

STATE OF TENNESSEE

Office of the Attorney General



**JONATHAN SKRMETTI**  
ATTORNEY GENERAL AND REPORTER

P.O. BOX 20207, NASHVILLE, TN 37202  
TELEPHONE (615) 741-3491  
FACSIMILE (615) 741-2009

October 26, 2023

Hon. Herbert H. Hilliard, Chairman  
c/o Ectory Lawless, Docket Room Manager  
Tennessee Public Utility Commission  
502 Deaderick Street, 4<sup>th</sup> Floor  
Nashville, TN 37243

Electronically Filed in TPUC Docket Room  
on October 26, 2023 at 10:41 a.m.

Re: *Docket to Investigate and Consider Potential Issues and Modifications to  
the Collective Capital Riders of Tennessee American Water Company,*  
TPUC Docket No. 19-00103

Dear Chairman Hilliard:

Attached for filing in the above-captioned matter are a Stipulation and Settlement Agreement (the "Settlement Agreement"), Pre-filed Direct Testimony supporting the Settlement Agreement, and Tennessee-American Water Company's ("TAWC" or the "Company") proposed Incremental Capital Recovery Rider Tariff. As the Tennessee Public Utility Commission ("TPUC" or "Commission") is aware, the parties in this matter, the Consumer Advocate Division of the Office of the Attorney General ("Consumer Advocate" or "CAD"), Tennessee Public Utility Commission Party Staff ("Party Staff"), the City of Chattanooga (the "City" or "CoC"), and TAWC (hereinafter referred to collectively as the "Parties"), have worked cooperatively and in good faith on the issues raised in Docket No. 19-00103 for quite some time. The Parties' investment in cooperative dialogue and reasonable compromise has produced the Settlement Agreement.

At the conclusion of TAWC's Capital Recovery Riders case in TPUC Docket No. 18-00120, the Commission directed the convening of a new matter to consider and address potential issues and proposed modifications to improve, to make more transparent, and to streamline the Company's existing Capital Recovery Riders. As further outlined in the Settlement Agreement, the Parties have agreed to resolve the issues presented in this docket and are persuaded that the resolution presented will result in an improved, more transparent, and efficiently streamlined alternative regulatory mechanism. The Settlement Agreement and the Pre-filed Direct Testimony of TAWC Witness Robert C. Lane outline and explain the underlying basis of the resolutions among the Parties, as well as summarize the components of TAWC's revised alternative regulatory

mechanism – the proposed Incremental Capital Recovery Rider Tariff – that will, if approved, replace its existing Capital Recovery Riders.

As evidenced in the Pre-filed Direct Testimony, the Parties agree that the Settlement Agreement and the proposed Incremental Capital Recovery Rider Tariff serve the public interest. Hence, the Parties request that the Settlement Agreement and the proposed Incremental Capital Recovery Rider Tariff be timely approved as submitted by the Parties.

As required, the original plus four (4) hard copies will be mailed to your office. Should you have any questions concerning this filing, or require additional information, please do not hesitate to contact me.

Sincerely,



Karen H. Stachowski  
Deputy Attorney General

cc: Melvin Malone, Esq.  
Ryan McGehee, Esq.  
Rick Hitchcock, Esq.  
Robert C. Lane, TAWC

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION  
AT NASHVILLE, TENNESSEE**

**IN RE:**

**DOCKET TO INVESTIGATE AND  
CONSIDER POTENTIAL ISSUES AND  
MODIFICATIONS TO THE COLLECTIVE  
CAPITAL RIDERS OF TENNESSEE-  
AMERICAN WATER COMPANY**

)  
)  
)  
)  
)  
)  
)

**Docket No. 19-00103**

---

**STIPULATION AND SETTLEMENT AGREEMENT**

---

Jointly comes the Consumer Advocate Division of the Office of the Attorney General (the "Consumer Advocate"), Tennessee Public Utility Commission Party Staff ("Party Staff"), the City of Chattanooga, and Tennessee-American Water Company ("TAWC" or the "Company") and respectfully submit this Stipulation and Settlement Agreement ("Agreement") to the Tennessee Public Utility Commission ("TPUC" or the "Commission"). Subject to TPUC's approval, the Consumer Advocate, Party Staff, the City of Chattanooga, and TAWC (hereinafter, individually "Party" and collectively "Parties") stipulate and agree as follows:

**I. BACKGROUND**

1. TAWC, a Tennessee corporation authorized to conduct a public utility business in the State of Tennessee, is a public utility as defined in Tenn. Code Ann. § 65-4-101. TAWC provides residential, commercial, industrial, and municipal water service, including public and private fire protection service, to Chattanooga and surrounding areas, including approximately 80,600 customers, that are subject to the jurisdiction of the Commission pursuant to Chapter 4 and Chapter 5 of Title 65 of the Tennessee Code Annotated. The rates for the Company's North Georgia customers are not regulated by the Public Service Commission of the State of Georgia but are instead regulated by this Commission.

2. TAWC is a wholly owned subsidiary of American Water Works Company, Inc., which is the largest publicly traded water and wastewater utility company in the United States, providing water and wastewater services to sixteen (16) million people in thirty-five (35) states.

3. TAWC's principal place of business is located at 109 Wiehl Street, Chattanooga, Tennessee 37406.

## **II. SETTLEMENT TERMS**

4. The Parties to this Agreement have undertaken discussions to resolve this case. As a result of the information obtained during the discussions between the Parties, and for the purpose of avoiding further litigation and resolving this matter upon mutually acceptable terms, the Parties have reached this Agreement. Subject to TPUC's approval, the Parties have agreed to the settlement terms set forth below in the following sections: I. Capital Riders; II. Return on Equity ("ROE") Test; III. Components of the Return on Equity ("ROE") Test Calculation; IV. Schedules to be submitted; and V. General Terms.

### **A. Capital Riders**

5. Starting with the 2024 filing of the capital riders for qualifying investments made through December 31, 2023, the capital rider revenue requirement will be computed annually. The annual filing shall be filed with the Commission no later than March 1 of each year. The definition of investments eligible for recovery (subject to the conditions identified in this Agreement) under the Qualified Infrastructure Improvement Rider, the Economic Development Investment Program Rider, and the Safety and Environmental Compliance Program Rider remain unchanged from that initially adopted in TRA Docket No. 13-00130.

The rider revenue requirement in the current period will be calculated based on the comparison between the current eligible amounts and the authorized amounts already included in

rates from the prior period to arrive at the incremental capital rider revenue requirement ("ICRRR").

Characteristics of this calculation shall include:

- a. Previously authorized capital rider revenue is not at risk and shall be considered the "legacy" capital rider surcharge. Specifically, all capital rider revenue prior to January 1, 2023 will be considered "legacy" capital rider surcharge, which is based upon capital investments through December 31, 2022;
- b. Nothing in this Agreement would limit the ability of the parties to modify the rate design associated with the "legacy" capital rider surcharge. The rate design for the "legacy" capital riders will be the same as the rate design for the ICRRR unless/until otherwise modified pursuant to a Commission order;
- c. The parties agree to support a new docket to evaluate the reasonableness of the rate design associated with (1) the "legacy" capital rider surcharge and (2) the ICRRR;
- d. There would be a true-up of the recovery of newly authorized ICRRR. Any over- or under-recovery of the revenue requirement would be excluded from the Return on Equity test described below; and
- e. The ICRRR surcharge would stay in effect for exactly twelve months, no more and no less. At the end of the twelve-month period the rates would revert to zero. Rates will be effective on the same day each year and implemented as interim rates until an order is received from the Commission. A true-up of interim rates for over or under collection would be done if the Commission Order differs from rates that were implemented.

#### **B. Return on Equity ("ROE") Test**

6. The ROE test will determine any limitation that shall apply to the recovery of the ICRRR. An earnings deficiency exists if the adjusted Net Income (as described further below) divided by the calculated TAWC equity (as described further below) is less than the most recently authorized ROE, currently set at 10% per TPUC 12-00049, during the test period, while an earnings surplus exists if the adjusted Net Income divided by TAWC equity is greater than authorized ROE in effect, currently 10%, during the test period.

Recovery of the ICRRR shall be subject to the following limitations:

- a. If an earnings deficiency exists in the test period and it is greater than the ICRRR, there would be no ICRRR recovery limitation;

- b. If an earnings deficiency exists in the test period and it is less than the ICRRR, the ICRRR would be limited to the amount of the earnings deficiency; and
- c. If any earnings surplus exists in the test period, there would be no ICRRR for that single year.

**C. Components of the Return on Equity ("ROE") Test Calculation**

**i. Rate Base**

7. Rate Base shall be determined using the thirteen-month average (December through December) balances for TAWC during the test period. The cash working capital balance included in Rate Base shall be determined using the lead-lag days established in TRA Docket No. 12-00049 with updated cost of service balances for the test period. The balance of Material and Supplies shall be determined using appropriate accounts and corresponding balances reflected in the Annual Review Period, without regard to the accounts/balances relied upon in TRA Docket No. 12-00049. Rate Base shall exclude any capitalized incentive compensation costs allocated to TAWC from its affiliate, Service Company, as well as one hundred percent of long-term incentive compensation costs for TAWC employees and fifty percent of short-term incentive compensation costs. Nothing in this Agreement will limit any Party's ability to determine if additional adjustments to Rate Base are appropriate, nor to verify the accuracy of the balances identified by TAWC.

**ii. Net Income**

8. TAWC's book Net Income shall be the starting point in determining the Adjusted Net Income. The adjusted Net Income is computed by adjusting book Net Income, including those adjustments historically used to adjust operating income. The adjustments to Net Income shall include, but not be limited to, those adjustments supported by the Company in its TPUC Docket No. 22-00021 reconciliation docket, as well as the reduction in operating expenses associated with power and chemical costs resulting from excess water loss beyond that authorized by the Commission.

