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Hon. Robin L. Morrison, Chairman
c/o Ectory Lawless, Docket Room Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

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*, TPUC Docket No. 18-00120**

Dear Chairman Morrison:

Attached please find *Tennessee-American Water Company's Rebuttal Testimony of Elaine K. Chambers* in the above-captioned matter.

As required, an original and four (4) hard copies will follow.

Should you have any questions concerning this filing, or require additional information, please do not hesitate to let me know.

Very truly yours,

BUTLER SNOW LLP

Melvin J. Malone

Attachments
cc: Elaine K. Chambers, Tennessee-American Water Company
Vance Broemel, Assistant Attorney General, Financial Division, Consumer Advocate Unit
Daniel Whitaker, Assistant Attorney General, Financial Division, Consumer Advocate Unit

PETITIONER'S EXHIBIT EKC-4

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 18-00120

REBUTTAL TESTIMONY

OF

ELAINE K. CHAMBERS

ON

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

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SPONSORING PETITIONER'S EXHIBITS:

RT–EKC–1
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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Elaine K. Chambers and my business address is 2300 Richmond Road, Lexington, Kentucky 40502.

Q. Did you previously submit testimony in this proceeding on behalf of Tennessee-American Water Company ("Tennessee-American", "TAWC" or the "Company")?

A. Yes. I filed direct testimony on February 19, 2019, adopting Melissa Schwarzell's testimony, and I filed supplemental testimony on February 19, 2019, May 31, 2019 and June 3, 2019.

Q. Are you sponsoring any exhibits?

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

Petitioner's Exhibit – RT – EKC–1
Petitioner's Exhibit – RT – EKC–2
I will discuss these exhibits in further detail in my testimony below.

Q. Were the Petitioner's Exhibits prepared by you or under your direction and supervision?

A. Yes.

Q. What were the sources of data used to prepare the Petitioner's Exhibits listed above?

A. The information used to prepare the exhibits was obtained from the books of account and business records of Tennessee-American and other internal sources that I examined during the course of investigating the matters addressed in this testimony.

Q. Do you consider this information reliable and of the type that is normally used and relied on in your business for such purposes?

A. Yes.

Q. Do the Petitioner's Exhibits listed above accurately summarize the information and the results of the analysis of the information?

A. Yes, they do.

Q. What is the purpose of your rebuttal testimony?

A. I will address the direct testimony and proposed adjustments filed on April 23, 2019 and the supplemental testimony and proposed adjustments filed on June 14, 2019 by David N. Dittemore of the Consumer Advocate Unit of the Tennessee Attorney General's Office ("Consumer Advocate" or "CA").

Specifically, in response to Mr. Dittemore's supplemental testimony, I will (1) address his concern that the Capital Riders Reconciliation rates appearing on the Company's website are higher than the tariff sheets submitted by the Company on May 7, 2019, in this docket; and (2) respond to his recommendation to reject the Company's proposed $1,291,525 increase to the previously authorized surcharge of $7,734,570, for a total surcharge of $9,026,095. In response to Mr. Dittemore's direct testimony, I will: (3) provide regulatory context and regulatory precedent regarding TAWC's approved capital investment tariffs. Specifically, the Economic Development Investment ("EDI") Rider, Safety and Environmental Compliance ("SEC") Rider, and Qualified Investment Improvement Program ("QIIP") Rider (collectively the "Capital Riders" or "Riders"); (4) discuss the financial, ratemaking and other consequences if Mr. Dittemore's proposals are accepted, and (5) explain why the existing Riders should remain in effect without modification.

II. TAWC'S RESPONSES TO CONSUMER ADVOCATE'S SUPPLEMENTAL TESTIMONY

Q. In his supplemental testimony, Mr. Dittemore expressed concern that the Capital Riders Reconciliation rates appearing on the Company's website are higher than the tariff sheets submitted by the Company on May 7, 2019, in this docket.[1]

A. No, it is not. Only Tennessee Public Utility Commission ("Commission" or "TPUC") approved tariff sheets are posted to the TAWC website. The calculations submitted by the Company on May 7, 2019, in TPUC Docket No. 18-00022 have yet to be approved by the Commission, so they have not been posted to the Company's website.

Q. Mr. Dittemore recommends that the requested increase in TAWC's supplemental filing in this docket on 5/31/2019 of $1,291,525 be reduced to zero. Do you agree with his proposed adjustment?

A. No, I do not.

Q. Please explain why you disagree with the proposed adjustment.

A. Citing the arguments in his direct testimony, Mr. Dittemore's position in this proceeding is simply to reject any increase in the Company's Capital Riders based on his belief "...that the Capital Riders Surcharge is overstated and thus no new increase in the Capital

[1] *Consumer Advocate Witness David N. Dittemore's Supplemental Testimony*, p. 1, LL 13-15, TPUC Docket No. 18-00120 (June 14, 2019).

Riders is justified."[2] The Company addresses Mr. Dittemore's argument regarding no increase more fully in the questions below.

III. TAWC'S RESPONSES TO CONSUMER ADVOCATE'S DIRECT TESTIMONY

A. Consumer Advocate's claim that no increase in the Capital Riders is warranted is based on a false premise.

Q. Mr. Dittemore claims that no increase in the Company's Capital Riders is warranted because the Company is earning on a rate base value that exceeds actual rate base, and as a result, he concludes that there is a significant defect in the design of the Capital Riders.[3] Is Mr. Dittemore's assertion correct?

A. No, it is not. There is no significant defect in the current Capital Riders tariffs. Mr. Dittemore's earnings calculation is based on a false premise. Mr. Dittemore's earnings calculation is derived by combining the rate base upon which TAWC's base rates were determined in Docket No. 12-00049 with the current Riders rate base value. He calls this combined amount "Compensated Rate Base." He then relies on that limited data set to manufacture an argument that the Company is "over-earning" because of an alleged overstatement of rate base and bases all of his recommended adjustments to the Capital Riders and conclusions about the Capital Riders defects on this fundamentally flawed calculation. As I will explain further below, this is a misrepresentation of how revenue requirements are determined, and how an earnings test should be calculated.

Q. Please explain.

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[2] *Consumer Advocate Witness David N. Dittemore's Supplemental Testimony*, p. 3, LL 18-19 (June 14, 1019) (hereinafter "*Dittemore Supplemental*"). *See also Dittemore Supplemental*, p. 2, LL 10-22 through p. 3, LL 1-25 and *Consumer Advocate Witness David N. Dittemore's Direct Testimony*, p. 2, LL 11-19, pp. 5-9, TPUC Docket No. 18-00120 (April 17, 2019) (hereinafter "*Dittemore Direct*").

[3] *Dittemore Direct* at 4, LL 23-24 and pp. 6-9. *See also Dittemore Supplemental* at pp. 2-3.

A. Business conditions have changed from 2013 to 2019, causing both TAWC's costs and revenues to differ from the 2013 test year level. Rate base is only one of the components of total revenue requirements used to determine base rates. Total base rate revenue requirements include:

1. Return of rate base (depreciation);
2. Return on rate base (debt service and equity return);
3. Operating and & Maintenance ("O&M") Expenses;
4. Taxes other than Income, and
5. Income Taxes.

When the Commission established Tennessee-American's base rates in 2012, it did so in total, including pro forma estimates for the above components of revenue requirements. Once base rates are established, they are not changed until the next general rate case. Like the other components of revenue requirements listed above, TAWC's rate base balance grows or shrinks from an approved pro forma amount from the last base rate case. Over time, new capital additions unrelated to the Riders add to this rate base, while depreciation and deferred income taxes reduce the base rate base balance.[4] In addition, there have been changes in the Company's O&M, property taxes, and revenues since base rates were set. Some revenue requirement components may go up, others may go down. The Company is at risk of under-or over-recovering its base revenue requirements until it files for new base rates. Certainly, this has been the case for TAWC over the past six years.

