation methodologies described within this tariff.

"Annual Review Period" means the historic twelve-month period ~~between~~ending December 31st, covering the ~~annual adjustments of the SEC Percentage Rate. For~~qualifying Capital Rider Investment.

"Reconciliation Period" means the preceding years' Annual Review Period, by which the ~~first year beyond~~authorized Capital Rider recovery shall be compared with 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~~actual Capital Rider

ISSUED: ~~**January 10, 2014**~~ **August 28, 2015** **EFFECTIVE:** ~~**February 10, 2014**~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee 37403

recovery. The difference between the authorized recoveries and ~~the start of the subsequent calendar year.~~ actual recoveries.

~~**"Authority"**~~**"Commission"** means the Tennessee ~~Regulatory Authority~~Public Utility Commission.

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

"Consumer Advocate" means the Consumer Advocate and Protection Unit in the Financial 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~~to the historic test period ~~due to~~associated with the ~~net~~difference

ISSUED: ~~January 10, 2014~~ **August 28, 2015** **EFFECTIVE:** ~~February 10, 2014~~**August 28, 2015**

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee 37403

between authorized revenue amount ~~of over or under~~and actual collections~~.~~ for the preceding period, also referred to as the Reconciliation Period

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

~~3.~~ 3. General Description

SEC allows the Company to recover outside of a rate case its qualifying incremental non-revenue producing plant infrastructure investment and expenses~~.~~, subject to the limitations described elsewhere in this tariff. 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~~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.

ISSUED: ~~January 10, 2014~~ August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~August 28, 2015

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee 37403

~~4.~~ 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~~Company's otherwise applicable rates and charges.

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

~~FORECASTED~~Historic 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~~Historic SEC Pre-Tax Return
Plus: Depreciation Expense on SEC Investment during the Attrition Period
Plus: Property Taxes on SEC Investment incurring during the Attrition period
Plus: Franchise Taxes
Plus: Safety and Environmental Compliance Operational Expenses
Plus: Deferred Return (SEC)
Subtotal ~~Forecasted~~Historic 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~~Subtotal Historic SEC Revenue Requirement

Multiplied by: Rate Base Limitation Factor

Equals: Total Historic SEC Revenue Requirement

Plus/Minus: Over/Under Recovery Amount of SEC revenue from preceding filing

Subject to: Excess Earnings (if applicable)

Equals: Total SEC Revenue Requirement

Divided by: Relevant Rate Order Volumetric & Metered Revenue

SEC Percentage Rate

Where:

Accumulated Depreciation = Accumulated depreciation calculated by debiting for ~~Forecasted~~Historic 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~~historic accumulated deferred income taxes related to qualified ~~forecasted~~historic 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~~historic SEC infrastructure.

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

Forfeited Discount Rate = ~~Forecasted~~Historic 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~~Historic cumulative qualified SEC investment multiplied by composite franchise tax rate approved in the Relevant Rate Order.

Gross Receipts Tax Rate = ~~Forecasted~~Historic 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~~Historic cumulative qualified SEC investment multiplied by composite property tax rate approved in the Relevant Rate Order.

ISSUED: ~~January 10, 2014~~ **August 28, 2015** **EFFECTIVE:** ~~February 10, 2014~~**August 28, 2015**

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street
PRESIDENT
Chattanooga, Tennessee -37403

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

Forecasted SEC Investment Amount = Average ~~forecasted~~historic 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~~Historic 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.~~Over/Under balance from the preceding year, subject to excess earnings and subject to the Rate Base Limitation Factor.

~~5.~~ (D) Determination of the ~~**Annual Reconciliation**~~Rate Base Limitation Factor ~~**Percentage Rate**~~

~~(A)~~1. The ~~Annual Reconciliation~~Rate Base Limitation Factor ~~Percentage~~ shall be expressed as a percentage carried to two (2) decimal places. The ~~Annual Reconciliation~~Rate Base Limitation Factor ~~Percentage~~ shall be applied ~~to the total amount billed to each Customer based on the Company's otherwise applicable rates and charges~~the calculation of Historic Net Capital Rider Investment.

~~(B)~~2. The ~~Annual Reconciliation~~Rate Base Limitation Factor ~~Percentage Rate~~ will be computed as follows:

~~Budget-to-Actual Adjustment~~

~~Plus Over-Under Collection Adjustment~~

ISSUED: ~~**January 10, 2014**~~ **August 28, 2015** **EFFECTIVE:** ~~**February 10, 2014**~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street
PRESIDENT
Chattanooga, Tennessee -37403

~~Plus Earnings Test Adjustment~~

~~Plus Interest~~

~~Annual Reconciliation Amount~~

~~Divided by 9/12 of the~~ Current Rate Base

Less: Relevant Rate Order ~~Volumetric & Metered Revenue~~Rate Base

~~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~~ Maximum Capital Rider 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~~

ISSUED: ~~January 10, 2014~~ August 28, 2015 EFFECTIVE: ~~February 10, 2014~~August 28, 2015

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee -37403

~~Less Accumulated Deferred Income Taxes~~

~~Net Actual SEC~~Divided by Sum of:

Net QIIP Qualifying Investment

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

~~Allowed Actual~~ Plus: Net SEC ~~Pre-Tax Return~~Qualifying Investment

~~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~~

Plus: Net EDI Qualifying Investment

Equals: Rate Base Limitation Factor (not to exceed 100%)

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**~~ **Current Rate Base** = The thirteen (13) month average Rate Base using methods adopted in the Company's most recent rate case. The source of this information will be the monthly 3.06 reports submitted by the Company to the Commission.

Relevant Rate Order Rate Base = means the final ordered rate base in most recent final order of the Authority specifically prescribing or fixing the general rates of the Company.