However, the items comprising the adjustments to book net income shall not necessarily be limited to those in the initial or existing TAWC ICRRR calculation. Nothing in this Agreement limits any Party's ability to support additional adjustments to adjusted Net Income or to verify the accuracy of the adjustments identified by TAWC.

9. The book Net Income of the Company shall be adjusted to include the deferred costs, including depreciation and property taxes, as an expense on a net of tax basis as if such costs had been charged to expense in the study period for purposes of computing the adjusted Net Income. Deferral of depreciation and property taxes on qualifying incremental capital rider investment and carrying costs are allowed, as discussed below. However, since these deferred costs are considered a study period expense for calculating the ROE test, the amortization of these costs shall be charged to a non-operating expense in the following period and would not impact subsequent ROE test calculations. The ROE test calculation will include deferred costs as an expense, when they are incurred as an adjustment to book income. However, these deferred costs should not be charged to an above-the-line expense a second time upon amortization in a subsequent period.

10. For purposes of the ROE test, operating revenue shall be reduced for the collections related to the newly authorized capital rider revenue in a given period, on a net of tax basis. For example, assume based upon 2023 actual results, \$500,000 of additional capital rider surcharge revenue were authorized and collection began in late 2024. The 2024 operating revenue for purposes of calculating the 2024 ROE test would be reduced for the 2024 ICRRR collections which related to 2023 results on a net of tax basis. This would apply to any reconciliation amount for "legacy" capital rider collections as well.

### **iii. Capital-Structure Issues**

11. TAWC shall provide the thirteen-month average of short-term and long-term debt balances from the books of TAWC during the study period and provide the weighted average cost of both types of debt. The calculation of the respective debt balances and weighted average cost rates will include debt issue, premium, and/or discount expenses, consistent with standard treatment within a base rate case. TAWC shall separately identify interest expense recorded on TAWC's books, with a synchronized interest expense calculation computed in a base rate proceeding whereby the thirteen-month average rate base value is multiplied by the weighted-average cost of debt. Material differences between the two methods of determining interest expense should be reconciled and explained by the Company. The synchronized interest expense should be used within the ROE test calculation, absent material differences between the two methods. TAWC will provide detailed schedules showing the determination of the per book balances for long-term and short-term debt and the respective calculations of the weighted average cost of debt. The Company shall describe the source of all debt balances identified on its books. Balances utilized in the synchronized interest calculation would be utilized in the calculation and a reconciliation will be provided to the 3.06 report balances. Nothing in this Agreement shall limit the Parties from evaluating the reasonableness of the amount or cost of debt attributed to TAWC operations.

12. The level of TAWC's equity investment within the ROE test shall be determined by subtracting the per book basis of TAWC's thirteen-month average balances of long-term and short-term debt from the thirteen-month average balance of the rate base. This residual amount is the level of equity used in the calculation of the ROE test.

### **iv. Return on Equity**

13. The return on equity shall be determined by dividing the adjusted Net Income by



the level of equity investment. For purposes of the ICRRR, the ROE test revenue deficiency or excess shall be computed on a pre-tax basis.

#### **v. Regulatory Lag**

14. The regulatory lag will be computed on each ICRRR component from the mid-point of the study period through the mid-point of the collection period. The regulatory lag shall be applied to the pre-tax rate of return adopted in TRA Docket 12-00049. The lag period may be adjusted based on procedural schedules, effective dates, and/or other circumstances, upon application to the Commission.

#### **vi. Accounting**

15. The Company is authorized to defer post in service depreciation, property tax and carrying costs associated with debt expense of ICRRR eligible investments. The Company will notify the Commission and parties to this Agreement if it intends to accrue or defer any revenue or expense items resulting from this mechanism within 90 days of the effective order date. Any accrued or deferred accounting entries resulting from this mechanism shall be made to unique accounts such that the transactions may be easily identified.

#### **D. Filed Schedules**

16. Each reconciliation filing shall include the following:
- a. Detailed attachments as have previously been submitted, inclusive of detail tabs, similar to those previously submitted in TAWC capital rider reconciliation filings; see the following files submitted in TPUC Docket No. 23-00018;
    - (1) TAW 2022 Capital Rider Recon;
    - (2) TAW 2022 Workpaper Billing Determinants;
    - (3) TAW 2022 CapRider Cost Detail;
    - (4) Petitioner's Exhibit 2022 SCEP -- KAS; and
    - (5) TAW 2022 Workpaper Earnings Test.
  - b. Detailed attachments created pursuant to Settlement Discussions identified as 19-00103 Workbook Exhibit inclusive of all tabs (attached to this Agreement).

#### **E. General Terms**

17. All pre-filed discovery (formal and informal), testimony, and exhibits of the Parties will be introduced into evidence without objection, and the Parties waive their right to cross-examine all witnesses with respect to all such pre-filed testimony.

18. After the filing of this Agreement, the Parties agree to support this Agreement before the Commission and in any hearing, proposed order, or brief conducted or filed in this matter. The provisions of this Agreement are agreements reached in compromise and solely for the purpose of settlement. The provisions in this Agreement do not necessarily reflect the positions asserted by any Party. None of the Parties to this Agreement shall be deemed to have acquiesced in or agreed to any ratemaking or accounting methodology or procedural principle.

19. This Agreement, which is the product of negotiations and substantial communication and compromise between the Parties, is just and reasonable and in the public interest.

20. This Agreement shall not have any precedential effect in any future proceeding or be binding on any of the Parties in this or any other jurisdiction except to the limited extent necessary to enforcement and implementation of the provisions hereof.

21. The Parties agree and request the Commission to order that the settlement of any issue pursuant to this Agreement shall not be cited by the Parties or any other entity as binding precedent in any other proceeding before the Commission, or any court, state or federal, except to the limited extent necessary to implement the provisions hereof and for the limited purpose of enforcement should it become necessary.

22. The terms of this Agreement have resulted from negotiations between the signatories, and the terms hereof are interdependent. The Parties jointly recommend that the Commission issue an order adopting this Agreement in its entirety without modification.

23. If the Commission does not accept the Agreement in whole, the Parties are not bound by any position or term set forth in this Agreement. In the event that the Commission does not approve this Agreement in its entirety, each of the signatories to this Agreement retains the right to terminate this Agreement by giving notice of the exercise of such right within 15 business days of the date of such action by the Commission; provided, however, that the signatories to this Agreement could, by unanimous consent, elect to modify this Agreement to address any modification required by, or issues raised by, the Commission within the same time frame. Should this Agreement terminate, it would be considered void and have no binding or precedential effect, and the signatories to this Agreement would reserve their rights to fully participate in all relevant proceedings notwithstanding their agreement to the terms of this Agreement.

24. By agreeing to this Agreement, no Party waives any right to continue litigating this matter should this Agreement not be approved by the Commission in whole or in part.

25. No provision of this Agreement shall be deemed an admission of any Party. No provision of this Agreement shall be deemed a waiver of any position asserted by a Party in this matter or any other docket.

26. Except as expressly noted herein, the acceptance of this Agreement by the Attorney General shall not be deemed approval by the Attorney General of any of TAWC's acts or practices.

27. The Consumer Advocate's agreement to this Agreement is expressly premised upon the truthfulness, accuracy, and completeness of the information provided by TAWC to TPUC and the Consumer Advocate throughout the course of this Docket, which information was relied upon by the Consumer Advocate in negotiating and agreeing to the terms and conditions of this Agreement.

28. The Parties agree that any member of the Party Staff in the current docket may serve the Commission in an advisory capacity in subsequent capital riders dockets.

29. This Agreement shall be governed by and construed under the laws of the State of Tennessee, notwithstanding conflicts of law provisions.

30. This Agreement contains the entire agreement and understanding among the Parties with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, inducements, and conditions, express or implied, oral or written, of any nature whatsoever with respect to the subject matter hereof.

31. The signatories to this Agreement warrant that they have informed, advised, and otherwise consulted with the Parties for whom they sign regarding the contents and significance of this Agreement, and, based on those communications, the signatories represent that they are authorized to execute this Agreement on behalf of the Parties.

The foregoing is agreed and stipulated to this 25 day of October, 2023.

*[signature page follows – remainder of page intentionally left blank]*

Stipulation and Settlement Agreement  
Tennessee Public Utility Commission Docket No. 19-00103  
Tennessee American Water Company, Inc. Signature Page

TENNESSEE AMERICAN WATER COMPANY, INC.



**BY:** \_\_\_\_\_  
MELVIN J. MALONE (BPR #013874)  
Butler Snow LLP  
The Pinnacle at Symphony Place  
150 3rd Avenue South, Suite 1600  
Nashville, TN 37201  
Email: [melvin.malone@butlersnow.com](mailto:melvin.malone@butlersnow.com)  
*Counsel for Tennessee American Water Company*

*[additional signature page follows – remainder of page intentionally left blank]*

Stipulation and Settlement Agreement  
Tennessee Public Utility Commission Docket No. 19-00103  
Tennessee Public Utility Commission, Party Staff Signature Page

TENNESSEE PUBLIC UTILITY COMMISSION, PARTY STAFF

BY: Ryan McGehee *by permission*  
RYAN MCGEHEE (BPR #025559) *KIS*  
Senior Counsel  
Tennessee Public Utility Commission  
4<sup>TH</sup> Floor  
502 Deaderick St.  
Nashville, TN 37243  
Email: [Ryan.McGehee@tn.gov](mailto:Ryan.McGehee@tn.gov)  
*Counsel for TPUC Party Staff*

*[additional signature page follows – remainder of page intentionally left blank]*

Stipulation and Settlement Agreement  
Tennessee Public Utility Commission Docket No. 19-00103  
City of Chattanooga Signature Page

CITY OF CHATTANOOGA

BY: Phil Noblett by FSA w/permission  
PHILLIP NOBLETT (BPR #10074)  
City Attorney  
300 City Hall Annex  
East 11<sup>th</sup> Street  
Chattanooga, Tennessee 37243  
Email: [pnoblett@chattanooga.gov](mailto:pnoblett@chattanooga.gov)

CHAMBLISS, BAHNER & STOPHEL, P.C.