[4] On page 8, lines 13-14, of his Direct Testimony in Docket No. 13-00130, CA Witness Dittemore fails to acknowledge that the Company continues to make investments outside of the Riders, which represents approximately 27.0% of the Company's actual capital spending over the past five years. *See* RT–EKC–1.

Riders, on the other hand, are stand-alone calculations with strict limitations. The revenue requirements are based on pre-approved capital investments in support of a specific program to modernize the Company's distribution system. The revenue requirements associated with these specific investments are established annually and reconciled annually. This results in a portion of TAWC's rates that are determined differently than TAWC's base rates. By design, the annual Capital Riders reconciliation proceeding ensures that the Capital Riders recover their own distinct revenue requirement – no more or no less – at the Company's allowed rate of return ("ROR").

Mr. Dittemore's overly simplistic earnings calculation based solely on his "Compensated Rate Base" is a complaint about method that the Consumer Advocate attempts to use to overthrow the reasonable results delivered by the current Capital Riders.

Q. Mr. Dittemore then uses his overly simplistic "earnings" calculation to reach the conclusion that there is an "existing capital rider defect" and proposes a "rate base limitation" for the Capital Riders.[5] Do you agree with his analysis and recommendation?

A. No, I do not agree. As discussed above, the revenue requirements associated with rate base is only one component of overall revenue requirements. Mr. Dittemore's proposed "Rate Base Limitation" would reduce base rate revenue requirements even if the Company is not earning its allowed ROR. Mr. Dittemore's proposed "Rate Base Limitation" does not account for higher O&M expenses compared to what was included in the 2012 rate case. Similarly, other changes to base rate revenue, such as declining consumption, are not recognized in Mr. Dittemore's Rate Base Limiter. By focusing

[5] *Dittemore Direct* at pp. 11-16.

solely on rate base, Mr. Dittemore ignores the changes that the Company experiences that can impact the Company's earnings. Moreover, Mr. Dittemore's proposed "Rate Base Limitation" is deficient and unnecessary given the Commission's earnings test.

Q. Has the Commission implemented an earnings test that compares the Company's actual rate of return ("ROR") to its allowed ROR?

A. Yes. If the actual adjusted ROR exceeds the allowed, the difference is credited back to customers. As reflected in the record, the earnings test was not proposed by the Company in its original submission of the Capital Riders in Docket No. 13-00130. Rather, a version of the earnings test was first proposed by the Consumer Advocate.[6] The earnings test adopted by the Commission was submitted by the parties, including the Consumer Advocate, as part of the Stipulation in Docket No. 13-00130. The earnings test is an appropriate customer safeguard. In addition, as explained above, the Capital Riders are reconciled annually to ensure that ratepayers only pay for the actual revenue requirements associated with Riders' investments.

B. Consumer Advocate's proposed modifications to the earnings test are unwarranted and should be rejected.

Q. Please discuss any general concerns that you have with Mr. Dittemore's criticisms of TAWC's existing earnings test.

A. Surprisingly, Mr. Dittemore ignores the fact that the Consumer Advocate's office signed onto a Stipulation (settlement agreement) in Docket No. 13-00130 that explicitly approves the earnings test. As noted in the TAWC Witness Gary VerDouw's Supplemental Testimony in TPUC Docket No. 13-00130, the parties to the case,

[6] *See CA Witness William H. Novak's Direct Testimony*, pp. 18-19, TPUC Docket No. 13-00130 (Dec. 20, 2013).

including the Consumer Advocate, submitted a Stipulation that resolved all of the outstanding issues related to the Riders proposed by TAWC. As reflected in the public record in that case the earnings test was not submitted by the Company in its original Riders filing. In his Supplemental Testimony, TAWC Witness VerDouw provided an overview of the adjustments or clarifications outlined in the Stipulation. As highlighted in Mr. VerDouw's Supplemental Testimony,[7] the earnings test is one of those adjustments.

Q. Mr. Dittemore recommends changing the language in the Riders to not allow a positive reconciliation, which would include prior period adjustments (such as under collection), if the Company earns above its authorized return.[8] Do you agree with this recommendation?

A. No, I do not. First, prior period adjustments are a function of differences that occurred in a prior period, and in some cases, multiple prior periods. The TPUC needs time to thoroughly review these adjustments, and neither the Company nor the consumers should be punished for a timing difference.[9] In TPUC Docket No. 17-00020, Consumer Advocate Witness H. Novak contended that TAWC should be compelled to apply the earning test adjustment precisely as outlined in the tariffs.[10] The Consumer Advocate did not contend in Docket No. 17-00020 that the earnings test adjustment was not operating in the public interest or not being properly applied as an appropriate safeguard under the

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[7] *See TAWC Witness Gary VerDouw's Supplemental Testimony*, p. 9, LL 10-18, TPUC Docket No. 13-00130 (Jan. 17, 2014).
[8] *Dittemore Direct* at 13 L 13 through p. 14, L 19.
[9] *See, e.g., TAWC Witness Linda Bridwell's Rebuttal Testimony*, p. 3, LL 16-19, TPUC No. 17-00020 (July 21, 2017) ("The impact is not just for the benefit of the [C]ompany. Likewise, in reconciliations, any refunds that may need to be made that are not completed will carry forward into the following reconciliation.").
[10] *Consumer Advocate Witness William H. Novak's Direct Testimony,* pp. 14-15, TPUC Docket No. 17-00020 (June 30, 2017).

Rider tariffs. In response to the concerns expressed by the Consumer Advocate in Docket No. 17-00020, TAWC Witness Linda Bridwell explained how the Company worked cooperatively with the Consumer Advocate to address the issue.[11] The Company's resolution and continued approval of the application of the earnings test adjustment in the Rider tariffs was adopted by the Commission and memorialized in its *Order Granting Petition as Amended, p. 14,* TPUC Docket No. 17-00020 ("The panel adopted the corrections as presented by the Company and found the results . . . to be just and reasonable.") (Oct. 12, 2017).

Q. On page 14 of Mr. Dittemore's direct testimony starting on line 6, Mr. Dittemore proposes an additional change to the earnings test to exclude expenses excluded from recovery in the Company's PCOP calculation from the calculation of the Company's expenses within the calculation of the Company's Earnings Test Adjustment. Do you agree with this adjustment?

A. No. Mr. Dittemore's proposal is unnecessary. The PCOP already makes this adjustment and reduces the Company's earnings for any production costs considered to be excessive related to water loss, as Mr. Dittemore points out. Adjusting earnings a second time would not be fair or reasonable.

Q. Did the Commission adopt any further resolutions about the earnings test and prior period reconciliation amounts?

A. Yes. In its October 12, 2017, Order memorializing its August 15, 2017, decisions, the Commission resolved as follows:

[11] *TAWC Witness Linda Bridwell's Rebuttal Testimony*, p. 14, TPUC Docket No. 17-00020 (July 21, 1017).

> The reconciliation adjustment is authorized pursuant to the tariff when the Company failed to recover all necessary surcharge revenues due to usage variance and the delayed implementation date of the surcharge. Accordingly, the reconciliation amount … from the prior year under-collections should remain in the calculation of the Capital Rider surcharges rather than be excluded as recommended by the Consumer Advocate.[12]

The Commission clearly has recently and definitively determined that the earnings test and prior period reconciliations result in just and reasonable rates.

C. Consumer Advocate's other recommended changes to the Capital Riders have been previously considered by this Commission.