QIIP Qualifying Investment = means the Net QIIP Qualifying Investment as determined in the calculation of the Qualified Infrastructure Improvement Program Percentage Rate.

ISSUED: ~~**January 10, 2014**~~ **August 28, 2015** **EFFECTIVE:** ~~**February 10, 2014**~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee 37403

SEC Qualifying Investment = means the Net SEC Qualifying Investment as determined in the calculation of the Safety and Environmental Compliance Program Percentage Rate.

EDI Qualifying Investment = means the Net EDI Qualifying Investment as determined in the calculation of the Economic Development Investment Program Percentage Rate.

(E) Determination of the Deferred ~~**Income Taxes** = An average of the actual accumulated deferred income taxes~~Return

1. Purpose: The purpose of the Deferred Return is to eliminate Regulatory Lag related to ~~actual SEC~~ qualifying Capital Rider investment ~~at the beginning and end~~.
2. The Deferred Return shall be expressed as a dollar amount. The Deferred Return shall be subject to the Rate Base Limitation Factor.
3. The Deferred Return will be computed as follows:

Net SEC Qualifying Investment

Multiplied by:

Carrying Percent:

Pretax Rate of Return as Calculated in the Company's most recent rate case.

Divided by:

Twelve (12)

Multiplied by:

Carrying Charge Period

Equals: Carrying Percent

ISSUED: ~~January 10, 2014~~ August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~August 28, 2015

~~BY:~~

BY:

Deron E. Allen
PRESIDENT
109 ~~Weihl~~Wiehl Street
Chattanooga, Tennessee 37403

Equals: Deferred Return

4. The Carrying Charge Period will be expressed as a number of months, measured as the mid-point of the Annual Review Period through the mid-point of the year~~.~~ in which corresponding Capital Rider Surcharge rates are collected:

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

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

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

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

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

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

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

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

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

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

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

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

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

~~(E)~~ Where:

Collection Period Months = The twelve-month period in which the surcharge is collected.

Example: Assume an attrition period of the twelve-month period ending December 31, 2019. The mid-point of the Attrition Period would be July 1, 2019. Assume a filing on March 1, 2020, with a Commission decision issued July 1, 2020. The collection period would be the twelve-month period from July 1, 2020 through June 30, 2021, with a mid-point of January 1, 2021, producing an eighteen-month Carrying Charge Period.

(F) Computation of the Earnings Test Adjustment.

~~If the earnings~~If the earnings, amended to reflect regulatory adjustments adopted by the Commission in the Company's most recent rate case, 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~~; then no such Capital Rider Surcharge shall be applied.

~~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~~ (G) 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%

ISSUED: ~~January 10, 2014~~ August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~August 28, 2015

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee -37403

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.~~ 5. 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~~Company's rate base, would be reflected in new annual prospective SEC filings.

~~7.~~ 6. Annual ~~SEC Percentage Rate~~ Filing

~~On or before December 1 of each year,~~ **with the Commission**

ISSUED: ~~January 10, 2014~~ **August 28, 2015** **EFFECTIVE:** ~~February 10, 2014~~**August 28, 2015**

~~BY:~~

BY:

Deron E. Allen
PRESIDENT
109 ~~Weihl~~Wiehl Street
Chattanooga, Tennessee -37403

On or before March 1 of each year, the Company shall submit to the ~~Authority a~~Commission calculation of the SEC ~~Percentage Rate~~ for the ~~following calendar year. The Annual SEC Percentage Rate~~ Annual Review Period, including a reconciliation of the actual SEC revenue from the Reconciliation Period with authorized revenue. The Annual 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~~The Annual Reconciliation Factor Percentage Rate shall become effective on ~~January 1~~May1 of each year and be applied as an adjustment to ~~Customers'~~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.~~

ISSUED: ~~**January 10, 2014**~~ **August 28, 2015** **EFFECTIVE:** ~~**February 10, 2014**~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen
PRESIDENT
109 ~~Weihl~~Wiehl Street
Chattanooga, Tennessee -37403

~~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:~~ The Company will include in its Annual 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~~Reconciliation 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.~~ **7. Notice Requirements**

The Company will file revised tariffs for Authority approval upon 30 ~~days'~~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.~~ **8. 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.

ISSUED: ~~January 10, 2014~~ August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~August 28, 2015

~~BY:~~

BY:
Deron E. Allen
PRESIDENT
109 ~~Weihl~~Wiehl Street
Chattanooga, Tennessee 37403

CLASSIFICATION OF SERVICE

ECONOMIC DEVELOPMENT INVESTMENT PROGRAM — RIDER

~~1.~~ 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~~an Economic Development Investment Program ~~("EDI")~~("EDI") Rider will apply to customers in all service areas.

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

~~2.~~ 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~~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~~" = The adjustment factor necessary to ~~true-up~~ increase/decrease base 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.~~based upon the calculation methodologies described within this tariff.

"Annual Review Period~~" means the~~ " = The historic twelve-month period ~~between~~ending December 31st, covering the qualifying Capital Rider investment.

"Reconciliation Period" = The preceding years' Annual Review Period, by which the ~~annual adjustments of~~authorized Capital Rider recovery shall be compared with the ~~EDI~~

ISSUED: ~~January 10, 2014~~ August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street
PRESIDENT
Chattanooga, Tennessee -37403

~~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~~actual Capital Rider recovery. The difference between the authorized recoveries and ~~the start of the subsequent calendar year.~~ actual recoveries.

~~"Authority"~~"Commission" means the Tennessee ~~Regulatory Authority.~~Public Utility Commission.