  
BY: \_\_\_\_\_  
FREDERICK L. HITCHCOCK (BPR #005960)  
CATHY DORVIL (BPR#034040)  
Suite 1700, Liberty Tower  
605 Chestnut Street  
Chattanooga, Tennessee 37450  
Email: [rhitchcock@chamblisslaw.com](mailto:rhitchcock@chamblisslaw.com)  
Email: [cdorvil@chamblisslaw.com](mailto:cdorvil@chamblisslaw.com)

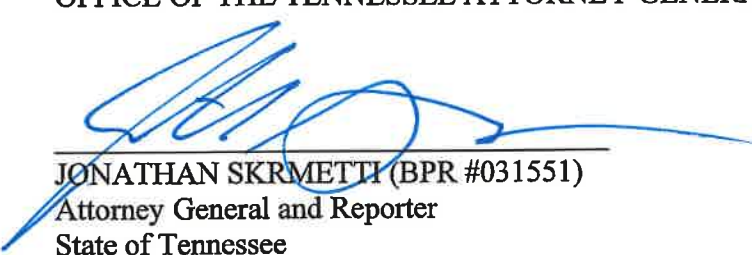
*[additional signature page follows – remainder of page intentionally left blank]*

Stipulation and Settlement Agreement  
Tennessee Public Utility Commission Docket No. 19-00103  
Attorney General's Signature Page

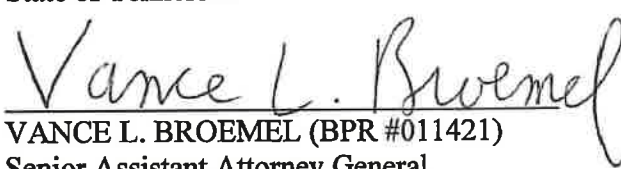
CONSUMER ADVOCATE DIVISION

**BY:**

OFFICE OF THE TENNESSEE ATTORNEY GENERAL



JONATHAN SKRMETTI (BPR #031551)  
Attorney General and Reporter  
State of Tennessee



VANCE L. BROEMEL (BPR #011421)  
Senior Assistant Attorney General  
KAREN H. STACHOWSKI (BPR #019607)  
Deputy Attorney General  
Office of the Tennessee Attorney General  
Consumer Advocate Division  
P.O. Box 20207  
Nashville, Tennessee 37202-0207  
Phone: (615) 741-2370  
Email: [vance.broemel@ag.tn.gov](mailto:vance.broemel@ag.tn.gov)  
Email: [karen.stachowski@ag.tn.gov](mailto:karen.stachowski@ag.tn.gov)



Consumer Advocate & TAWC Proposed  
Calculation of Return on Equity Test  
For the Twelve Months Ending December 31, 20XX  
Docket No. 2X-00000

Line No.		Source
1	<b>20XX ICRRR</b>	20XX ICRRR Calc
2	Calculation of Adjusted Net Income	
3	Book Net Income	TAWC 20XX PSC 3.06 Report
4	Adjustments to Book Income	
5	Deduct Deferred Depreciation, Property Tax and Debt Carrying Cost	Adjustments Per TAWC 20XX Earnings Test
6	Deduct New ICRRR Revenue	Exhibit
7	Add Adjustment to reflect effective Federal Rate	" "
8	Add Income Tax Rate (debt assigned to parent)	" "
9	Add Incentive Compensation	" "
10	Add Lobbying Expenses	" "
11	Add Lobbying - Salary	" "
12	Add Deferral of Operating Costs - Main Break	" "
13	Add Excess Production Costs > 15% Adjustment	" "
14	Add Amortization of prior years' deferred Depreciation, Property Taxes and Debt Carrying Costs.	" "
15	Reserved for Adjustment to Book Income	" "
16	Adjustments to Net Income (Lines 5 thru 15)	
17	<b>Adjusted Net Income (Line 3+16)</b>	
18	Calculation of Equity	
19	TAWC 13-Month Avg Rate Base	Per TAWC 20XX Earnings Test Exhibit
20	Less: 13-Month Avg Debt:	
21	Short-Term Debt	Taken from monthly TN Statements submitted
22	Long-Term Debt	to TPUC monthly - Excludes Term Loan of
23	Equity Financed Rate Base * (Line 19-21-22)	TAWC 20XX PSC 3.06 Report
24	Earned Return on Equity (Line 17/23)	
25	Less: Authorized Return	10.00%
26	Excess Return on Equity (Line 24- 25)	#DIV/0!
27	Multiplied by Equity Balance (Line 26 * 23)	#DIV/0!
28	Tax Gross-up Factor (See Line 36 below)	1.3538
29	Revenue Excess - Subtotal	#DIV/0!
30	Multiplied by: Reciprocal Factor - Revenue Taxes at 3.19%	103.30%
31	Revenue Excess	#DIV/0!
32	# Under the new procedure, depreciation expense on qualifying capital rider expenditures would be deferred. However, in this case, depreciation expense was not deferred and was recorded to expense under normal accounting conventions. Therefore, since depreciation expense has already been subtracted in arriving at book Net Income, there is no reason to subtract it in arriving at Adjusted Net Income.	
33	Conclusion: Since earned return on equity exceeds 10%, there would be no recovery of the ICRRR.	
34	<b>Capital Structure per TN Statements @ 12/00</b>	
	Total Stockholders Equity	\$ -
	Long-Term Debt	\$ -
	Short-Term Debt	\$ -
	Total	\$ -
35	<b>Capital Structure per TN Statements @ 12/00</b>	
	Total Stockholders Equity	\$ -
	Long-Term Debt	\$ -
	Short-Term Debt	\$ -
	Total	\$ -
36	Calculation of Tax Gross-Up Factor	
	Taxable Income	100%
	Less: State Exise Tax Rate	6.50%
	Income Subject to Federal Tax	93.50%
	Federal Tax Rate	21%
	Effective Federal Tax	19.64%
	Plus: State Exise Tax Rate	6.50%
	Composite Tax Rate	26.14%
	Reciprocal Tax Rate	73.87%
	1 / Reciprocal Tax Rate	1.3538
	Tax Gross-Up Factor	1.3538

Tennessee American Water Company  
Capital Recovery Rider ("CRR")  
CRR Revenue Deficiency  
For the Twelve Months Ending December 31, 20XX

Line No.	Description	Source	20XX	Reference	Notes
<b>Section A: Return</b>					
Determining Capital Rider Rate Base and Rate of Return					
1	TAWC Rate Base		\$ -	2X-0000X	eliminates regulatory lag from balance
2	Eligible Capital Rider Rate Base		\$ -	2X-0000X	eliminates regulatory lag (13 month average)
3	Plus:				
4	Authorized Rate Base	Rate Order 12-00049	\$ 132,015,472	12-00049	
5	Acquisition Rate Base		\$ 0		
6	Eligible Capital Rider Rate Base Plus	Line 2 + Line 4 + Line 5	\$ 132,015,472		
7	Lower of the Rate Base Calculation	Lower of Line 1 or Line 6	\$ 0		Capped by the company's current rate base
8	Eligible Rate Base	Line 7 Less Lines 4 and 5	\$ (132,015,472)		
9	Less: Previously Recovered CR Rate Base		\$ -	2X-0000X	
10	Incremental CRR Investment	Line 8 Less Line 9	\$ (132,015,472)		
11	Pre-Tax Return	12-00049	8.45%		
12	Pre-Tax Revenue Deficiency on ICR Investment	Lines 10 * 11	\$ (11,157,225)		
13	Lag Weighted Return Factor - Pre-Tax	Regulatory Lag Factor	1.1056		Regulatory Lag Factor
14	Return on Rate Base Revenue Deficiency w/ Regulatory Lag	Line 12 * Line 13	\$ (12,535,909)		
<b>Section B: Depreciation</b>					
Determining Depreciation Expense					
15	TAWC Depreciation Expense	PSC-3.06	\$ -	PSC-3.06 Statement Support - Depreciation and COR only, exclude amortization	
16	Minus:				
17	Authorized Depreciation Expense	Rate Order 12-00049	\$ 6,090,861	12-00049 Authorized Depreciation Only	
18	Acquisition Depreciation Expense		\$ -		
19	Legacy CRR Depreciation Recovery		\$ -	2X-0000X - Previously recovered CRR depreciation expense	
20	Incremental Depreciation Expense Cap (Depreciation Expense Unrecovered in either base rates or Capital Rider)	Line 15 Less Lines 17, 18, 19	\$ (6,090,861)		
21	Incremental CR Depreciation Expense		\$ -	2X-0000X Incremental Depreciation Expense on CR Expenditures (difference between current and prior CRR authorized)	
22	Lower of the Depr Expense on Incremental CR expenditures or Unrecovered Depreciation Expense	Lower of Line 20 or 21	\$ (6,090,861)		Capped by the Incremental Depr. of the entire company
23	Lag Weighted Return Factor - Pre-Tax	Regulatory Lag Factor	1.1056		Regulatory Lag Factor
24	ICRRR Depreciation Expense w/ Regulatory Lag	Line 22 * 23	\$ (6,726,819)		
<b>Section C: Property and Franchise Tax Expense</b>					
Determining Property & Franchise Tax Expense					
25	TAWC Property tax	PSC-3.06	\$ -	Actual Property Tax Expense - taken Taxes Other than Income	
26	TAWC Franchise tax		\$ -	Actual Franchise Tax Expense - taken from Taxes Other than Income	
27	Minus:				
28	Authorized Property & Franchise Tax	Rate Order 12-00049	\$ 3,166,568		
29	Acquisition Property tax		\$ -		
30	Acquisition Franchise Tax		\$ -		
31	Legacy CR Property Tax Recovery		\$ -	2X-0000X - Previously recovered CR property & franchise tax expense	
32	Incremental Property & Franchise Tax (Unrecovered in either base rates or capital rider)	Lines 25 + 26 Less Lines 28, 29, 30, 31	\$ (3,166,568)		
33	20XX Incremental Property and Franchise Taxes	Property & Franchise Tax Calc	\$ -	20XX Incremental CR Property and Franchise Taxes	
34	Eligible Capital Rider Franchise Tax				
35	Lower of unrecovered actual or CR property and franchise tax expense	Lower of Line 32 or 33	\$ (3,166,568)		Capped by the Incremental Property & Franchise Tax Expense of the entire company
36	Lag Weighted Return Factor - Pre-Tax	Regulatory Lag Factor	1.1056		Regulatory Lag Factor
37	ICRRR Property and Franchise Tax w Regulatory Lag	Line 35 * 36	\$ (3,501,094)		
38	Total ICRRR Revenue Requirement	Lines 14 + 24 + 37	\$ (22,571,322)		
39	CRR Revenue Deficiency	Line 38	\$ (22,571,322)		
40	Revenue Taxes Reciprocal Factor		103.30%		
41	Revenues with Revenue Taxes		\$ (29,315,314)		
42	Over/(Under) Collection from Prior Period		\$ -		
43	After Tax ICRRR		\$ (29,315,314)		