Q. Please summarize the changes that Mr. Dittemore proposes to the Capital Riders.

A. Mr. Dittemore proposes three (3) changes to that Capital Riders surcharges that have considered by this Commission:

- determining the Capital Rider surcharge using an historical period instead of the currently approved forward looking period;
- limiting the Capital Rider surcharge to an annual filing; and
- suspending Capital Rider surcharge when earnings are above authorized during a review period.

Q. Have these same arguments been presented to this Commission in the past?

A. Yes, Mr. Dittemore's recommended changes to the Capital Riders mirror a proposal made by Consumer Advocate Witness William H. Novak six years ago. Mr. Novak submitted his recommendations in his direct testimony on December 20, 2013, in Docket 13-00130. These very same arguments were laid to rest in Docket No. 13-00130, as they

[12] *Order Granting Petition as Amended*, p. 14, TPUC Docket No. 17-00020 (Oct. 12, 2017).

were not adopted by either the parties in the Stipulation or the Commission in its *Order Approving the Amended Petition* in Docket No. 13-00130.

D. The use of a forward looking period to determine rates is well-established regulatory precedent in Tennessee

Q. Please summarize the Consumer Advocate's recommendation to use a historical test period for the TAWC Capital Riders.

A. Mr. Dittemore seeks to change the Capital Riders rate calculation from a forward-looking test period to a historical average test period.

Q. Please describe the regulatory precedent for using a forward looking test period in Tennessee.

A. The TPUC has utilized a forward-looking rate year for establishing rates in general rate cases for many years. This includes ordered rulings in recent Docket Nos. 12-00049, 10-00189, 08-00039 and 06-00290, as well as orders dating back to at least 1990 (Docket Nos.89-15388 and 91-05224). This means that rates are established based on forecasted revenues, expenses, and capital additions (among other adjustments typically proposed in a base rate case).

Q. Has this Commission made similar determinations for Riders?

A. Yes. When the Riders were designed and approved, this forward-looking ratemaking approach was logically part of that design. The Riders' rates are based on the Company's forecasted capital spending, then reconciled the following year for the difference between actual spending and the forecast used to set the original rates. The current Capital Riders tariffs were approved in 13-00130. In Docket 13-00130, the Commission determined that TAWC's Amended Petition and the tariffs establishing the alternative rate mechanisms filed on March 25, 2014 met the requirements of Tenn. Code Ann.§ 65-5-103(d), and that the proposed EDI and SEC and QIIP Riders[13] were reasonable and in the public interest. Subsequently, in Docket 14-00121, the Commission found that a calendar year reconciliation period was appropriate, and the Commission again affirmed that the capital riders' tariffs had appropriate safeguards in place. The Commission determined that adopting a 2014 calendar year investment period would lessen any gap between the end of the Company's most recently approved Attrition Period and the beginning of its alternative ratemaking mechanisms, which is consistent with the approved Riders. The Commission panel voted unanimously to approve the Company's proposal to file a single reconciliation for calendar year 2014. Finally, the Commission agreed with TAWC that there are sufficient requirements and consumer safeguards in place in the existing tariffs to ensure that only reasonable, qualifying capital costs and operational expenses are recovered through the Riders.[14] Subsequently, in Docket 15-00111, the Commission again affirmed that the Riders' tariffs benefitted consumers and TAWC and allowed timely recovery of investment related expenses to ensure safe and reliable drinking water and promote economic development.[15]

E. The use of a historical average period to determine Capital Rider rates would significantly increase regulatory lag

Q. What is regulatory lag?

A. Simply stated, regulatory lag is the time between the occurrence of an event that triggers a change in the utility's revenue requirement and its recognition in rates. It is, for

[13] The Commission also found that the Company's proposed Production Costs and Other Pass-Through Mechanisms were also in the public interest and were approved. *See Order Approving Amended Petition*, TPUC Docket No. 13-00130 (Jan. 27, 2016).
[14] *See Order Granting, in Part, and Denying, in Part, Petition*, TPUC Docket No. 14-00121 (Feb. 1, 2016).
[15] *See Order Approving Petition as Amended*, TPUC Docket No. 15-00111 (May 26, 2016).

example, the time between when an investment in plant is placed into service for the benefit of the customer and when the Company can begin earning a return of and on the investment through the ratemaking process. It also applies to the lag in the recognition in rate recovery of changes in expenses and revenues.

Q. What are typically the causes of regulatory lag?

A Regulatory lag has several causes. One is the use of a year of historical data in the rate case filing. Another is the time required to prepare a rate case filing. Still another is the time required to execute the rate case and reach a final decision on new rates.

Q. Mr. Dittemore claims that his recommended change to a historical average test period does not introduce regulatory lag?[16] Do you agree?

A. No, I disagree. Mr. Dittemore's proposed change to the Capital Rider calculation is to use a historical average test period, which he defines as the mid-point of the "Attrition Period"[17] to the mid-point of the "Collection Year" (the year new rates are in effect). According to Mr. Dittemore, "... 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."[18] However, there is neither a sound mathematical nor accounting basis for this assertion. Expenditures made in the historical period represent real cash outlays by the Company, and Mr. Dittemore's recommendation immediately

[16] *Dittemore Direct* at p. 10, LL 14-15.

[17] Mr. Dittemore's use of the term "Attrition Period" runs counter to the Commission's definition of an attrition year. "An 'attrition year' is the forecast period used to set rates[.]" *Final Order*, p. 26, TPUC Docket No. 10-00189 (April 27, 2012).

[18] *Dittemore Direct* at 12, LL 8-11.

introduces regulatory lag for any investment made in the historical year. Additionally, when the return of those investments are based on a historical average, his recommendation further compounds this regulatory lag by at least six more months. Mr. Dittemore's proposal introduces significant regulatory lag, disconnecting the timing of investment and recovery from at least twelve months up to eighteen months.

Q. How does Mr. Dittemore propose to address this shortcoming?

A. Mr. Dittemore's proposed remedy is to allow the Company to accrue interest on the unrecovered balance of actual capital spending made under the Riders. He suggests that applying the Company's pre-tax Weighted Average Cost of Capital ("WACC") will keep the Company whole and eliminate regulatory lag, claiming that "the Net Income would be the same under this methodology as it would be under the existing Capital Riders Surcharge." This is untrue, for several reasons. First, from an accounting basis, the Company interprets that deferring net income would be a violation of U.S. GAAP for utilities under ASC 980. At most, TAWC could defer the debt expense it incurs during the historical period, so it is impossible that the net income would be the same, as Mr. Dittemore claims. Second, from a mathematical perspective Mr. Dittemore's proposal wouldn't allow full interest expense deferral. Rather than the actual interest expense incurred, Mr. Dittemore's interest would not begin accruing until the mid-point of the Attrition Year. Third, Mr. Dittemore's proposed tariff does not seem to address recovery of depreciation expense or property tax expense, which is a significant shortcoming.[19]

[19] *Dittemore Direct* at pp. 8-16.

Mr. Dittemore admits that his proposal is only designed to address the earnings component of regulatory lag, not cash flows.[20] While it fails to address most of the earnings components it would need to address, the cash flow problem is also significant. One of the primary purposes of the Capital Riders is to allow timely recovery of investments in lieu of a general rate case. The timely recovery of the <u>cash</u> is critical to funding additional investments in each subsequent Attrition Year. A natural consequence of this cash flow regulatory lag is to discourage investments until later in the Attrition Year so as to minimize the cash flow regulatory lag. In the worst case, the Company may find that filing a general rate case if preferable to investing under the Consumer Advocate's proposal, particularly when the Company's forecasted Capital Rider eligible expenditures are growing.