~~**"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 Unit in the Financial 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.~~

ISSUED: ~~**January 10, 2014**~~ **August 28, 2015** **EFFECTIVE:** ~~**February 10, 2014**~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee 37403

"**Over-Under Collection Adjustment**" means the adjustment to EDI ~~for the~~ applicable ~~coming annual~~to the historic test period ~~due to~~associated with the ~~net~~difference between authorized revenue amount ~~of over or under~~and actual collections~~.~~ for the preceding period, also referred to as the Reconciliation Period.

"**Relevant Rate Order**" means the final order of the ~~Authority~~Commission 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.

~~4.~~ 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.~~, subject to the limitations described elsewhere in this tariff. For purposes of this Rider, qualifying EDI investment includes the following:

Distribution, Production, and Other Infrastructure – Distribution, production,
(T) and other infrastructure that may be identified as being for the purpose of economic
(T) development ~~including 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~~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;
(T) ~~Account 341 — Transportation Equipment;~~
Account 330 — Distribution Reservoirs and Standpipes; and
Account 330003 — Capitalized Tank Painting.

ISSUED: ~~**January 10, 2014**~~ **August 28, 2015** **EFFECTIVE:** ~~**February 10, 2014**~~**August 28, 2015**

~~**BY:**~~

BY:
Deron E. Allen
109 ~~Weihl~~Wiehl Street
PRESIDENT
Chattanooga, Tennessee -37403

~~5.~~ 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~~Company's otherwise applicable rates and charges.

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

~~FORECASTED~~ Historic 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~~Historic EDI Qualifying Investment

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

ISSUED: ~~**January 10, 2014**~~ **August 28, 2015** **EFFECTIVE:** ~~**February 10, 2014**~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee 37403

Allowed ~~Forecasted~~Historic EDI Pre-Tax Return
Plus: Depreciation Expense on EDI Investment
Plus: Property Taxes on EDI Investment during the Annual Review Period
Plus: Franchise Taxes
Plus: Economic Development Operational Expenses
Plus: Deferred Return (EDI)

Subtotal ~~Forecasted~~Historic 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~~Subtotal Historic EDI Revenue Requirement

Multiplied by: Rate Base Limitation Factor

Equals: Total Historic EDI Revenue Requirement

Plus/Minus: Over/Under Recovery Amount of EDI revenue from preceding filing

Subject to: Excess Earnings (if applicable)

Equals: Total EDI Revenue Requirement

Divided by Relevant Rate Order Volumetric & Metered Revenue

EDI Percentage Rate

Where:

Accumulated Depreciation = Accumulated depreciation calculated by debiting for ~~Forecasted~~
Historic 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~~Historic EDI investment at the beginning and end of the year.

ISSUED: ~~January 10, 2014~~ August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~August 28, 2015

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street
PRESIDENT
Chattanooga, Tennessee -37403

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

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

Forfeited Discount Rate = ~~Forecasted~~Historic 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~~Historic cumulative qualified EDI investment multiplied by composite franchise tax rate approved in the Relevant Rate Order.

Gross Receipts Tax Rate = ~~Forecasted~~Historic 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~~Historic cumulative qualified EDI investment multiplied by composite property tax rate approved in the Relevant Rate Order.

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

~~Forecasted~~Historic EDI Investment Amount = Average ~~forecasted~~Historic 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~~Historic EDI Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite uncollectible factor approved in the Relevant Rate Order.

Over/Under Recovery Amount = The difference between the amount of EDI revenue requirement authorized in the most recent EDI filing and that EDI revenue actually recovered through the EDI surcharge.

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

~~(E)~~ The total amount to be recovered through the EDI is the EDI Percentage Rate as adjusted for the ~~Annual Reconciliation Factor Percentage Rate~~Over/Under balance from the preceding year, any excess earnings and subject to the Rate Base Limitation Factor.

~~7.~~(C)Determination of the ~~**Annual Reconciliation**~~Rate Base Limitation Factor ~~**Percentage Rate**~~

1. ~~(A)~~ The ~~Annual Reconciliation~~Rate Base Limitation Factor ~~Percentage~~ shall be expressed as a percentage carried to two (2) decimal places. The ~~Annual Reconciliation~~Rate Base Limitation Factor ~~Percentage~~ shall be applied ~~to the total amount billed to each Customer based on the Company's otherwise applicable rates and charges~~the calculation of Historic Net Capital Rider Investment.

ISSUED: ~~**January 10, 2014**~~ **August 28, 2015** **EFFECTIVE:** ~~**February 10, 2014**~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee -37403

2. ~~(B)~~ The ~~Annual Reconciliation~~Rate Base Limitation 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~~ Current Rate Base

Less: Relevant Rate Order ~~Volumetric & Metered Revenue~~Rate Base

~~Annual Reconciliation Factor Percentage Rate~~

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

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

ISSUED: ~~**January 10, 2014**~~ **August 28, 2015** **EFFECTIVE:** ~~**February 10, 2014**~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee -37403

~~ACTUAL EDI~~ Maximum Capital Rider 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~~Divided by Sum of:

Net QIIP 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~~

ISSUED: ~~January 10, 2014~~ **August 28, 2015** **EFFECTIVE:** ~~February 10, 2014~~**August 28, 2015**

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street
PRESIDENT
Chattanooga, Tennessee 37403

~~Plus Gross Receipts Tax Rate~~

~~Total Actual EDI Revenue Requirement~~

~~Less Total Forecasted EDI Revenue Requirement~~

~~Budget-to-Actual Adjustment~~

Plus: Net SEC Qualifying Investment

Plus: Net EDI Qualifying Investment

Equals: Rate Base Limitation Factor (not to exceed 100%)

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**~~

ISSUED: ~~**January 10, 2014**~~ **August 28, 2015** **EFFECTIVE:** ~~**February 10, 2014**~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee 37403

Current Rate Base = The thirteen (13) month average Rate Base using methods adopted in the Company's most recent rate case. The source of this information will be the monthly 3.06 reports submitted by the Company to the Commission.