(a) Authorized in Docket #12-00049 Exhibit Schedule 1 from the Stipulation and Settlement Agreement

44

Tennessee American Water Company  
Docket No. 19-00103  
Legacy Capital Recovery Rider

Number	Description	2022			2022			Total
		Company Totals		QIIP	Company Totals		SEC	
1	Additions Subject to Rider:	\$91,148,832	\$8,824,903		\$40,089,619			\$140,063,354
2	Plus: Cost of Removal less Salvage	18,626,758	2,021		4,322,504			22,951,282
3	Less: Contributions in Aid to Construction (CIAC)	2,314,600	273,854		0			2,588,454
4	Less: Deferred Income Taxes	9,972,679	740,433		5,024,195			15,737,307
5	Less: Accumulated Depreciation	7,827,555	289,656		5,304,689			13,421,900
6	Net Investment Supplied Additions:	\$89,660,756	\$7,522,981		\$34,083,239			\$131,266,975
7								
8	Pre-Tax Authorized Rate of Return:	8.45%	8.45%		8.45%			8.45%
9	Pre-Tax Return on Additions:	\$7,577,636	\$635,801		\$2,880,529			\$11,093,966
10								
11	Depreciation Expense on Additions:	2,369,867	126,510		1,227,139			3,723,517
12								
13	Property and Franchise Taxes Associated:	1,142,581	119,274		507,395			1,769,250
14								
15	Revenues:	11,090,084	881,585		4,615,063			16,586,732
16								
17	Revenue Taxes	3.19%	3.19%		3.19%			3.19%
18	Capital Riders Revenues with Revenue Taxes	11,455,633	910,644		4,767,184			17,133,461
19								
20	APP Revenue Reduction	(28,436)	(2,106)		(15,454)			(45,996)
21								
22	Total Capital Riders Revenues with Revenue Taxes & APP	\$11,427,198	\$908,538		\$4,751,730			\$17,087,465
23								
24	Service Charge and Volumetric Revenues as Per Docket No. 12-00049	\$47,073,724	\$47,073,724		\$47,073,724			\$47,073,724
25								
26	Percentage to Apply to Bill:	24.28%	1.93%		10.09%			36.30%

A/ Docket No. 23-00018 Supplemental Testimony of Robert C. Lane Exhibit (07.21.2023)

Tennessee American Water Company  
Qualified Infrastructure Improvement Program Rider (QIIP)  
Economic Development Investment Rider (EDI)  
Safety and Environmental Compliance Rider (SEC)  
Reconciliation of the Calculation of Revenue Requirement  
As of 12/31/2022  
Docket No. 23-00018

Line Number	Description	Qualified Infrastructure Investment Program QIIP				Economic Development Investment EDI				Safety and Environmental Compliance SEC				Total	
		Average YTD 12/31/2022		Variance		Average YTD 12/31/2022		Variance		Average YTD 12/31/2022		Variance		Average YTD 12/31/2022	
		Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
1	Additions Subject to Rider:	\$91,148,832	\$91,349,637	(\$200,805)	\$8,824,903	\$8,827,277	\$8,827,277	(\$2,374)	\$40,089,619	\$40,156,378	\$40,089,619	(\$106,759)	\$140,053,354	\$140,373,292	(\$309,938)
2	Plus: Cost of Removal less Salvage	18,626,758	18,054,675	572,083	2,021	2,159	2,159	(138)	4,322,504	4,339,593	4,322,504	(17,089)	22,951,282	22,396,427	554,855
3	Less: Contributions in Aid to Construction (CIAC)	2,314,600	2,313,483	1,117	273,854	243,483	243,483	30,371	0	0	0	0	2,588,454	2,556,966	31,488
4	Less: Deferred Income Taxes	9,972,679	9,897,666	75,013	740,433	837,834	837,834	(97,401)	5,024,195	5,048,961	5,024,195	(24,766)	15,737,307	15,784,461	(47,154)
5	Less: Accumulated Depreciation	7,827,555	7,829,695	(2,140)	289,656	290,580	290,580	(924)	5,304,689	5,268,757	5,304,689	35,932	13,421,900	13,389,032	32,868
6	Net Investment Supplied Additions:	\$89,660,756	\$89,363,468	\$297,288	\$7,522,981	\$7,457,539	\$7,457,539	\$65,441	\$34,083,239	\$34,218,253	\$34,083,239	(\$135,014)	\$131,466,975	\$131,039,260	\$227,715
7															
8	Pre-Tax Authorized Rate of Return:	8.45%	8.45%		8.45%	8.45%	8.45%		8.45%	8.45%	8.45%		8.45%	8.45%	
9	Pre-Tax Return on Additions:	\$7,577,636	\$7,592,511	\$25,125	\$635,801	\$630,270	\$630,270	\$5,531	\$2,880,529	\$2,891,939	\$2,880,529	(\$11,411)	\$11,093,968	\$11,074,721	\$19,245
10															
11	Depreciation Expense on Additions:	2,369,867	2,374,148	(4,281)	126,510	127,617	127,617	(1,107)	1,227,139	1,159,003	1,227,139	68,136	3,723,517	3,660,789	62,748
12															
13	Property and Franchise Taxes Associated:	1,142,581	1,134,479	8,101	119,274	118,717	118,717	557	507,395	507,916	507,395	(521)	1,769,250	1,761,112	8,138
14															
15	Revenues:	11,090,084	11,061,139	28,945	881,585	876,604	876,604	4,981	4,615,063	4,558,858	4,615,063	56,205	16,586,732	16,496,601	90,131
16															
17	Revenue Taxes	3.19%	3.19%		3.19%	3.19%	3.19%		3.19%	3.19%	3.19%		3.19%	3.19%	
18	Capital Riders Revenues with Revenue Taxes	11,455,633	11,425,734	29,899	910,644	905,498	905,498	5,146	4,767,184	4,709,127	4,767,184	58,057	17,133,461	17,040,359	93,102
19															
20	APP Revenue Reduction	(28,436)	(28,436)		(2,106)	(2,106)	(2,106)		(15,454)	(15,454)	(15,454)		(45,996)	(45,996)	
21															
22	Total Capital Riders Revenues with Revenue Taxes & APP	\$11,427,198	\$11,397,298	\$29,899	\$908,538	\$903,392	\$903,392	\$5,146	\$4,751,730	\$4,693,672	\$4,751,730	\$58,057	\$17,087,465	\$16,994,363	\$93,102
23															
24															
25	Actual Capital Riders Revenues Billed	\$10,000,076				\$962,192				\$4,078,323				\$15,040,591	
26															
27	(Over)/Under Capital Riders Revenue Billings	1,397,222				(58,799)				615,349				1,953,772	
28	Budget to Actual Adjustment	29,899				5,146				58,057				93,102	
29	2021 Reconciliation Amount	(366,744)				315,516				(840,771)				(892,000)	
30	Earnings Test Adjustment	(856,574)				(82,418)				(349,336)				(1,288,328)	
31	2022 Settlement Adjustment	(240,268)				(23,118)				(97,988)				(361,374)	
32	Interest (Prime - 7.75%)	7,897				6,953				(20,022)				(5,121)	
33															
34	Reconciliation Amount	(\$28,568)				\$163,278				(\$634,711)				(\$500,000)	
35															
36	Authorized Capital Riders Revenues (140/365th)	\$18,055,675				\$18,055,675				\$18,055,675				\$18,055,675	
37															
38	Current Reconciliation Factor Percentage	-0.16%				0.90%				-3.52%				-2.78%	
39															

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

\*Taxes - From Docket #22-00072 which was approved on 1/31/2023.