Q. Please elaborate on why forward-looking ratemaking is so important to the Capital Riders program.

A. As discussed above, recovering Rider investments on a historic basis would be a step back for the state of Tennessee, which has utilized forward-looking ratemaking for many years. The Commission expressly approved the Riders, using forward-looking ratemaking, to eliminate regulatory lag and incent the Company to accelerate its capital programs. If the Consumer Advocate's proposed historical Riders construct is approved, there will be a one-time, inescapable regulatory lag associated with 2019 Rider investments. This regulatory lag would occur because switching methods would require a one-year hiatus that results from switching from forward-looking to historical ratemaking. Further, the regulatory lag discussed above would become permanently

[20] *Dittemore Direct* at 12, LL 11-12.

embedded in the Capital Riders, removing much of the incentive the Company has to accelerate its capital spending on Rider-related programs.

The Company will not collect its return of or on the 2019 investments until TAWC files it's next full rate case. If historical ratemaking is approved, no recovery of the investments included in the Company's pro forma would occur until June 2020, at the earliest. Given that one of the primary purposes of the legislative change to Tenn. Code Ann.§ 65-5-103(d) is to provide utilities with alternative mechanisms that would extend the time between rate case filings, the use of a historic test year would undermine the statute and thus the General Assembly's intent. The use of historic recovery of investments in a case like this truly would be a step back for the Tennessee regulatory environment and a retreat from the intent of the legislation.

F. Consumer Advocate's proposal to eliminate one annual filing will not increase efficiency or have a material benefit to customers, the Commission, the Consumer Advocate or the Company.

Q. Mr. Dittemore claims that "There would be many administrative efficiencies that would be gained by the Company, the Commission, and the Consumer Advocate from an annual filing."[21] Do you agree?

A. No, I do not. First, the current two-step process is both fair, efficient, and imparts regulatory oversight to planned capital additions before they are made. Under the Consumer Advocate's proposal, all investments would be placed in service prior to Commission review of the need for, and benefit of, the proposed investments. Mr. Dittemore's characterization of reconciling actual to forecasted capital expenditures as

[21] *Dittemore Direct* at 9, LL 15-17.

"an unnecessary complication" is myopic. The reconciliation calculation provided in the annual reconciliation filing is well-established, transparent and trackable. Little or no efficiency gain is to be had from eliminating it.

Q. Please elaborate.

A. In response to this same contention back in 2013 in Docket No. 13-00130, Company Witness Mr. VerDouw explained that a reconciliation would need to be completed regardless of whether or not the filing is based on historic (actual) capital investment or forecasted (future) investment. Historic alternative rate mechanism filings would require all of the detailed information up front to show what was spent and how it was spent. Thus, the review process would take more time up front on a historic filing, as the detailed information is reviewed for the actual investments made.

A historic filing would still require a reconciliation to ensure that the revenue requirement authorized has been collected. At the completion of the reconciliation, an adjustment would be made to either add to or decrease the next filing amount to account for any over- or under-collection.[22] I do not agree with Mr. Dittemore that the administration of the Capital Recovery Riders would be "much easier" under a historic recovery method. The reconciliation would be a part of the process using either methodology. Lastly, other states that use historical ratemaking for their capital riders often have semi-annual or quarterly filings to help mitigate regulatory lag.[23] This would, of course, increase the number of annual filings.

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[22] *See TAWC Witness Gary VerDouw's Rebuttal Testimony*, pp. 17-19, TPUC Docket No. 13-00130 (Dec. 30, 2013).
[23] Examples include Missouri (Semi-annually) and Pennsylvania (Quarterly).

G. Consumer Advocate's recommendation that the Capital Riders should be suspended in any year where the Company earns above its authorized return should be rejected.

Q. Please discuss the Consumer Advocate's recommendation that the Capital Riders should be suspended in any year where the Company earns above its authorized return.

A. Again, Mr. Dittemore resurrects another argument that the CA first presented to the Commission six (6) years ago. Back in 2013, CA Witness William H. Novak asserted that "the Capital Recovery Riders should be suspended for periods (if any) when the Company is able to over-earn its authorized rate of return."[24] Repeating the same contention here, CA Witness Mr. Dittemore maintains that "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."[25] Per VerDouw, there are at times extenuating circumstances that can cause a utility to earn above its authorized rate of return that have nothing to do with day-to-day operation of the business.[26] For instance, if an extraordinary accounting entry made were the reason the Company is earning above its authorized rate of return, then I would certainly disagree with any planned suspension resulting from the entry. An extremely hot summer could result in a utility earning above its authorized rate of return. This could be followed up by an unusually wet and cool summer, which could result in earning below our authorized return.

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[24] *Consumer Advocate Witness William H. Novak's Direct Testimony*, p. 19, LL7-9 (Dec. 20, 2013).
[25] *Dittemore Direct* at 14, LL 1-5.
[26] *TAWC Witness Gary VerDouw's Rebuttal Testimony*, pp. 23-24, TPUC Docket No. 13-00130 (Dec. 30, 2013.)

Additionally, suspension of the Capital Riders is a completely disproportionate response to a company earning above its authorized return. In Mr. Dittemore's proposal, earning $1 above authorized could result in the loss of $9 million or more of revenue. After tax, this would be approximately $6.7 million of operating income. For a sense of scale, the Company had a grand total adjusted operating income of $13.3 million last year. This could conceivably deprive the company of more than half of its operating income in 2019 and beyond. This would devastate any opportunity to earn a fair return on investment and would almost certainly represent an undue confiscation of property.

Notwithstanding the foregoing, the earnings test was put in place as a customer protection. The current earnings test adjustment is all encompassing and works efficiently.[27] For example, Docket 17-00020 is a testament to how the earnings test is working effectively and how an earning above authorized situation was handled as intended, while accounting for the impacts of actual investment and billing/regulatory lags. Mr. Dittemore's proposed Rate Base Limiter, if approved, would represent a form of double-jeopardy to the Company, whereby the Company's earnings could be restricted by either the new Rate Base Limiter, the current earnings test, or both. The Consumer Advocate's proposed changes to the Riders' methodology has significant potential negative consequences for customers, the Commission and the Company, and should be rejected.

[27] *See Order Granting Petition as Amended*, p. 14, TPUC Docket No. 17-00020 (Oct. 12, 2017) (Panel concluded that the results of the earnings test adjustment was "just and reasonable."). Moreover, TAWC's October 3, 2017, submission of textual changes to its Riders, per Commission directive in Docket No. 17-00020, to clarify the just and reasonable over-under carryover language, which submission reaffirmed the just and reasonableness of the earnings test adjustment, is noteworthy here given the Consumer Advocates' assertions. *See* Petitioner's Exhibit - RT - EKC - 2. The Commission ordered no changes to the earnings test adjustment in the Riders.

H. Consumer Advocate's proposals could potentially harm customers

Q. How else could the Consumer Advocate's proposal harm customers?

A. Mr. Dittemore's proposed rewrite of the Capital Riders tariffs is contrary to the established purpose of the Capital Riders, therefore risking the continuance of necessary and accelerated replacement of pipe that has exceeded its useful life. As such, his proposal may:

1. Risk uninterrupted water service; and
2. Impact leak loss rates if programs are not executed at the current pace.

Q. How can a slow-down in Rider spending impact reliability?

A. There are significant plant assets (mains, services) that are still in service beyond their intended useful life. As such, these assets are more prone to leaking. In some instances, such as a main failure, water service may be interrupted. This is at least an inconvenience to customers, and at its worst, a very costly and time-consuming repair that can have a major detrimental impact on quality of life of the Company's residential customers, and a financial impact on its business customers.