Relevant Rate Order Rate Base = means the final ordered rate base in most recent final order of the Authority specifically prescribing or fixing the general rates of the Company.

QIIP Qualifying Investment = means the Net QIIP Qualifying Investment as determined in the calculation of the Qualified Infrastructure Improvement Program Percentage Rate.

SEC Qualifying Investment = means the Net SEC Qualifying Investment as determined in the calculation of the Safety and Environmental Compliance Program Percentage Rate.

EDI Qualifying Investment = means the Net EDI Qualifying Investment as determined in the calculation of the Economic Development Investment Program Percentage Rate.

(D) Determination of the Deferred ~~**Income Taxes** = An average of the actual accumulated deferred income taxes~~Return

1. Purpose: The purpose of the Deferred Return is to eliminate Regulatory Lag related to ~~actual EDI~~ qualifying Capital Rider investment ~~at the beginning and end~~.
2. The Deferred Return shall be expressed as a dollar amount. The Deferred Return shall be subject to the Rate Base Limitation Factor.
3. The Deferred Return will be computed as follows:

Net SEC Qualifying Investment

Multiplied by:

Carrying Percent:

ISSUED: ~~**January 10, 2014**~~ **August 28, 2015** **EFFECTIVE:** ~~**February 10, 2014**~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen

109 ~~Weihl~~Wiehl Street

PRESIDENT

Chattanooga, Tennessee -37403

Pretax Rate of Return as Calculated in the Company's most recent rate case.

Divided by:

Twelve (12)

Multiplied by:

Carrying Charge Period

Equals: Carrying Percent

Equals: Deferred Return

1. The Carrying Charge Period will be expressed as a number of months, measured as the mid-point of the Annual Review Period through the mid-point of the year~~.~~ in which corresponding Capital Rider Surcharge rates are collected:

~~**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.~~

ISSUED: ~~**January 10, 2014**~~ **August 28, 2015** **EFFECTIVE:** ~~**February 10, 2014**~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee -37403

~~**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.~~

ISSUED: ~~January 10, 2014~~ August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~August 28, 2015

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee 37403

~~**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)~~ Where:

Collection Period Months = The twelve-month period in which the surcharge is collected.

ISSUED: ~~January 10, 2014~~ August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~August 28, 2015

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee -37403

Example: Assume an attrition period of the twelve-month period ending December 31, 2019. The mid-point of the Attrition Period would be July 1, 2019. Assume a filing on March 1, 2020, with a Commission decision issued July 1, 2020. The collection period would be the twelve-month period from July 1, 2020 through June 30, 2021, with a mid-point of January 1, 2021, producing an eighteen-month Carrying Charge Period.

(E) Computation of the Earnings Test Adjustment.

If the earnings attained by the Company for the Annual Review Period, adopted to reflect regulatory adjustments adopted by the Commission in the Company's most recent rate case, 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~~such Capital Rider surcharge shall be ~~recognized.~~ applied.

~~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.~~

ISSUED: ~~**January 10, 2014**~~ **August 28, 2015** **EFFECTIVE:** ~~**February 10, 2014**~~**August 28, 2015**

~~**BY:**~~

BY:

Deron E. Allen

109 ~~Weihl~~Wiehl Street

PRESIDENT

Chattanooga, Tennessee -37403

(F) ~~(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 Rate
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 "~~Reserve's "Selected Interest Rates" for the most recent preceding month.

~~8.~~ 5. 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~~Company's rate base, would be reflected in new annual prospective EDI filings.

~~9.~~ 6. 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'~~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

_ISSUED: ~~January 10, 2014~~
— August 28, 2015 **EFFECTIVE: ~~February 10, 2014~~August 28, 2015**

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee -37403

Amount and Forecasted Economic Development Operational Expenses adopted by the ~~Company's~~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.

~~10.~~ 7. 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~~ Commission a calculation of the EDI for the previous Annual Review Period~~. The Annual~~, including a reconciliation of the actual EDI revenue from the Reconciliation Period with authorized revenue. The Annual 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~~May1 of each year and be applied as an adjustment to ~~Customers'~~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~~Reconciliation 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.

ISSUED: ~~January 10, 2014~~ **August 28, 2015** **EFFECTIVE:** ~~February 10, 2014~~**August 28, 2015**

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street

PRESIDENT
Chattanooga, Tennessee -37403

~~11.~~ 8. Notice Requirements

The Company will file revised tariffs for Authority approval upon 30 ~~days~~ days' notice to implement a decrement or an increment each January 1 and April ~~1.~~ 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.

~~12.~~ 9. 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.

ISSUED: ~~January 10, 2014~~ August 28, 2015 **EFFECTIVE:** ~~February 10, 2014~~August 28, 2015

~~BY:~~

BY:

Deron E. Allen
109 ~~Weihl~~Wiehl Street
PRESIDENT
Chattanooga, Tennessee -37403

EXHIBIT DND-4

TENNESSEE AMERICAN WATER COMPANY

CONSUMER ADVOCATE PROPOSED

TARRIF

CLASSIFICATION OF SERVICE

QUALIFIED INFRASTRUCTURE IMPROVEMENT PROGRAM – RIDER

1. Applicability

In addition to the other charges provided 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 computed annually.

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 Review Period" means the historic twelve-month period ending December 31st, covering the qualifying Capital Rider investment.

"Annual Reconciliation Factor" means the adjustment factor necessary to increase/decrease base rates based upon the calculation methodologies described within this tariff.

"Reconciliation Period" means the preceding years' Annual Review Period, by which the authorized Capital Rider recovery shall be compared with the actual Capital Rider recovery. The difference between the authorized recoveries and actual recoveries

"Commission" means the Tennessee Public Utility Commission.