### Determination of Short-Term Debt

### Determination of Long-Term Debt

2020 December	87,678,938	2019 December	88,678,938	2018 December	87,688,938	2017 December	72,399,093
2021 January	87,680,280	2020 January	83,672,463	2019 January	77,688,745	2018 January	72,400,286
2021 February	87,681,623	2020 February	83,673,783	2019 February	77,689,976	2018 February	72,401,480
2021 March	87,682,966	2020 March	83,675,103	2019 March	77,691,208	2018 March	53,402,673
2021 April	87,684,309	2020 April	87,668,196	2019 April	77,692,440	2018 April	53,403,867
2021 May	102,642,558	2020 May	87,669,538	2019 May	83,661,904	2018 May	53,405,060
2021 June	102,644,131	2020 June	87,670,881	2019 June	83,663,224	2018 June	53,406,254
2021 July	102,645,593	2020 July	87,672,224	2019 July	83,664,543	2018 July	53,407,448
2021 August	102,647,056	2020 August	87,673,567	2019 August	83,665,863	2018 August	58,405,941
2021 September	102,648,518	2020 September	87,674,909	2019 September	83,667,183	2018 September	77,683,118
2021 October	102,649,980	2020 October	87,676,252	2019 October	83,668,503	2018 October	77,685,050
2021 November	102,651,442	2020 November	87,677,595	2019 November	83,669,823	2018 November	77,686,281
2021 December	102,652,904	2020 December	87,678,938	2019 December	83,671,143	2018 December	77,687,513
Thirteen Month Average	94,648,938		94,648,938		94,648,938		94,648,938

Calculation of Regulatory Lag  
Proposal  
As of 12/31/2022

Assumptions	
Study Period = Calendar Year 2021	2021
Mid-Point of Study Period: July 1, 2021	7/1/2021
Filing Date: March 1, 2022	3/1/2022
TPUC Processing Period: 30 days	30
TAWC Rate Effective Date: April 1, 2022	4/1/2022
Mid-Point of Collection Period: December 1, 2022	10/1/2022
TAWC Rate Termination Date: March, 2023	5/31/2023
Number of Months from Mid-Point of Study Period through Mid-Point of Collection Period	15
Divided by Months Per Year	12
Regulatory Lag Annualization Factor	1.25
Pre-Tax Rate of Return per Most Recent Rate Case	8.45%
Lag Weighted Return	10.56%
Lag Weighted Return Factor	1.1056

Tennessee American Water Company  
Capital Recovery Rider ("CRR")  
CRR Revenue Conversion Factor & Revenue Taxes

PreTax ROR Conv. Factor

State Excise Tax	6.5%	0.065	From Settlement agreement Docket No. 12-00049
Balance (1.0-.065)		0.935	
Fed Inc. Tax (.935*.21)	21.0%	0.19635	From Settlement agreement Docket No. 12-00049
Combined Tax Rate (.065 + .19635)		0.26135	
Balance (1.0-.26135)		0.73865	

PreTax ROR Conv. Factor 1.35982116

Revenue Taxes

Uncol. Exp	1.057%	From Settlement Agreement - Does not include forfeited discounts
TRA Fee		From House Bill 191
GR Tax	3.000%	From Settlement Agreement
Forfeited Discounts	-0.966%	From Settlement Agreement
Total Rev. Taxes	<u>3.1910%</u>	

Projection of Annual Revenues from Last Rate Order: \$ 47,073,724 From Settlement agreement Docket No. 12-00049

Property tax per Settlement Agreement	\$ 2,757,695	From Settlement agreement Docket No. 12-00049
Property tax base per Settlement Agreement	NNNNNNNNNN	From Settlement agreement Docket No. 12-00049
Property tax rate (Property tax divided by tax base)	<u>1.1011%</u>	

Franchise Fee rate per \$100 of Net Investment	<u>25.000%</u>	From Settlement agreement Docket No. 12-00049
Franchise Fee % per \$1 of Net Investment	<u>0.2500%</u>	

### Abstract

Rate of Return - 2000	2000
Authorized Rate of Return	7.22% (Schedule 1 Exhibit to Settlement Agreement Docket No. 12-00209)
Authorized Adjusted Net Operating Income	\$0
Actual 2000 Adjusted Net Operating Income	\$0
Allow or (Disallow) Variation	\$0
Over- or Under- Tax Rate	4.2518252
Revenue Supplement	\$0
20-00000 Gaming Tax Rev Req	\$0

Line #	Description	A	B
		For the 12 Months Ending 11/30/20XX	**NRW Limited 12 Mos Ending 11/20XX (Column A, Lines 2 and 3 x Line 18 Recoverable %)
2	Purchased Power**	\$ -	#DIV/0!
3	Chemicals**	\$ -	#DIV/0!
6			
7	Total	\$0	#DIV/0!
8			
9			
10	Water Sales in 100 Gallons	0	0
11			
12	Cost per 100 Gallons (Line 7 / Line 10)	#DIV/0!	#DIV/0!
Recoverable % for Production Costs		For the 12 Months Ending 11/30/20XX	
13	Water Sales	0	
14	System Delivery	0	
15	Non-Revenue-Unaccounted for Water % [1 - (Line 13 / Line 14)]	#DIV/0!	
16	Non-Revenue-Unaccounted for Water % Authorized	15.0%	
17	Variance (If Line 15 > Line 16 then Line 15 - Line 16)	#DIV/0!	
18	Recoverable % (1 - Line 17)	#DIV/0!	

\*\*Non-Revenue Unaccounted for Water is only applied to purchased power and chemicals.



**TENNESSEE-AMERICAN WATER COMPANY, INC.**

**DOCKET NO. 19-00103**

**DIRECT TESTIMONY**

**OF**

**ROBERT C. LANE**

**ON**

**DOCKET TO INVESTIGATE AND CONSIDER POTENTIAL ISSUES AND  
MODIFICATIONS TO THE COLLECTIVE CAPITAL RIDERS OF TENNESSEE  
AMERICAN WATER COMPANY**

**SPONSORING PETITIONER'S EXHIBITS:**

**PETITIONER'S EXHIBIT – STIPULATION AGREEMENT – RCL  
PETITIONER'S EXHIBIT – PROPOSED CAPITAL RIDERS TARRIF – RCL**

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

2   A.     My name is Robert (Bob) C. Lane, and my business address is 109 Wiehl Street,  
3           Chattanooga, Tennessee 37403.

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

5   A.     I am employed by American Water Works Service Company (“Service Company”).  
6           Service Company is a wholly owned subsidiary of American Water Works Company, Inc.  
7           (“American Water”) that provides services to American Water’s subsidiaries, including  
8           Tennessee-American Water Company (“TAWC” or “Company”). My current role is Sr.  
9           Manager, Rates and Regulatory for TAWC.

10  **Q.     HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**  
11  **TENNESSEE PUBLIC UTILITY COMMISSION?**

12  A.     Yes, I have submitted testimony before the Tennessee Public Utility Commission (“TPUC”  
13           or the “Commission”) in Docket Nos. 22-00021 (2022 CRRs Recon), 22-00072 (2022  
14           Annual CRRs), 23-00007 (2023 PCOP), and 23-00018 (2023 CRRs Recon).

15  **Q.     WHAT ARE YOUR DUTIES AS SENIOR MANAGER RATES AND**  
16  **REGULATORY FOR TENNESSEE AMERICAN WATER?**

17  A.     I am responsible for managing and coordinating regulatory issues in Tennessee, and I am  
18           the rates and regulatory lead for TAWC. My primary responsibilities encompass the  
19           coordination of regulatory issues in Tennessee. This includes coordinating all reports and  
20           filings, working with regulatory staff to make sure that all information produced addresses  
21           the requirements or requests, and overseeing the preparation and filing of rate cases and  
22           tariff changes. I work with senior management of TAWC. I am also responsible for keeping

1       abreast of changes in regulation, and trends in public utility regulations across the United  
2       States that may impact TAWC.

3       **Q.     WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

4       A.     On behalf of the parties, the purpose of my testimony is to introduce and support a  
5       Settlement Agreement and Proposed Incremental Capital Recovery Rider Tariff in TPUC  
6       Docket No. 19-00103, both of which memorialize the compromise resolutions reached by  
7       the parties to this case. The parties, the Consumer Advocate Division of the Office of the  
8       Attorney General (“Consumer Advocate” or “CAD”), Tennessee Public Utility  
9       Commission Party Staff (“Party Staff”), the City of Chattanooga (the “City” or CoC”), and  
10      Tennessee-American Water Company (hereinafter referred to collectively as "the Parties"),  
11      worked cooperatively and in good faith on the issues raised in Docket No. 19-00103 for an  
12      extended period of time.

13      **Q.     PLEASE DESCRIBE THE PROCEDURAL HISTORY OF THIS PROCEEDING?**

14      A.     In TPUC Docket No. 18-00120, the Commission ordered that a new docket be opened to  
15      address potential issues and proposed modifications to improve, make more transparent, or  
16      streamline the collective Capital Riders.<sup>1</sup> This led to the Commission convening TPUC  
17      Docket No. 19-00103.

18      **Q.     WOULD YOU COMMENT BRIEFLY ON HOW THE PARTIES WORKED TO**  
19      **RESOLVE THE ISSUES PENDING IN THIS DOCKET?**

20      A.     The cooperative discussions regarding the issues raised and presented in TPUC Docket No.  
21      19-00103 began in late 2019. Since that time, the Parties have worked diligently and in

---

<sup>1</sup> In re: Petition of Tennessee-American Water Company Regarding the 2019 Investment and Related Expenses Under the Qualified Infrastructure Investment Program Rider, the Economic Development Investment rider and the Safety and Environmental Compliance Rider, Docket No. 18-00120, *Order Approving Petition as Amended*, pp. 21-22 (Nov. 8, 2019).

1 good faith to address the concerns raised by the Parties with respect to TAWC's existing  
2 Capital Recovery Rider Tariffs, which were first approved by the in TPUC Docket No. 13-  
3 00130. The Parties submitted written summary status reports on the ongoing discussions  
4 in this case to the Commission on February 10, 2022 and May 27, 2022. Building on the  
5 progress evidenced in those reports, the Parties continued to exchange information, meet  
6 regularly and remain engaged on the issues. As a result of the information exchanged and  
7 the cooperative discussions among the Parties, and for the purpose of avoiding further  
8 litigation and resolving this matter upon mutually acceptable terms, the Parties have  
9 resolved this case as set forth in the Settlement Agreement and the Proposed Incremental  
10 Capital Recovery Rider Tariff, subject to TPUC's approval. The Settlement Agreement is  
11 organized and set forth in the following four (4) sections:

12 I. Capital Riders;

13 II. Return on Equity ("ROE") Test;

14 III. Components of the Return on Equity ("ROE") Test Calculation;

15 IV. Schedules to be submitted; and

16 V. General Terms.

17 **Q. WHAT ARE THE KEY PROVISIONS OF THE STIPULATION AND**  
18 **SETTLEMENT AGREEMENT?**

19 A. After numerous settlement negotiations and informal technical meetings, the Parties were  
20 able to agree to modifications to the Company's existing Capital Recovery Riders to  
21 address certain concerns raised or presented by the Parties. The proposed Incremental  
22 Capital Recovery Rider Tariff, as supported by the Stipulation and Settlement Agreement

1 to which it is attached, includes the following design changes to the existing Capital  
2 Recovery Riders.