Q. Could slower Rider capital spending affect leak rates?

A. Yes, for the same reasons above, leak-prone outdated pipes contribute to significant system losses. A slower replacement rate leads to increased loss in delivery efficiency as pipes continue to fail. For instance, and by way of representative example, TAWC Witness Brent O'Neill testified in TPUC Docket No. 17-00124 that "TAWC is projecting a nearly 26% reduction in water main breaks during 2017 based on breaks through September 2017 when compared to the ten-year average from 2007 to 2016. TAWC contributes this reduction, in part, due to the focus on replacing main with a chronic history of main breaks rather than the previous initiative of repairing mains. TAWC further believes that the reduction in the average number of main breaks between 2013 and 2015 of 305 per year compared to the average number of main breaks of 480 per year between 2004 and2012 is directly correlated to the level of spending in the Unscheduled Main Replacement of Line C (qualified under the Riders) (parenthetical added)."[28]

Q. Are there any other financial considerations that a change in the Riders program may create?

A. Yes. The Company is concerned that approval of the Consumer Advocate's proposal would hinder its ability to attract needed capital for the program, as the now-introduced regulatory lag (particularly the cash flow lag) would be viewed as a higher risk program. As such, capital may be more difficult to secure. Cash flow is the lifeblood of financing – any drag on recovery is viewed negatively by the investment community.

Q. Please elaborate on how cash flows and regulatory lag affect the Company's ability to attract capital.

A. As with any utility faced with substantial capital expenditures, TAWC's risk profile is adversely affected in two significant and related ways: (1) the heightened level of investment increases the risk of under-recovery, or delayed recovery, of the invested capital; and (2) an inadequate return would put downward pressure on key credit metrics.

Q. Do credit rating agencies recognize the risks associated with elevated capital expenditures?

[28] *TAWC Witness Brent O'Neill's Direct Testimony*, pp. 16, LL 21-23 through p. 17, LL 1-5, TPUC Docket No. 17-00124 (Nov. 7, 2017).

A. Yes. From a credit perspective, the additional pressure on cash flows associated with high levels of capital expenditures exerts corresponding pressure on credit metrics and, therefore, credit ratings. An S&P report explains:

> *"[T]here is little doubt that the U.S. electric industry needs to make record capital expenditures to comply with the proposed carbon pollution rules over the next several years, while maintaining safety standards and grid stability. We believe the higher capital spending and subsequent rise in debt levels could strain these companies' financial measures, resulting in an almost consistent negative discretionary cash flow throughout this higher construction period. To meet the higher capital spending requirements, companies will require ongoing and steady access to the capital markets, necessitating that the industry maintains its high credit quality. We expect that utilities will continue to effectively manage their regulatory risk by using various creative means to recover their costs and to finance their necessary higher spending."*[29]

While this S&P report refers to electric utilities, the same applies to water utilities. To the extent that TAWC's rates do not permit it to recover its full cost of doing business, or introduces regulatory lag where none currently exists, the Company will face increased recovery risk and thus increased pressure on its credit metrics. In an August 2016 report, S&P explained the importance of regulatory support for large capital programs, such as the Capital Riders:

> *"Broad support for all capital spending is the most credit-sustaining. Support for only specific types of capital spending, such as specific environmental projects or system integrity plans, is less so, but still favorable for creditors. Allowance of a cash return on construction work-in-progress or similar ratemaking methods historically were extraordinary measures for use in unusual circumstances, but when construction costs are rising, cash flow support could be crucial to maintain credit quality through the spending program. Even more favorable are*

[29] S&P, Ratings Direct, "*U.S. Regulated Electric Utilities' Annual Capital Spending is Poised to Eclipse $100 Billion*" (July 2014).

those jurisdictions that present an opportunity for a higher return on capital projects as an incentive to investors."[30]

As these credit rating excerpts show, cash flow and assurance of (timely) recovery are paramount concerns for companies with large capital investment programs, such as TAWC.

In April 2019, Moody's downgraded AWK from A3 to Baa1, citing concerns about increased leverage and cash flow leakage resulting from tax reform. Moody's noted in their downgrade that infrastructure riders that make cost recovery more certain and reduce regulatory lag support a stable outlook from this point. But the Consumer Advocate's recommendations to both flow back tax reform savings to customers immediately as well as their recommendation to severely restrict the infrastructure rider would have a compounding negative effect on credit. While the Company is open to working with the Consumer Advocate on tax reform expense savings, the infrastructure rider restrictions proposed by the Consumer Advocate are purely counter productive to attracting low cost capital for infrastructure replacement to Tennessee.

I. The Capital Riders are accomplishing their objective to attract capital for ongoing infrastructure replacement in between rate cases with modest bill impacts to customers.

Q. Are the Capital Riders performing well?

A. Yes, the Riders are performing well, and the financial and ratemaking construct ensures customers are only paying the necessary revenue requirement to continue investing in modernizing the Company's water delivery system. The Commission has approved, and on multiple occasions affirmed, the ratemaking construct of the Riders. The program is

[30] S&P Global Ratings, "*Assessing U.S. Investor-Owned Utility Regulatory Environments*," p. 7 (Aug. 10, 2016).

working – over $68 million has been invested in the system since the Riders' inception five years ago.

Q. Are the Riders working as intended to reduce regulatory and lessen the occurrence of rate shock?

A. Yes. Although I could highlight many examples, for illustrative purposes only, I will comment regarding four (4) qualifying projects under the Capital Riders that will each demonstrate the practicable value and meaningful benefits, to both ratepayers and TAWC, of the Riders. First, on April 4, 2016, the 30-inch concrete main under the Tennessee River ruptured unexpectedly, which resulted in TAWC isolating the main for approximately two weeks to allow it to insert a new 24-inch High Density Polyethylene pipe using the ruptured 30-inch main as a sleeve for the new main. The Tennessee River Transmission Main Crossing project was forecasted at approximately $2,414,209.[31] Next, the chlorine gas conversion project had an approximate forecasted costs of $4,750,502.[32] Third, the Citico Plant Improvement Phase 1B project had an approximate costs of $8.2 million.[33] Finally, the Citico Process Wastewater Improvements project, which addressed the change in permit requirements from the City of Chattanooga on the allowable level of Zince to be discharged to the city's wastewater collection system, had an approximate costs of $15.3 million.[34] These four (4) projects were essential to TAWC's commitment to fulfill its mission and obligation of providing safe, reliable drinking water. The

[31] *See TAWC Witness Brent O'Neill's Direct Testimony*, p. 22, LL 20-21, TPUC Docket No. 17-00124 (Nov. 7, 2017).

[32] *See TAWC Witness Brent O'Neill's Direct Testimony*, pp. 34, LL 16-23 through p. 35, LL 1-7 and p. 36, LL 9-23 through p. 37 LL 1-7, TPUC Docket No. 17-00124 (Nov. 7, 2017).

[33] *See TAWC Witness Brent O'Neill's Direct Testimony*, p. 17, LL 4-8, TPUC Docket No. 15-00111 (Nov. 12, 2016).