"Consumer Advocate" means the Consumer Advocate Unit in the Financial Division of the Office of the Tennessee Attorney General.

"Over-Under Collection Adjustment" means the adjustment to QIIP applicable to the historic test period associated with the difference between authorized revenue amount and actual collections for the preceding period, also referred to as the Reconciliation Period.

"Relevant Rate Order" means the final order of the Commission in the most recent rate case of the Company fixing the rates of the Company or the most recent final order of the Commission 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, subject to the limitations described elsewhere in this tariff. 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.

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;
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;
Account 341 — Transportation Equipment; and
Account 330003 — Capitalized Tank Painting.

4. <u>Determination of the Qualified Infrastructure Improvement Program Percentage Rate</u>

(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 historic basis as follows:

Historic 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 QIIP Qualifying Investment

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

Allowed Historic QIIP Pre-TaxReturn

Plus: Depreciation Expense on QIIP Investment during the Annual Review Period

Plus: Property Taxes on QIIP Investment incurred during the Annual Review Period

Plus: Franchise Taxes

Plus: Deferred Return (QIIP)

Subtotal Historic QIIP Revenue Requirement Before Revenue Tax

Divided by 1 minus the following:

Forfeited Discounts Rate

Plus: Uncollectible Expense Rate

Plus: Gross Receipts Tax Rate

Subtotal Historic QIIP Revenue Requirement

Multiplied by: Rate Base Limitation Factor

Equals: Total Historic QIIP Revenue Requirement

Plus/Minus: Over/Under Recovery Amount of QIIP revenue from preceding filing

Subject To: Excess Earnings (if applicable)

Equals: Total QIIP Revenue Requirement

Divided by: Relevant Rate Order Volumetric & Metered Revenue

QIIP Percentage Rate

Where:

Accumulated Depreciation = Accumulated depreciation calculated by debiting for Historic 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 historic accumulated deferred income taxes related to qualified historic QIIP investment at the beginning and end of the year.

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

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

Forfeited Discount Rate = Historic 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 = Historic cumulative qualified QIIP investment multiplied by composite franchise tax rate approved in the Relevant Rate Order.

Gross Receipts Tax Rate = Historic 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.

Taxes = Historic cumulative qualified QIIP investment, net of any tax-exempt property multiplied by composite property tax rate approved in the Relevant Rate Order.

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

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

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

Over/Under Recovery Amount = The difference between the amount of QIIP revenue requirement authorized in the most recent QIIP filing and that QIIP revenue actually recovered through the QIIP surcharge. **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 Over /Under balance from the preceding year, any excess earnings and subject to the Rate Base Limitation Factor. .

(D) Determination of the Rate Base Limitation Factor

1. The Rate Base Limitation Factor shall be expressed as a percentage carried to two (2) decimal places. The Rate Base Limitation Factor shall be applied the calculation of Historic Net Capital Rider Investment.

2. The Rate Base Limitation Factor will be computed as follows:

Current Rate Base

Less: Relevant Rate Order Rate Base

Maximum Capital Rider Investment

Divided by Sum of:

Net QIIP Qualifying Investment

Plus: Net SEC Qualifying Investment

Plus: Net EDI Qualifying Investment

Equals: Rate Base Limitation Factor (not to exceed 100%)

Where:

Current Rate Base = The thirteen (13) month average Rate Base using methods adopted in the Company's most recent rate case. The source of this information will be the monthly 3.06 reports submitted by the Company to the Commission.

Relevant Rate Order Rate Base = The final ordered rate base in most recent final order of the Authority specifically prescribing or fixing the general rates of the Company.

QIIP Qualifying Investment = The Net QIIP Qualifying Investment as determined in the calculation of the Qualified Infrastructure Improvement Program Percentage Rate.

SEC Qualifying Investment = The Net SEC Qualifying Investment as determined in the calculation of the Safety and Environmental Compliance Program Percentage Rate.

EDI Qualifying Investment = The Net EDI Qualifying Investment as determined in the calculation of the Economic Development Investment Program Percentage Rate.

(E) Determination of the Deferred Return

1. Purpose: The purpose of the Deferred Return is to eliminate Regulatory Lag related to qualifying Capital Rider investment.
2. The Deferred Return shall be expressed as a dollar amount. The Deferred Return shall be subject to the Rate Base Limitation Factor.
3. The Deferred Return will be computed as follows:

Net QIIP Qualifying Investment

Multiplied by:

Carrying Percent:

Pretax Rate of Return as Calculated in the Company's most recent rate case.

Divided by:

Twelve (12)

Multiplied by:

Carrying Charge Period

Equals: Carrying Percent

Equals: Deferred Return

4. The Carrying Charge Period will be expressed as a number of months, measured as the mid-point of the Annual Review Period through the mid-point of the year in which corresponding Capital Rider Surcharge rates are collected:

Where:

Collection Period Months = The twelve-month period in which the surcharge is collected.

Example: Assume an attrition period of the twelve-month period ending December 31, 2019. The mid-point of the Attrition Period would be July 1, 2019. Assume a filing on March 1, 2020, with a Commission decision issued July 1, 2020. The collection period would be the twelve-month period from July 1, 2020 through June 30, 2021, with a mid-point of January 1, 2021, producing an eighteen-month Carrying Charge Period.

(F) Computation of the Earnings Test Adjustment.

If the earnings, adopted to reflect regulatory adjustments adopted by the Commission in the Company's most recent rate case, 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 no such Capital Rider surcharge shall be applied.

(G) 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

5. 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.