- 3 • Eliminates the current two-filing-per-year mechanism in favor of a single annual filing.
- 4 • Going forward, the revenue requirement for the Capital Recovery Riders will be  
5 calculated as the Incremental Capital Rider Revenue Requirement (“ICRRR”), which  
6 will be calculated by comparing the current amount of eligible capital additions and the  
7 authorized amounts already included in rates from the prior period.
- 8 • Addresses the concern that the sum of the Rate Base in base rates plus the capital rider  
9 Rate Base shall not exceed the actual rate base of the Company.
- 10 • A Return on Equity Test will be used to determine whether any limitation shall be  
11 applied to the Recovery of the ICRRR.
- 12 • Maintains TPUC’s long standing precedent of reducing regulatory lag by utilizing  
13 deferred accounting treatment for costs associated with new capital investment.
- 14 • Maintains the Approved Methodologies, as originally adopted in TPUC Docket No.  
15 13-00130 (and subsequently modified in dockets filed under its annual mechanism),  
16 except as necessary to implement these new provisions.
- 17 • Provides a provision for transitioning from the current Capital Recovery Riders Tariffs.

18 **Q. DO THE PARTIES AGREE ON THE OUTCOME WITH RESPECT TO THE**  
19 **ISSUES RAISED IN DOCKET NO. 19-00103?**

20 A. For the purposes of compromise and settlement, the Parties agree with and support the  
21 resolution of the issues as memorialized in the Settlement Agreement and the Proposed  
22 Incremental Capital Recovery Rider Tariff. While I will not attempt to speak on behalf of  
23 each party, I think it is fair to say that neither the Settlement Agreement nor the Proposed

1 Incremental Capital Recovery Rider Tariff are intended to capture or express the various  
2 and often differing positions of the Parties on the issues raised in Docket No. 19-00103.  
3 Rather, the purpose of both the Settlement Agreement and the Proposed Incremental  
4 Capital Recovery Rider Tariff is to present, as unanimously agreed to by the Parties, the  
5 compromise resolution of these issues in TPUC Docket No. 19-00103.

6 **Q. IS THE SETTLEMENT IN THE PUBLIC INTEREST?**

7 A. Yes. The Parties agree that the settlement is in the public interest. The Parties represent an  
8 array of interests and have reached a settlement on a much-revised capital recovery rider  
9 program for TAWC that each Party agrees is in the public interest.

10 **Q. IN YOUR OPINION WHAT KEY ASPECTS OF THE SETTLEMENT ARE IN**  
11 **THE PUBLIC INTEREST.**

12 A. Taken as a whole, the settlement is in the public interest. Each of the components of the  
13 Settlement Agreement and agreed upon Incremental Capital Recovery Tariff are  
14 interdependent and as a whole are in the public interest. Specifically, this settlement  
15 provides a regulatory framework that fairly balances the consumers' interest and that of  
16 TAWC. This framework, in conjunction with other aspects of the Commission regulation  
17 of TAWC, and consistent with the permissible alternative regulatory mechanisms  
18 permitted under Tennessee law, supports timely investment in critical infrastructure  
19 dedicated to public use by the Company to serve its customers. At the same time, it affords  
20 the utility, TAWC, the opportunity to earn a reasonable return on invested capital while  
21 allowing regulatory review and approval of utility rates. Like the outgoing Capital  
22 Recovery Rider Tariffs this settlement replaces on a going forward basis, the agreed upon  
23 Incremental Capital Recovery Rider Tariff has the potential to defer costly and resource

1 intensive litigation of general rate cases. By adjusting rates annually, subject to an ROE  
2 test, the agreed upon Incremental Capital Recovery Rider Tariff seeks to avoid rate shock  
3 to customers while assuring that rates remain affordable. This settlement and the agreed  
4 upon tariffs provide an efficient, transparent, and reasonable framework for the  
5 Commission to exercise its mandate to ensure clean, safe, and reliable water service at  
6 reasonable rates.

7 **Q. PLEASE DESCRIBE THE CAPITAL RECOVERY RIDERS' SECTION OF THE**  
8 **SETTLEMENT AGREEMENT AND PROPOSED INCREMENTAL CAPITAL**  
9 **RECOVERY RIDER TARIFF.**

10 A. Starting with the 2024 filing of the Incremental Capital Recovery Rider for qualifying  
11 investments made through December 31, 2023, the ICRRR will be computed annually. The  
12 definition of investments eligible for recovery (subject to the conditions identified in this  
13 Agreement) under the Qualified Infrastructure Improvement Rider, the Economic  
14 Development Investment Program Rider, and the Safety and Environmental Compliance  
15 Program Rider remain unchanged from that initially adopted in TPUC Docket No. 13-  
16 00130.

17 The rider revenue requirement in the test period will be calculated based on the  
18 comparison between the current eligible amounts and the authorized amounts already  
19 included in rates from the prior period to arrive at the ICRRR.

20 Characteristics of this calculation shall include:

- 21 a. Previously authorized capital rider revenue is not at risk and shall be  
22 considered the "legacy" capital rider surcharge. Specifically, all capital rider  
23 revenue prior to January 1, 2023, will be considered "legacy" capital rider  
24 surcharge, which is based upon capital investments through December 31,  
25 2022;

- b. Nothing in this Agreement would limit the ability of the parties to modify the rate design associated with the “legacy” capital rider surcharge. The rate design for the “legacy” capital riders will be the same as the rate design for the ICRRR unless/until otherwise modified pursuant to a Commission order;
- c. The parties agree to support a new docket to evaluate the reasonableness of the rate design associated with (1) the “legacy” capital rider surcharge and (2) the ICRRR;
- d. There would be a true-up of the recovery of newly authorized ICRRR. Any over- or under-recovery of the revenue requirement would be excluded from the Return on Equity test described below; and
- e. The ICRRR surcharge would stay in effect for exactly twelve months, no more and no less. At the end of the twelve-month period the ICRRR rates would revert to zero. Rates will be effective on the same day each year and implemented as interim rates until an order is received from the Commission. A true-up of interim rates for over or under collection would be done if the Commission Order differs from rates that were implemented.

**Q. IN WHAT WAY DOES THIS PROPOSED INCREMENTAL CAPITAL RECOVERY RIDER TARIFF DIFFER FROM THE OUTGOING CAPITAL RECOVERY RIDER TARIFFS.**

A. The calculation of the Capital Recovery Riders under the existing and outgoing mechanism is based on a forward-looking test year based on planned capital additions that is reconciled in the following year based on actual costs of capital placed in service and actual rider revenues recovered. However, the Proposed Incremental Capital Recovery Rider Tariff is a historic test that reviews actual costs and investments and does require a reconciliation.

#### **I. Return on Equity (“ROE”) Test**

**Q. TURNING NOW TO THE SECOND SECTION OF THE SETTLEMENT AGREEMENT, PLEASE DESCRIBE THE RETURN ON EQUITY “ROE” TEST.**

A. The ROE test will determine any limitation that shall apply to the recovery of the ICRRR. An earnings deficiency exists if the adjusted Net Income divided by the calculated TAWC equity is less than the most recently authorized ROE, currently set at 10% per TPUC



1 Docket No. 12-00049 during the test period, while an earnings surplus exists if the adjusted  
2 Net Income divided by TAWC equity is greater than authorized ROE in effect, currently  
3 10% during the test period.

4 Recovery of the ICRRR shall be subject to the following limitations:

- 5 a. If an earnings deficiency exists in the test period and it is greater than the  
6 ICRRR, there would be no ICRRR recovery limitation;
- 7 b. If an earnings deficiency exists in the test period and it is less than the ICRRR,  
8 the ICRRR would be limited to the amount of the earnings deficiency; and
- 9 c. If any earnings surplus exists in the test period, there would be no ICRRR for  
10 that single year.

11 **Q. WHAT ARE THE COMPONENTS OF THE RETURN ON EQUITY TEST**  
12 **CALCULATION?**

13 A. The first component is the calculation of Rate Base. Rate Base will be determined using  
14 the 13-month average, December through December, for TAWC during the test period.  
15 The Cash Working Capital balance included in Rate Base shall be determined using the  
16 lead-lag days established in TPUC Docket No. 12-00049 with updated cost of service  
17 balances for the test period. The balance of Material and Supplies, and other working  
18 capital components shall be determined using appropriate accounts and corresponding  
19 balances reflected in the test period, without regard to the accounts/balances relied upon in  
20 TPUC Docket No. 12-00049. Rate Base shall exclude any capitalized incentive  
21 compensation costs allocated to TAWC from its affiliate Service Company, as well as one  
22 hundred percent of long-term incentive compensation costs for TAWC employees and fifty  
23 percent of short-term incentive compensation costs.

24 Next, the Net Income component is calculated. TAWC's book Net Income shall be  
25 the starting point in determining the Adjusted Net Income component of the ROE test. The  
26 adjusted Net Income is computed by adjusting book Net Income, including those

1 adjustments historically used to adjust operating income. The historically used adjustments  
2 to Net Income shall include, but not be limited to, those adjustments supported by the  
3 Company in its TPUC Docket No. 22-00021 Capital Recovery Rider Reconciliation  
4 docket, as well as the reduction in operating expenses associated with power and chemical  
5 costs resulting from excess water loss beyond that authorized by the Commission.  
6 However, the items comprising the adjustments to book Net Income shall not necessarily  
7 be limited to those in the initial or existing TAWC ICRRR calculation. Nothing in this  
8 Settlement Agreement limits any Party's ability to support additional adjustments to  
9 adjusted Net Income or to verify the accuracy of the adjustments identified by TAWC.