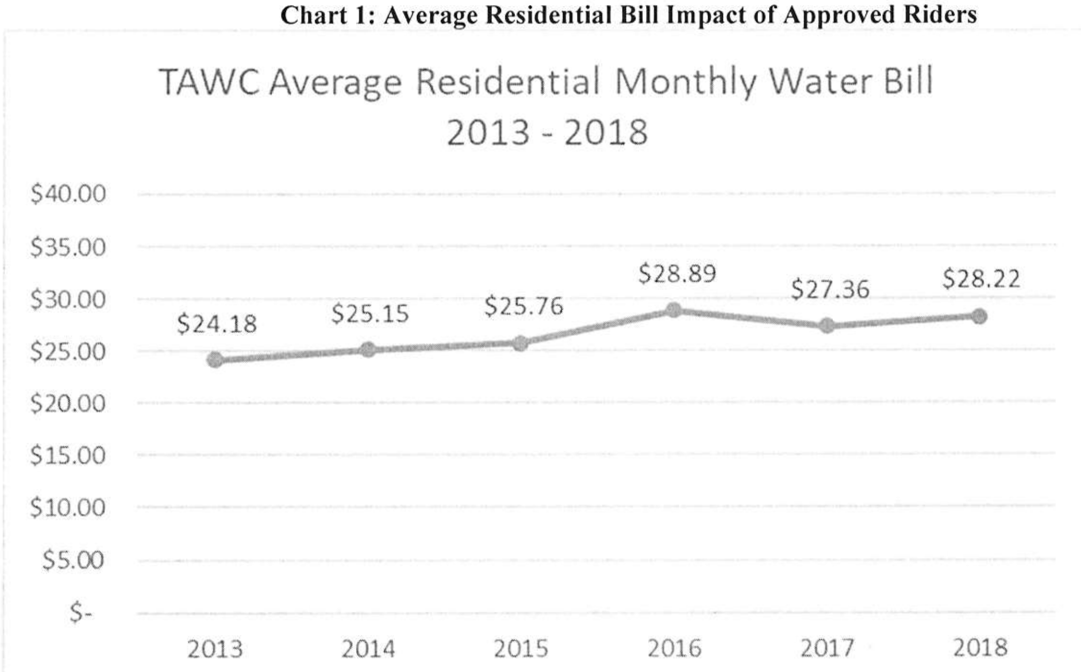
[34] *See TAWC Witness Brent O'Neill's Direct Testimony*, p. 18, LL 1-5, TPUC Docket No. 14-00121 (Oct. 29, 2014).

existence of the Commission-approved Capital Riders permitted the Company to implement significant and required non-optional solutions while avoiding regulatory lag and lessening rate shock to its customers, both of which were expressly cited by the Commission in its approval of the Riders.[35]

Q. What has the customer rate impact been for the Capital Riders?

A. The total rate impact on customers has been very reasonable. The following chart of actual average customer bills since 2013 shows that total impact has been approximately $0.80 per month each year to the average residential water customer. The Company thinks that this is a reasonable result.

Chart 1: Average Residential Bill Impact of Approved Riders



IV. CONCLUSION

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[35] *See Order Approving Amended Petition*, p. 10, TPUC Docket No. 13-00130 (Jan. 27, 2016).

Q. Please summarize your conclusions regarding Mr. Dittemore's proposed changes to the Riders.

A. Mr. Dittemore's proposed changes to the riders should be rejected. First, Mr. Dittemore proposes changes to the timing of the Riders calculations that is contrary to TPUC forward-looking ratemaking precedent and introduces significant regulatory lag. This lag cannot be mitigated by the means described by Mr. Dittemore, as his proposals to defer returns are not sound from either an accounting or mathematical basis. Second, Mr. Dittemore seeks to severely constrict the recovery of the Riders through a Rate Base Limiter. This portion of his proposal is not correcting any "defect." Rather, it is a form of double-jeopardy, whereby the Company's rate recovery is at risk from this new calculation as well as the existing, well-functioning Commission earnings test and his additional proposed threat of suspension. Mr. Dittemore's suggestion to completely suspend the riders in any period when the Company earns above authorized is simply undue confiscation. If approved, Mr. Dittemore's proposals would be a significant damper to a successful program, risking system reliability, water loss rates, and diminishing the Company's ability to attract investor capital at reasonable costs, none of which are in the long-term interests of the customer. Lastly, the issues raised by the Consumer Advocate in this proceeding mirror the assertions previously presented to the Commission by the Consumer Advocate in 2013. In fact, Mr. Dittemore's testimony contains near verbatim language from CA Witness Mr. Novak's 2013 testimony in Docket No. 13-00130.

Q. Does this conclude your testimony?

A. Yes.

STATE OF Kentucky)
)
COUNTY OF Fayette)

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

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

Elaine K Chambers
Elaine K. Chambers

Sworn to and subscribed before me
this 26th day of June, 2019.

Sharon Miller
Notary Public

My Commission Expires: 7/25/2020

CERTIFICATE OF SERVICE

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

Daniel Whitaker III
Vance Broemel
Financial Division
Consumer Advocate Unit
Office of the Tennessee Attorney General
P.O. Box 20207
Nashville, TN 37202-0207
Daniel.Whitaker@ag.tn.gov
Vance.Broemel@ag.tn.gov

This the 28th day of June, 2019.

Melvin J. Malone

Tennessee-American Water Company
Actual Utility Plant Placed In-Service
For the Years 2014 through 2018

Capital Rider Eligibility	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
EDI	$62,504	$546,502	$226,417	$408,356	$601,168	$1,844,947
QIIP	5,607,642	5,789,163	12,050,995	10,589,816	5,849,523	39,887,140
SEC	1,153,147	18,029,441	1,795,604	3,805,550	1,690,202	26,473,944
Cap Rider Total	6,823,293	24,365,106	14,073,016	14,803,722	8,140,893	68,206,031
Non-Eligible	8,638,208	4,485,465	3,661,248	2,845,686	5,541,570	25,172,177
Grand Total	$15,461,501	$28,850,571	$17,734,264	$17,649,408	$13,682,463	$93,378,208
	55.87%	15.55%	20.65%	16.12%	40.50%	26.96%

TENNESSEE PUBLIC UTILITY COMMISSION

502 Deaderick Street, 4th Floor
Nashville, Tennessee 37243

October 23, 2017

Melvin J. Malone, Esq.
Butler Snow
150 3rd Avenue South, Suite 1600
Nashville, TN 37201

Re: Docket No. 17-00020 – *Petition of Tennessee-American Water Company for the Reconciliation of the 2017 Capital Riders*

Tariff Filing 2017-0104 - Safety and Environmental Compliance Rider
Tariff Filing 2017-0105 - Qualified Infrastructure Improvement Program Rider
Tariff Filing 2017-0106 - Production Costs and Other Pass-Throughs Rider
Tariff Filing 2017-0107 - Economic Development Investment Program Rider

Dear Mr. Malone:

This is to acknowledge receipt of Tennessee-American Water Company's tariff filings referenced above enclosing revisions to TAWC's Capital Recovery Riders and the PCOP tariff. The filings were received on October 4, 2017, with a proposed effective date of November 2, 2017. It appears that the tariff filings are consistent with the Commission's decision in this matter, as reflected in its Order dated October 12, 2017. Therefore, the tariffs will go into effect on November 2, 2017 as requested by TAWC. Please refer to the above referenced tariff numbers in any correspondence regarding these particular filings.

Sincerely,

Joe Shirley
Director of Utility Audit and Compliance

PM 17-02

Cc: Valoria Armstrong, President
Tennessee-American Water Company
109 Wiehl Street
Chattanooga, TN 37403

BUTLER | SNOW

October 3, 2017

RECEIVED
OCT 04 2017

VIA ELECTRONIC FILING

David Foster, Chief
Utility Division
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

RE: TAWC's CRR and PCOP Tariffs Revisions

Dear Mr. Foster:

Attached please find revisions to TAWC's Capital Recovery Riders and TAWC's PCOP tariffs. The changes are either procedural (*i.e.* properly reflecting the agency's name) or substantively consistent with the deliberations and directives of the agency in TAWC's Capital Recovery Riders and PCOP cases.

An original and four (4) hard copies will follow, along with an extra copy to be file-stamped for our records. Please let us know if you have any questions or concerns or require any additional information.