6. Annual Filing with the Commission

On or before March 1 of each year, the Company shall submit to the Commission a calculation of the QIIP for the Annual Review Period, including a reconciliation of the actual QIIP revenue from the Reconciliation Period with authorized revenue. The Annual Filing shall be verified by an officer of the Company. The Annual Reconciliation Factor Percentage Rate shall become effective on May 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 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 Reconciliation 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 Filing.

7. 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.

8. Public Interest Review

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

CLASSIFICATION OF SERVICE

SAFETY AND ENVIRONMENTAL COMPLIANCE – RIDER

1. Applicability

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

The above Rider will be recomputed annually.

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 the adjustment factor necessary to increase/decrease base rates based upon the calculation methodologies described within this tariff.

"Annual Review Period" means the historic twelve-month period ending December 31st, covering the qualifying Capital Rider Investment.

"Reconciliation Period" means the preceding years' Annual Review Period, by which the authorized Capital Rider recovery shall be compared with the actual Capital Rider recovery. The difference between the authorized recoveries and actual recoveries.

"Commission" means the Tennessee Public Utility Commission.

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

"Over-Under Collection Adjustment" means the adjustment to SEC applicable to the historic test period associated with the difference between authorized revenue amount and actual collections for the preceding period, also referred to as the Reconciliation Period

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

3. General Description

SEC allows the Company to recover outside of a rate case its qualifying incremental non-revenue producing plant infrastructure investment and expenses, subject to the limitations described elsewhere in this tariff. 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. <u>Determination of the Safety and Environmental Compliance Program Percentage Rate</u>

(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 historic basis as follows:

Historic 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 SEC Qualifying Investment

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

Allowed Historic SEC Pre-Tax Return
Plus: Depreciation Expense on SEC Investment during the Attrition Period
Plus: Property Taxes on SEC Investment incurring during the Attrition period
Plus: Franchise Taxes
Plus: Safety and Environmental Compliance Operational Expenses
Plus: Deferred Return (SEC)
Subtotal Historic SEC Revenue Requirement Before Revenue Tax

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

Multiplied by: Rate Base Limitation Factor

Equals: Total Historic SEC Revenue Requirement

Plus/Minus: Over/Under Recovery Amount of SEC revenue from preceding filing

Subject to: Excess Earnings (if applicable)

Equals: Total SEC Revenue Requirement

Divided by: Relevant Rate Order Volumetric & Metered Revenue

SEC Percentage Rate

Where:

Accumulated Depreciation = Accumulated depreciation calculated by debiting for Historic 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 historic accumulated deferred income taxes related to qualified historic SEC investment at the beginning and end of the year.

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

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

Forfeited Discount Rate = Historic 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 = Historic cumulative qualified SEC investment multiplied by composite franchise tax rate approved in the Relevant Rate Order.

Gross Receipts Tax Rate = Historic 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 = Historic cumulative qualified SEC investment multiplied by composite property tax rate approved in the Relevant Rate Order.

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

Forecasted SEC Investment Amount = Average historic 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 = Historic 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 Over/Under balance from the preceding year, subject to excess earnings and subject to the Rate Base Limitation Factor.

(D) Determination of the Rate Base Limitation Factor

1. The Rate Base Limitation Factor shall be expressed as a percentage carried to two (2) decimal places. The Rate Base Limitation Factor shall be applied the calculation of Historic Net Capital Rider Investment.
2. The Rate Base Limitation Factor will be computed as follows:

Current Rate Base

Less: Relevant Rate Order Rate Base

Maximum Capital Rider Investment

Divided by Sum of:

Net QIIP Qualifying Investment

Plus: Net SEC Qualifying Investment

Plus: Net EDI Qualifying Investment

Equals: Rate Base Limitation Factor (not to exceed 100%)

Where:

Current Rate Base = The thirteen (13) month average Rate Base using methods adopted in the Company's most recent rate case. The source of this information will be the monthly 3.06 reports submitted by the Company to the Commission.

Relevant Rate Order Rate Base = means the final ordered rate base in most recent final order of the Authority specifically prescribing or fixing the general rates of the Company.

QIIP Qualifying Investment = means the Net QIIP Qualifying Investment as determined in the calculation of the Qualified Infrastructure Improvement Program Percentage Rate.

SEC Qualifying Investment = means the Net SEC Qualifying Investment as determined in the calculation of the Safety and Environmental Compliance Program Percentage Rate.

EDI Qualifying Investment = means the Net EDI Qualifying Investment as determined in the calculation of the Economic Development Investment Program Percentage Rate.

(E) Determination of the Deferred Return

1. Purpose: The purpose of the Deferred Return is to eliminate Regulatory Lag related to qualifying Capital Rider investment.
2. The Deferred Return shall be expressed as a dollar amount. The Deferred Return shall be subject to the Rate Base Limitation Factor.
3. The Deferred Return will be computed as follows:

Net SEC Qualifying Investment

Multiplied by:

Carrying Percent:

Pretax Rate of Return as Calculated in the Company's most recent rate case.

Divided by:

Twelve (12)

Multiplied by:

Carrying Charge Period

Equals: Carrying Percent

Equals: Deferred Return

4. The Carrying Charge Period will be expressed as a number of months, measured as the mid-point of the Annual Review Period through the mid-point of the year in which corresponding Capital Rider Surcharge rates are collected:

Where:

Collection Period Months = The twelve-month period in which the surcharge is collected.

Example: Assume an attrition period of the twelve-month period ending December 31, 2019. The mid-point of the Attrition Period would be July 1, 2019. Assume a filing on March 1, 2020, with a Commission decision issued July 1, 2020. The collection period would be the twelve-month period from July 1, 2020 through June 30, 2021, with a mid-point of January 1, 2021, producing an eighteen-month Carrying Charge Period.

(F) Computation of the Earnings Test Adjustment.