10 The book Net Income of the Company shall be adjusted to include the deferred  
11 depreciation and property taxes as an expense on a net of tax basis as if such costs had been  
12 charged to expense in the test period for purposes of computing the Adjusted Net Income.  
13 Deferral of depreciation and property taxes and carrying costs are allowed. However, since  
14 these deferred costs are considered a test period expense for calculating the ROE test, the  
15 amortization of these costs shall be charged to a non-operating expense in the following  
16 period and would not impact subsequent ROE test calculations. The ROE test calculation  
17 will include deferred costs as an expense, when they are incurred as an adjustment to book  
18 income. However, these deferred costs should not be charged to an above-the-line expense  
19 a second time upon amortization in a subsequent period.

20 For purposes of the ROE test, operating revenue shall be reduced for the collections  
21 related to the newly authorized capital rider revenue in a given period, on a net of tax basis.  
22 For example, assume based upon 2023 actual results, \$500,000 of additional capital rider  
23 surcharge revenue were authorized and collection began in late 2024. The 2024 operating

1 revenue for purposes of calculating the 2024 ROE test would be reduced for the 2024  
2 ICRRR collections which related to 2023 results on a net of tax basis. This would apply to  
3 any reconciliation amount for “legacy” capital rider collections as well.

4 **Q. PLEASE DESCRIBE THE CAPITAL STRUCTURE ISSUES COMPONENT OF**  
5 **THE SETTLEMENT AGREEMENT.**

6 A. TAWC shall provide the thirteen-month average of short-term and long-term debt balances  
7 from the books of TAWC during the test period and provide the weighted average cost of  
8 both types of debt. The calculation of the respective debt balances and weighted average  
9 cost rates will include debt issue, premium, and/or discount expenses, consistent with  
10 standard treatment within a base rate case. TAWC shall separately identify interest expense  
11 recorded on TAWC’s books, with a synchronized interest expense calculation computed  
12 in a base rate proceeding whereby the thirteen-month average Rate Base value is multiplied  
13 by the weighted-average cost of debt. Material differences between the two methods of  
14 determining interest expense should be reconciled and explained by the Company. The  
15 synchronized interest expense should be used within the ROE test calculation, absent  
16 material differences between the two methods. TAWC will provide detailed schedules  
17 showing the determination of the per book balances for long-term and short-term debt and  
18 the respective calculations of the weighted average cost of debt. The Company shall  
19 describe the source of all debt balances identified on its books. Balances utilized in the  
20 synchronized interest calculation would be utilized in the calculation and a reconciliation  
21 will be provided to the 3.06 report balances. The level of TAWC’s equity investment within  
22 the ROE test shall be determined by subtracting the per book basis of TAWC’s thirteen-  
23 month average balances of long-term and short-term debt from the thirteen-month average

1 balance of the Rate Base. This residual amount is the level of equity used in the calculation  
2 of the ROE test.

3 **Q. WHAT IS THE NEXT STEP IN CALCULATING THE ROE FOR THE ROE**  
4 **TEST?**

5 A. The return on equity shall be determined by dividing the Adjusted Net Income by the level  
6 of equity investment. For purposes of the ICRRR, the ROE test revenue deficiency or  
7 excess shall be computed on a pre-tax basis.

8 **Q. HOW WILL THE REGULATORY LAG FOR EACH ICRRR COMPONENT BE**  
9 **CALCULATED?**

10 A. The regulatory lag will be computed on each ICRRR component from the mid-point of the  
11 test period through the mid-point of the collection period. The regulatory lag shall be  
12 applied to the pre-tax rate of return adopted in TPUC Docket No. 12-00049. The lag period  
13 may be adjusted based on procedural schedules, effective dates, and/or other  
14 circumstances, upon application to the Commission.

15 **Q. ARE ACCOUNTING ISSUES ASSOCIATED WITH DEFERRAL OR ACCRUAL**  
16 **OF EXPENSES OR REVENUES ADDRESSED?**

17 A. Yes. The Company is authorized to defer depreciation, property tax and carrying costs  
18 associated with debt expense of ICRRR eligible investments. The Company will notify the  
19 Commission and Parties to this Settlement Agreement if it intends to accrue or defer any  
20 revenue or expense items resulting from this mechanism within 90 days of the effective  
21 order date. Any accrued or deferred accounting entries resulting from this mechanism shall  
22 be made to unique accounts such that the transactions may be easily identified. In addition,

how any deferred expenses is treated is addressed in the settlement agreement addressing the calculation of net earnings as part of the ROE test.

## II. Filed Schedules

**Q. DOES THE SETTLEMENT AGREEMENT ADDRESS WHICH SCHEDULES MUST BE FILED WITH THE PETITION SEEKING AN ICRRR?**

A. Yes. Each reconciliation filing shall include the following: Detailed attachments as have previously been submitted, inclusive of detail tabs, similar to those previously submitted in TAWC capital rider reconciliation filings; see the following files submitted in TPUC Docket No. 23-00018; including:

- (1) TAW 2022 Capital Rider Recon;
- (2) TAW 2022 Workpaper Billing Determinants;
- (3) TAW 2022 CapRider Cost Detail;
- (4) Petitioner's Exhibit 2022 SCEP – KAS; and
- (5) TAW 2022 Workpaper Earnings Test.

In addition, the Company shall file detailed attachments created pursuant to Settlement Discussions identified as 19-00103 Workbook Exhibit inclusive of all tabs.

**Q. ARE THERE OTHER TERMS TO THE SETTLEMENT AGREEMENT?**

A. Yes. The section of the Settlement Agreement entitled “General Terms” covers several terms agreed to by the Parties. There are several General Terms to the Settlement Agreement and each is out lined in Section V. General Terms of the Settlement Agreement.

**Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE SETTLEMENT AGREEMENT AND PROPOSED TARIFFS?**

A. I recommend that the Commission approve the Settlement Agreement and the Proposed Incremental Capital Recovery Rider Tariff agreed to and submitted by the Parties.

**Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

1     A.     Yes.

STATE OF Tennessee )  
 )  
COUNTY OF Hamilton )

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

He 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, his testimony would be as set forth in his pre-filed testimony in this matter.



Robert C. Lane

Sworn to and subscribed before me  
this 26 day of October, 2023.

Kathryn Robinson  
Notary Public

My Commission Expires: 10/20/2024



**CLASSIFICATION OF  
SERVICE****SUMMARY OF RIDERS****1. Applicability**

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, the Legacy Capital Recovery Riders, Incremental Capital Recovery Rider (“ICR”), and Production Costs and Other Pass-Throughs Rider (“PCOP”) will apply to customers in all approved service areas.

**2. The Percentage of Riders, Reconciliation and Offsets**

For the Riders defined in the tariffs:

Legacy Capital Recovery Riders	36.30%
<u>Incremental Capital Recovery Rider</u>	<u>xx.xx%</u>
Total of Legacy and Incremental Capital Recovery Riders	xx.xx%
Reconciliation Rate (expires December 31, 2023)	-2.78%
Offset to Legacy and ICR Riders for TCJA Savings	-4.32%
Offset to Legacy and ICR Riders for Excess ADIT	-0.23%
PCOP	2.13%

(D) Indicates Decrease

(I) Indicates Increase

---

**ISSUED:****EFFECTIVE:****BY:**

---

**Grant A. Evitts  
PRESIDENT**

---

**109 Wiehl Street  
Chattanooga, Tennessee 37403**



**CLASSIFICATION OF  
SERVICE****DETAIL OF LEGACY RIDERS****1. Applicability**

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Legacy Qualified Infrastructure Improvement Program ("QIIP") Rider, a Legacy Economic Development Investment Program Rider ("EDI"), and a Legacy Safety and Environmental Compliance Program Rider (SEC"), collectively the Legacy Capital Recovery Riders, will apply to customers in all approved service areas.

The Legacy Capital Recovery Riders were established by Commission Order in TPUC Docket No. 23-00018.

**2. The Percentage of Legacy Riders**

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

For the Riders defined in the tariffs:

Legacy QIIP	24.28%
Legacy EDI	1.93%
<u>Legacy SEC</u>	<u>10.09%</u>
Total of Legacy Capital Recovery Riders	36.30%

---

**ISSUED:****EFFECTIVE:****BY:**

---

**Grant A. Evitts  
PRESIDENT**

---

**109 Wiehl Street  
Chattanooga, Tennessee 37403**

---

**CLASSIFICATION OF SERVICE****INCREMENTAL CAPITAL RIDER****1. Applicability**

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, an Incremental Capital Rider (“ICR”) will apply to customers in all Approved Service Areas.

The above rider will be computed and reconciled annually within a single filing.

**2. Definitions**

For the purposes of this Rider:

“**Annual Filing Date**” shall be the date the Company will make its annual calculation of the ICR Percentage Rate for the following twelve-month period. The Annual Filing Date shall be no later than March 1 of each year.

“**Approved Service Areas**” means service areas authorized by the Commission to have the Incremental Capital Rider charges applied.

“**Annual Review Period**” means the calendar twelve-month period (January through December) of the prior year.

“**Commission**” means the Tennessee Public Utility Commission.

“**Consumer Advocate**” means the Consumer Advocate Unit in the Financial Division of the Office of the Attorney General.

“**Return on Equity (ROE) Test**” means the return on equity test that shall be used to determine any limitation that shall apply to the recovery of the ICR.

“**Eligible Rate Base**” means the amount of the Incremental Capital Rider eligible rate base not otherwise included in current base rates.

“**Legacy Capital Riders**” means all capital rider investment made prior to January 1, 2023 from the Qualified Infrastructure Improvement Program (“QIIP”), Economic Development Investment (“EDI”), and Safety and Environmental Compliance Riders (“SEC”). Referred to

---

**ISSUED:****EFFECTIVE:****BY:**

---

**Grant A. Evitts**  
**PRESIDENT**

---

**109 Wiehl Street**  
**Chattanooga, Tennessee 37403**

as “**Previously Recovered CR Rate Base**” in the Incremental Capital Rider Revenue Requirement calculation listed below. The Legacy Capital Riders percentages were established by Commission Order in Docket No. 23-00018.