Respectfully,

BUTLER SNOW LLP

Melvin J. Malone

clw
Attachments
cc: Linda Bridwell, Tennessee-American Water Company
Daniel Whitaker, Assistant Attorney General, Consumer Protection and Advocate Division
Vance Broemel, Assistant Attorney General, Consumer Protection and Advocate Division

The Pinnacle at Symphony Place
150 3rd Avenue South, Suite 1600
Nashville, TN 37201

MELVIN J. MALONE
615.651.6705
melvin.malone@butlersnow.com

T 615.651.6700
F 615.651.6701
www.butlersnow.com

38486804.v1

CLASSIFICATION OF SERVICE

SAFETY AND ENVIRONMENTAL COMPLIANCE – RIDER

1. Applicability

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

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

2. Definitions

For the purposes of this Rider:

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

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

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

"Commission" means the Tennessee Public Utility Commission.

(T) Denotes Change in Text

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

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

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

"Over-Under Collection Adjustment" means the adjustment to SEC for the applicable
(T) coming annual period due to the net amount of over or under collections. . This will include
(T) over-under collections from the annual review period EDI and any remaining balance of the
(T) over-under collection from the prior reconciliation of the EDI.

"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. 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;

(T) Denotes Change in Text

Account 335 – Hydrants;
Account 320 – Water Treatment Equipment, Non-Media;
Account 311 – Pumping Equipment;
Account 303 – Land and Land Rights;
Account 304 – Structures and Improvements;
Account 306 – Lake, River and Other Intakes;
Account 307 – Wells and Springs;
Account 309 – Supply Mains;
Account 310 – Power Generation Equipment
Account 330 – Distribution Reservoirs and Standpipes; and
Account 330003 – Capitalized Tank Painting.

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

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

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

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

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

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

Divided by 1 minus the following:

(T) Denotes Change in Text

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

Divided by Relevant Rate Order Volumetric & Metered Revenue

SEC Percentage Rate

Where:

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

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

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

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

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

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

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

(T) Denotes Change in Text

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

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

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

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

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

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

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

5. Determination of the Annual Reconciliation Factor Percentage Rate

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

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

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

(T) Denotes Change in Text

Plus Earnings Test Adjustment
Plus Interest
Annual Reconciliation Amount

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

Annual Reconciliation Factor Percentage Rate

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

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

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

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

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

Divided by 1 minus the following:

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

Less Total Forecasted SEC Revenue Requirement

Budget-to-Actual Adjustment

(T) Denotes Change in Text

Where:

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

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

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

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

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

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

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

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

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

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

(T) Denotes Change in Text

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 Budgeted SEC Revenue Requirement shall constitute the Over-
(T) Under Collection Adjustment. This adjustment shall include any remaining Over-Under
(T) amount from the prior period reconciliation during the Annual Review Period in addition to
(T) the Over-Under collection amount for the EDI during the Annual Review Period.

(E) Computation of the Earnings Test Adjustment.

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

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

(F) Computation of Interest.

Interest will be computed as follows:

(T) Denotes Change in Text

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

Total Amount Subject to Interest
Interest Rate Multiplied by 50%

Total Interest

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

6. New Base Rates

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

7. Annual SEC Percentage Rate Filing

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

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

(T) Denotes Change in Text

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

8. Annual Reconciliation Filing with the Commission

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

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

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

9. Notice Requirements

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

10. Public Interest Review

(T) Denotes Change in Text

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 Commission, for a reconsideration of whether it remains in the public interest.

(T) Denotes Change in Text

CLASSIFICATION OF SERVICE

ECONOMIC DEVELOPMENT INVESTMENT PROGRAM – RIDER

1. Applicability

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

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

2. Definitions

For the purposes of this Rider:

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

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

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

"Commission" means the Tennessee 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.

(T) Denotes Change in text

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

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

"Over-Under Collection Adjustment" means the adjustment to EDI for the applicable coming annual period due to the net amount of over or under collections. This will include
(T) over-under collections from the annual review period EDI and any remaining balance of the over-under collection from the prior reconciliation of the EDI.

"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

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

Distribution, Production, and Other Infrastructure – Distribution, production, and other infrastructure that may be identified as being for the purpose of economic development.

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;

(T) Denotes Change in text

Account 306 – Lake, River and Other Intakes;
Account 307 – Wells and Springs;
Account 309 – Supply Mains;
Account 310 – Power Generation Equipment;
Account 330 – Distribution Reservoirs and Standpipes; and
Account 330003 – Capitalized Tank Painting.

4. Determination of the Economic Development Investment Program Percentage Rate

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

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

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

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

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

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

(T) Denotes Change in text

Divided by Relevant Rate Order Volumetric & Metered Revenue

EDI Percentage Rate

Where:

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

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

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

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

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

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

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

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

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

(T) Denotes Change in text

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

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

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

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

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

5. Determination of the Annual Reconciliation Factor Percentage Rate

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

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

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

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

Annual Reconciliation Factor Percentage Rate

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

(T) Denotes Change in text

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

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

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

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

Divided by 1 minus the following:

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

Less Total Forecasted EDI Revenue Requirement

Budget-to-Actual Adjustment

Where:

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

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

(T) Denotes Change in text

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

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

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

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

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

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

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

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

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

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

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

(T) Denotes Change in text

ISSUED: **October 3, 2017** **EFFECTIVE: November 2, 2017**

BY:

Valoria V. Armstrong
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

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

The Company will identify and record the total amount of the EDI Collected from Customers for the Annual Review Period. The difference between the Total EDI Collected from Customers and the Total Budgeted EDI Revenue Requirement shall constitute the Over-
(T) Under Collection Adjustment. This adjustment shall include any remaining Over-Under
(T) amount from the prior period reconciliation during the Annual Review Period in addition to
(T) the Over-Under collection amount for the EDI during the Annual Review Period.

(E) Computation of the Earnings Test Adjustment.

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

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

(F) Computation of Interest.

Interest will be computed as follows:

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

Total Amount Subject to Interest
Interest Rate Multiplied by 50%

Total Interest

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

(T) Denotes Change in text

6. New Base Rates

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

7. Annual EDI Percentage Rate Filing

On or before December 1 of each year, the Company shall submit to the Commission 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 Commission may direct.

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

8. Annual Reconciliation Filing with the Commission

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

(T) Denotes Change in text

April 1 of each year and be applied as an adjustment to Customers' bills for the remainder of the calendar year.

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

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

9. Notice Requirements

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

10. Public Interest Review

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

(T) Denotes Change in text

ISSUED: October 3, 2017 **EFFECTIVE: November 2, 2017**

BY:

Valoria V. Armstrong
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

CLASSIFICATION OF SERVICE

PRODUCTION COSTS AND OTHER PASS-THROUGHS ("PCOP") 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 Production Cost and Other Pass-Through ("PCOP") Rider will apply to customers in all service areas.

The above rider will be recomputed annually and will be adjusted to incorporate the Over-Under Collection Adjustment.

2. Definitions

For the purposes of this Rider:

"Adjusted Review Period PCOP Costs" means the Review Period PCOP Costs net of the Over- Under Collection Adjustment.

(T) **"Commission"** means the Tennessee Public Utility Commission

"Base Period PCOP Costs" means the amount of annual expenses of the Company for purchased power expenses, purchased chemical expenses, purchased water expenses, wheeling charges, waste disposal expenses and TPUC inspection fees reflected in the Relevant Rate
(T) Order.

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

"Over-Under Collection Adjustment" means the adjustment to the PCOP Percentage Rate applicable to the coming Review Period for the net amount of over or under collections for the prior Review Period, as adjusted for Interest.

(T) **"Relevant Rate Order"** means the final order of the Commission in the most recent rate case of the
(T) 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.

(T) Denotes Text Change

"Review Period" means the twelve month period on which the Review Period PCOP Costs are calculated.

"Review Period PCOP Costs" means the amount of actual annual expenses of the Company for purchased power expenses, purchased chemical expenses, purchased water expenses,
(T) wheeling charges, waste disposal expenses, and TPUC inspection fees, as adjusted for the
(T) Commission's water loss policies.