If the earnings, amended to reflect regulatory adjustments adopted by the Commission in the Company's most recent rate case, 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 no such Capital Rider Surcharge shall be applied.

(G) 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.

5. 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.

6. Annual Filing with the Commission

On or before March 1 of each year, the Company shall submit to the Commission calculation of the SEC for the Annual Review Period, including a reconciliation of the actual SEC revenue from the Reconciliation Period with authorized revenue. The Annual Filing shall be verified by an officer of the Company. The Annual Reconciliation Factor Percentage Rate shall become effective on May1 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 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 Reconciliation 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 Filing.

7. **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.

8. **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 reconsideration of whether it remains in the public interest.

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, an Economic Development Investment Program ("EDI") Rider will apply to customers in all service areas.

The above rider will be computed annually.

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" = The adjustment factor necessary to increase/decrease base rates based upon the calculation methodologies described within this tariff.

"Annual Review Period" = The historic twelve-month period ending December 31st, covering the qualifying Capital Rider investment.

"Reconciliation Period" = The preceding years' Annual Review Period, by which the authorized Capital Rider recovery shall be compared with the actual Capital Rider recovery. The difference between the authorized recoveries and actual recoveries.

"Commission" means the Tennessee Public Utility Commission.

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

"Over-Under Collection Adjustment" means the adjustment to EDI applicable to the historic test period associated with the difference between authorized revenue amount and actual collections for the preceding period, also referred to as the Reconciliation Period.

"Relevant Rate Order" means the final order of the Commission 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, subject to the limitations described elsewhere in this tariff. 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
(T) ~~including 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;
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:

Historic 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 Historic EDI Qualifying Investment

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

Allowed Historic EDI Pre-Tax Return
Plus: Depreciation Expense on EDI Investment
Plus: Property Taxes on EDI Investment during the Annual Review Period
Plus: Franchise Taxes
Plus: Economic Development Operational Expenses
Plus: Deferred Return (EDI)

Subtotal Historic EDI Revenue Requirement Before Revenue Tax

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

Multiplied by: Rate Base Limitation Factor

Equals: Total Historic EDI Revenue Requirement

Plus/Minus: Over/Under Recovery Amount of EDI revenue from preceding filing

Subject to: Excess Earnings (if applicable)

Equals: Total EDI Revenue Requirement

Divided by Relevant Rate Order Volumetric & Metered Revenue
EDI Percentage Rate

Where:

Accumulated Depreciation = Accumulated depreciation calculated by debiting for Historic 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 Historic EDI investment at the beginning and end of the year.

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

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

Forfeited Discount Rate = Historic 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 = Historic cumulative qualified EDI investment multiplied by composite franchise tax rate approved in the Relevant Rate Order.

Gross Receipts Tax Rate = Historic 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 = Historic cumulative qualified EDI investment multiplied by composite property tax rate approved in the Relevant Rate Order.

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

Historic EDI Investment Amount = Average Historic 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 = Historic EDI Revenue Requirement before gross receipts taxes, uncollectible expense and forfeited discounts multiplied by composite uncollectible factor approved in the Relevant Rate Order.

Over/Under Recovery Amount = The difference between the amount of EDI revenue requirement authorized in the most recent EDI filing and that EDI revenue actually recovered through the EDI surcharge.

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

The total amount to be recovered through the EDI is the EDI Percentage Rate as adjusted for the Over/Under balance from the preceding year, any excess earnings and subject to the Rate Base Limitation Factor.

(C) Determination of the Rate Base Limitation Factor

1. The Rate Base Limitation Factor shall be expressed as a percentage carried to two (2) decimal places. The Rate Base Limitation Factor shall be applied the calculation of Historic Net Capital Rider Investment.
2. The Rate Base Limitation Factor will be computed as follows:

Current Rate Base

Less: Relevant Rate Order Rate Base

Maximum Capital Rider Investment

Divided by Sum of:

Net QIIP Qualifying Investment

Plus: Net SEC Qualifying Investment

Plus: Net EDI Qualifying Investment

Equals: Rate Base Limitation Factor (not to exceed 100%)

Where:

Current Rate Base = The thirteen (13) month average Rate Base using methods adopted in the Company's most recent rate case. The source of this information will be the monthly 3.06 reports submitted by the Company to the Commission.

Relevant Rate Order Rate Base = means the final ordered rate base in most recent final order of the Authority specifically prescribing or fixing the general rates of the Company.

QIIP Qualifying Investment = means the Net QIIP Qualifying Investment as determined in the calculation of the Qualified Infrastructure Improvement Program Percentage Rate.

SEC Qualifying Investment = means the Net SEC Qualifying Investment as determined in the calculation of the Safety and Environmental Compliance Program Percentage Rate.

EDI Qualifying Investment = means the Net EDI Qualifying Investment as determined in the calculation of the Economic Development Investment Program Percentage Rate.

(D) Determination of the Deferred Return

1. Purpose: The purpose of the Deferred Return is to eliminate Regulatory Lag related to qualifying Capital Rider investment.
2. The Deferred Return shall be expressed as a dollar amount. The Deferred Return shall be subject to the Rate Base Limitation Factor.
3. The Deferred Return will be computed as follows:

Net SEC Qualifying Investment

Multiplied by:

Carrying Percent:

Pretax Rate of Return as Calculated in the Company's most recent rate case.

Divided by:

Twelve (12)

Multiplied by:

Carrying Charge Period

Equals: Carrying Percent

Equals: Deferred Return

1. The Carrying Charge Period will be expressed as a number of months, measured as the mid-point of the Annual Review Period through the mid-point of the year in which corresponding Capital Rider Surcharge rates are collected:

Where:

Collection Period Months = The twelve-month period in which the surcharge is collected.