3. **General Description**

PCOP allows the Company to recover outside of a rate case its incremental cost for purchased power expenses, purchased chemical expenses, purchased water expenses, wheeling charges, waste
(T) disposal expenses and TPUC inspection fees, as adjusted for the Commission's water loss policies.
(T)
Review Period PCOP Costs are to be separately identifiable on the Company's books and segregated into the following general accounts:

Accounts 510000000 - 51099999 – Purchased Water Expense;
Accounts 51510000 - 51599999 – Purchased Power Expense;
Accounts 51800000 - 51899999 – Purchased Chemical Expense;
Accounts 51110000 - 51115000 – Waste Disposal Expense; and
(T) Account 68545000 – TPUC Inspection Fee.

4. **Determination of the Annual Production Cost and Other Pass-Throughs Percentage**

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

(B) The PCOP Percentage Rate shall be calculated on an annual historical basis as follows:

Base Period PCOP Costs from the Relevant Rate Order
<u>Divided by Relevant Rate Order Sales Volume in 100 Gallons</u>
Base Period PCOP Costs per 100 Gallons

(T) Review Period PCOP Costs Subject to Commission's Water Loss Policies
<u>Plus Over-Under Collection Adjustment</u>
Review Period PCOP Costs Adjusted for Over-Under Collections

(T) Denotes Text Change

Divided by Relevant Rate Order Sales Volume in 100 Gallons
Adjusted Review Period PCOP Costs per 100 Gallons

Incremental Change in PCOP Costs per 100 Gallons
Multiplied by Relevant Rate Order Sales Volumes in 100 Gallons
PCOP Net Deferred Cost
Less Forfeited Discount Rate
Plus Uncollectible Expense Rate
Plus Gross Receipts Tax Rate
Total Deferred PCOP Costs
Divided by Relevant Rate Order Water Sales Revenue
PCOP Percentage Rate

Where:

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

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

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

(C) The total amount to be recovered through the PCOP is the PCOP Percentage Rate.

5. Computation of the Over-Under Collection Adjustment

The Company will identify and record the total amount of the PCOP Collected from Customers under this Rider for the Review Period. The difference between the Total PCOP Collected from Customers for the Review Period and the Total Deferred PCOP Costs authorized for the Review

Period as determined in Section 4, as adjusted for Interest, shall constitute the Over-Under Collection Adjustment.

(A) The Over-Under Collection Adjustment shall be computed as follows:

Total PCOP Costs Collected from Customers for the Review Period
Less Total Deferred PCOP Costs Authorized for the Review Period
Subtotal of Over-Under Collection Adjustment
Plus Interest Adjustment
Total Over-Under Collection Adjustment

(B) Computation of Interest Adjustment.

Interest will be computed as follows:

Subtotal of Over-Under Collection Adjustment
Multiplied by (Interest Rate Multiplied by 50%)Interest Adjustment

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

6. New Base Rates

The PCOP 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 PCOP rider. Thereafter, only the costs of new PCOP incremental costs that have not previously been reflected in the Company's base rates would be reflected in new annual prospective PCOP filings.

7. Annual Filing with the Commission

(T) Within 45 days of the end of the most recently authorized Attrition Year set forth in the Relevant Rate Order, and every twelve months subsequent to the end of that Attrition Year, the Company shall submit to the Commission an annual filing calculating the PCOP Percentage Rate. The annual filing shall be verified by an officer of the Company. The PCOP Percentage Rate shall become effective 30 days after the annual filing is submitted to the Commission and shall be applied as an adjustment to Customers' bills for the twelve month period following the effective date of the PCOP Percentage Rate. The Company shall file one single adjustment each year to include both the new percentage rate based on the annual production expenses and the reconciliation of the Over-Under Collections Adjustment.

(T) Denotes New Text

The Company will include in its annual filing the following information at a minimum: (a) a schedule of all Review Period PCOP Costs, including any related general ledger support, (b) actual billing determinants by month as used in the computation of the PCOP Collected from Customers, (c) computation of the PCOP Percentage Rate, including the detailed calculation of each component, (d) a schedule of any proposed prior period adjustments, (e) 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, (f) the cumulative amount of PCOP Costs collected from customers under this Rider, and (g) such other (T) information as the Commission may direct.

The Company will simultaneously copy the Consumer Advocate on this annual filing.

8. Notice Requirements

(T) The Company will file revised tariffs for Commission approval upon 30 days' notice to implement a decrement or an increment to the PCOP Percentage Rate. Along with the tariff filing, the Company will include a copy of the computation of the new PCOP Percentage Rate. The Company will simultaneously copy the Consumer Advocate on this tariff 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 (T) law and the rules and regulations of the Commission, for a reconsideration of whether it remains in the public interest.

CLASSIFICATION OF SERVICE

QUALIFIED INFRASTRUCTURE IMPROVEMENT PROGRAM – RIDER

1. Applicability

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

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

2. Definitions

For the purposes of this Rider:

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

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

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

"Commission" means the Tennessee Public Utility Commission.

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

(T) Denotes change in text

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

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

"Over-Under Collection Adjustment" means the adjustment to QIIP for the applicable
(T) coming annual period due to the net amount of over or under collections. This will include
(T) over-under collections from the annual review period EDI and any remaining balance of the
(T) over-under collection from the prior reconciliation of the EDI.

"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. 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.

(T) Denotes change in text

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. Determination of the Qualified Infrastructure Improvement Program Percentage Rate

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

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

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

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

Allowed Forecasted QIIP Pre-Tax Return
Plus Depreciation Expense

(T) Denotes change in text

Plus Property Taxes
Plus Franchise Taxes
Subtotal Forecasted 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 QIIP Revenue Requirement

Divided by Relevant Rate Order Volumetric & Metered Revenue

QIIP Percentage Rate

Where:

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

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

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

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

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

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

(T) Denotes change in text

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

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

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

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

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

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

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

5. <u>Determination of the Annual Reconciliation Factor Percentage Rate</u>

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

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

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

(T) Denotes change in text

Plus Earnings Test Adjustment
Plus Interest
Annual Reconciliation Amount

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

Annual Reconciliation Factor Percentage Rate

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

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

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

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

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

Divided by 1 minus the following:

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

Less Total Forecasted QIIP Revenue Requirement

Budget-to-Actual Adjustment

Where:

(T) Denotes change in text

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

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

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

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

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

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

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

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

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

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

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

(T) Denotes change in text

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

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

The Company will identify and record the total amount of the QIIP Collected from Customers for the Annual Review Period. The difference between the Total QIIP Collected from Customers and the Total Budgeted QIIP Revenue Requirement shall constitute the
(T) Over-Under Collection Adjustment. . This adjustment shall include any remaining Over-
(T) Under amount from the prior period reconciliation during the Annual Review Period in
(T) addition to the Over-Under collection amount for the EDI during the Annual Review Period.

(E) Computation of the Earnings Test Adjustment.

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

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

(F) Computation of Interest.

Interest will be computed as follows:

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

Total Amount Subject to Interest
Interest Rate Multiplied by 50%

Total Interest

(T) Denotes change in text

ISSUED: **October 3, 2017** **EFFECTIVE: November 2, 2017**

BY:

Valoria V. Armstrong
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

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

6. New Base Rates

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

7. Annual QIIP Percentage Rate Filing

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

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

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

8. Annual Reconciliation Filing with the Commission

On or before March 1 of each year, the Company shall submit to the Commission 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

(T) Denotes change in text

April 1 of each year and be applied as an adjustment to Customers' bills for the remainder of the calendar year.

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

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

9. Notice Requirements

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

10. Public Interest Review

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

(T) Denotes change in text