Example: Assume an attrition period of the twelve-month period ending December 31, 2019. The mid-point of the Attrition Period would be July 1, 2019. Assume a filing on March 1, 2020, with a Commission decision issued July 1, 2020. The collection period would be the twelve-month period from July 1, 2020 through June 30, 2021, with a mid-point of January 1, 2021, producing an eighteen-month Carrying Charge Period.

(E) Computation of the Earnings Test Adjustment.

If the earnings attained by the Company for the Annual Review Period, adopted to reflect regulatory adjustments adopted by the Commission in the Company's most recent rate case, exceed the earnings allowed for the Annual Review Period by applying the overall rate of return authorized in the Relevant Rate Order, then no such Capital Rider surcharge shall be applied.

(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 Rate
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.

5. 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.

6. 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.

7. Annual Reconciliation Filing with the Authority

On or before March 1 of each year, the Company shall submit to the Commission a calculation of the EDI for the previous Annual Review Period, including a reconciliation of the actual EDI revenue from the Reconciliation Period with authorized revenue. The Annual Filing shall be verified by an officer of the Company. The Annual Reconciliation Factor Percentage Rate shall become effective on May1 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 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 Reconciliation 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 Filing.

8. 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 l. 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.

9. 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 Compay
Example of Rate Base Limitation Factor
Docket 18-00120

Exhibit DND-5

Line No.	Item		Amount	Source
1	Current Rate Base	$	173,528,751	TAWC Revised Monthly Reports
2	Less: Relevent Rate Order Rate Base	$	132,015,472	Settlement 12-00049
3	Maximum Capital Rider Surcharge Rate Base	$	41,513,279	
4	Divided By: TAWC 2018 Capital Rider Rate Base per Reconciliation Filing	$	62,924,425	Docket 19-00031
5	Rate Base Limitation Factor		65.97%	
6	Effective Capital Rider Rate Base Eligible for Recovery (Line 4* Line 5)	$	41,513,279	
7	Effective Capital Rider Rate Base Excluded from Recovery (Line 4 - Line 6)	$	21,411,146	
8	Total Capital Rider Investment (Line 6 + Line 7)	$	62,924,425	

Tennessee American Water Compay
Example Calculation of Carrying Charges
Docket 18-00120

Exhibit DND-6

Assumptions:

1. Attrition Period is the twelve months ending 12/31/19.
2. TAWC Filing 3/1/20
3. TPUC authorizing order issued June 30, 2020
4. TAWC Rates Effective July 1, 2020

TAWC Pre-Tax Rate of Return (From Company Schedule TAW Sch1 2019 Revised)		8.4515%
Divided by 12		12
Equals Monthly Carrying Charge Rate		0.7043%
Mid-Point of Attrition Period	7/1/2019	
Mid-Point of Collection Period	12/31/2020	
Elapsed Months		18
Total Carrying Charge Applied to Quaifying Capital Rider Surcharge Investment Based upon Assumptions Above		12.6772%

Office of the Tennessee Attorney General
Consumer Advocate, Financial Division
Docket No. 18-00120
Calculation of Increase in Capital Rider Rate Base **Exhibit DND-7**

Rider	A/ Docket No. 17-00124 2018 Revised	B/ Docket No. 18-00120 2019 Revised	Difference
EDI	1,675,082	2,719,860	1,044,778
SEC	23,895,285	26,741,341	2,846,056
QIIP	37,162,017	48,664,814	11,502,797
Total	**62,732,384**	**78,126,015**	**15,393,631**

A/ Docket No. 17-00124, TAWC's Final Revised Exhibits, Schedules and Workpapers (3-19-18).

B/ Docket No. 18-00120, Supplemental Testimony of Elaine K. Chambers, Petitioner's Revised Exhibit - Summary -EKC

Office of the Tennessee Attorney General
Consumer Advocate, Financial Division
Docket No. 18-00120
Comparison of Excess Rate Base with Forecasted Investment

Exhibit DND-8

	Amount	Source
Excess Compensated Rate Base Recovery (Comparison of Actual Rate Base with Compensated Rate Base)	$ 21,411,146	Exhibit DND-2
Less: TAWC Forecasted Growth in Capital Rider Investment	$ 15,393,631	Exhibit DND-6
Net Excess Compensated Investment after 2019 Capital Rider Investment	$ 6,017,516	

Calculation of Annual TCJA Income Tax Expense Savings
Accruing to TAWC Ratepayers
Docket No 18-00120 (From Exhibit DND-2 in Docket 18-00039)

Exhibit DND-9

	Amount		Source
Annual Income Tax Expense Savings - Gross of Tax	$ 2,035,031		Bridwell Testimony 18-00039; p 5
Estimated Balance of Deferred Income Tax Expense Savings - May 31, 2019		$ 2,706,118	TAWC Response to CA Request 2-3
Three-Year Amortization		3	
Annual Amortization	$ 902,039		
Annual Flow-back to TAWC Ratepayers due to Income Tax Expense Savings	$ 2,937,070		

Tennessee Attorney General
Consumer Advocate Unit, Financial Division
Docket No. 18-00120 **Exhibit DND-10**
Consumer Advocate Proposal Summary

TAWC Proposed Surcharge (Before TCJA Credit)	$	9,595,107
Less: TAWC Proposed Tax Savings		(1,860,538)
TAWC Net Proposal	**$**	**7,734,569**
Commission Approved Surcharge (From 17-00124)	$	7,734,569
Plus: Impacts of Commission Order in Docket 18-00022		
Less: Consumer Advocate Tax Savings		(2,937,070)
Consumer Advocate Proposed Surcharge	**$**	**4,797,499**
Consumer Advocate Proposed Reduction in TAWC Capital Riders	**$**	**(2,937,070)**