“**New matter**” refers to any issue, adjustment, and/or ambiguity in or for any account, method of accounting or estimation, or ratemaking topic that would directly or indirectly affect the Annual Incremental Capital Rider filing for which there is no explicit prior determination by the Commission regarding the Company.

“**Relevant Rate Order**” is defined as the methodologies approved and adopted by the Commission in Docket Nos. 12-00049, 13-00130, 19-00103, any subsequent general rate case, 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, or as modified following a determination of a New Matter (defined in part2).

### 3. General Description

- (A) The ICR allows the Company to recover outside of a base rate case its qualifying incremental non-revenue producing plant infrastructure investment costs, with such recovery limited to the lower of the ICRRR necessary to allow the Company to earn its authorized return on equity, or its actual incremental ICRRR. . Starting with the 2024 filing for investments made through December 31, 2023, the annual Incremental Capital Rider Revenue Requirement (“ICRRR”) will be calculated using the Eligible Rate Base less the amount recovered in the Legacy Capital Riders rates.
- (B) Investments eligible for recovery under the ICR are subject to the same requirements initially adopted in TRA Docket No. 13-00130 for the Qualified Infrastructure Improvement Program (“QIIP), Economic Development Investment (“EDI”), and Safety and Environmental Compliance (“SEC”) Riders.
- (C) Insert general description for incremental investments related to QIIP from current tariff.
- (D) Insert general description for incremental investments related to EDI from current tariff.
- (E) Insert general description for incremental investments related to SEC from current tariff.
- (F) Investments eligible for recovery under the ICR are subject to the conditions established by Commission Order in TPUC Docket No. 19-00103.
- (G) An annual return on equity test will determine any limitation that shall apply to the recovery of the ICRRR.

---

ISSUED:

EFFECTIVE:

BY:

**Grant A. Evitts**  
**PRESIDENT**

**109 Wiehl Street**  
**Chattanooga, Tennessee 37403**

**4. Computation of the Return on Equity Test**

Recovery of the ICRRR shall be subject to the following limitations:

- a. If an *earnings deficiency* exists and it is greater than the ICRRR, there would be no ICRRR recovery limitation.
- b. If an *earnings deficiency* exists and it is less than the ICRRR, the ICRRR would be limited to the amount of the earnings deficiency.
- c. If an *earnings surplus* exists in the test period, there will be no ICRRR for that single year.

An earnings deficiency exists if the as-adjusted Earned Return on Equity during the Annual Review Period is less than the last Authorized Return on Equity. An earnings surplus exists if the as-adjusted Earned Return on Equity during the Annual Review Period is greater than the Authorized Return on Equity. The Earned Return on Equity may include the impact of any New Matter, as appropriate.

The Return on Equity Test shall be calculated for the Annual Review Period as follows:

**Calculation of Return on Equity Test  
For the Twelve Months Ending December 31, xxxx**

Line No.	
1	20xx ICRRR
2	<b>Calculation of Adjusted Net Income</b>
3	Book Net Income \$
4	Adjustments to Book Income:
5	Deduct Deferred Depreciation, Property Taxes and Debt Carrying Costs
6	Deduct New ICRRR Revenue Collections
7	Add Adjustment to reflect effective federal
8	Add Income tax rate (debt assigned to parent)
9	Add Incentive Compensation
10	Add Lobbying Expenses
11	Add Lobbying - Salary
12	Add Deferral of Operating Costs - Main Break
13	Add Excess Production Costs > 15% Adjustment

**ISSUED:**

**EFFECTIVE:**

**BY:**

**Grant A. Evitts  
PRESIDENT**

**109 Wiehl Street  
Chattanooga, Tennessee 37403**

14	Add Amortization of prior years' deferred Depreciation, Property Taxes and Debt Carrying Costs.	
15	Reserved for Adjustment to Book Income	
16	Adjustments to Net Income (Lines 5 thru 15)	\$
17	Adjusted Net Income (Line 3+16)	\$
18	<b>Calculation of Equity</b>	
19	TAWC 13-Month Avg Rate Base	\$
20	Less: 13-Month Avg Debt:	
21	Long-Term Debt	
22	Short-Term Debt	
23	Equity Financed Rate Base (Line 19 Less 21 and 22)	\$
24	Earned Return on Equity (Line 17/23)	%
25	Less: Authorized Return on Equity	10.00%
26	Excess Return on Equity (Line 24 less Line 25)	%
27	Multiplied by Equity Balance (Line 26 * Line 23)	\$
28	Tax Gross-up Factor	
29	Revenue Excess – Subtotal (Line 27 * Line 28)	\$
30	Multiplied by: Reciprocal Factor - Revenue Taxes at 3.19%	
31	Revenue Excess/(Deficiency)	\$

Where:

**“Adjusted Net Income”** means TAWC’s Book Net Income adjusted to include items historically used to adjust operating income, for which a precedent has been set or an Order received from the Commission to exclude specific expenses or revenues. Book Net Income should be adjusted to include deferred depreciation, property taxes and debt carrying costs as an expense on a net of tax basis in the period in which the expenses were deferred. Once amortization begins on these deferred expenses, they are not to be included as adjustments in subsequent Earnings Test calculations. An adjustment should be made for any over or under collection from prior period ICR.

ISSUED:

EFFECTIVE:

BY:

Grant A. Evitts  
PRESIDENT

109 Wiehl Street  
Chattanooga, Tennessee 37403

**“Authorized Return on Equity”** means TAWC’s most recent authorized return on equity as ordered by the Commission in the last rate case or Relevant Rate Order.

**“Book Net Income”** means TAWC’s unadjusted net income for the Annual Review Period per its general ledger. Book Net Income shall include Allowance for Funds Used During Construction and interest on customer deposits.

**“Long-Term Debt”** means TAWC’s long-term debt as reported in the PSC-3.06 monthly reports submitted to the Commission, subject to a determination as to the reasonableness of such balances for inclusion in the Return on Equity calculation.

**“Short-Term Debt”** means TAWC’s short-term debt as reported in the PSC-3.06 monthly reports submitted to the Commission, subject to a determination as to the reasonableness of such balances for inclusion in the Return on Equity calculation..

**“Reciprocal Factor”** means the gross up of the effective rate of the revenue tax rate, which includes the uncollectible expense rate and forfeited discounts rate from the Relevant Rate Order, the current gross receipts tax rate, and any applicable Tennessee River Authority fees.

**“TAWC 13-Month Avg Rate Base”** means TAWC’s thirteen-month average rate base for December of the prior period through December of the Annual Review Period.

**“Tax Gross-Up Factor”** means the gross up of the effective tax rate of the current state and federal tax rates.

## **5. Determination of the ICR**

- (A) The ICR percentage shall be expressed as a percentage carried to two (2) decimal places. The ICR percentage shall be applied to the total amount billed to each Customer based on the Company’s otherwise applicable rates and charges.
- (B) The ICR percentage shall be calculated for the Annual Review Period as follows:

---

**ISSUED:**

**EFFECTIVE:**

**BY:**

---

**Grant A. Evitts**  
**PRESIDENT**

---

**109 Wiehl Street**  
**Chattanooga, Tennessee 37403**

Line No.	Description	Source	
<b>Section A: Return</b>			
<b><u>Determining Capital Rider Rate Base and Rate</u></b>			
<b><u>of Return</u></b>			
1	TAWC 13-Month Average Rate Base		\$
2	Eligible Capital Rider Rate Base		
3	Plus:		
4	Authorized Rate Base	Rate Order 12-00049	132,015,472
5	Acquisition Rate Base		
6	Eligible Capital Rider Rate Base Plus	Line 2 + Line 4 + Line 5	\$
7	Lower of the Rate Base Calculation	Lower of Line 1 or Line 6	\$
8	Eligible Rate Base	Line 7 Less Lines 4 and 5	\$
9	Less: Previously Recovered CR Rate Base		\$131,266,975
10	Incremental CR Investment	Line 8 Less Line 9	\$
11	Pre-Tax Return	Rate Order 12-00049	8.45%
12	Pre-Tax Revenue Deficiency on ICR Investment	Lines 10 * 11	\$
13	Lag Weighted Return Factor - Pre-Tax	Regulatory Lag Factor	1.1056
14	Return on Rate Base Revenue Deficiency w/ Regulatory Lag	Line 12 * Line 13	\$
<b>Section B: Depreciation</b>			
<b><u>Determining Depreciation Expense</u></b>			
15	TAWC Depreciation Expense	PSC--3.06	\$
16	Minus:		
17	Authorized Depreciation Expense	Rate Order 12-00049	6,090,861
18	Acquisition Depreciation Expense		
19	Legacy CRR Depreciation Recovery		\$3,723,517

ISSUED:

EFFECTIVE:

BY:

**Grant A. Evitts**  
**PRESIDENT**

**109 Wiehl Street**  
**Chattanooga, Tennessee 37403**

20	Incremental Depreciation Expense Cap (Depreciation expense unrecovered in either base rates or capital rider)	Line 15 Less Lines 17, 18, 19	\$
21	Incremental CR Depreciation Expense		
22	Lower of the Depr Expense on Incremental CR Expenditures or Unrecovered Depreciation Expense	Lower of Line 20 or 21	\$
23	Lag Weighted Return Factor - Pre-Tax	Regulatory Lag Factor	1.1056
24	ICRRR Depreciation Expense w/ Regulatory Lag	Line 22 * 23	\$
<b><u>Section C: Property and Franchise Tax Expense</u></b>			
<b><u>Determining Property &amp; Franchise Tax Expense</u></b>			
25	TAWC Property Tax	PSC--3.06	\$
26	TAWC Franchise Tax		
27	Minus:		
28	Authorized Property & Franchise Tax	Rate Order 12- 00049	\$3,166,568
29	Acquisition Property Tax		
30	Acquisition Franchise Tax		
31	Legacy CR Property Tax Recovery		\$1,769,250
32	Incremental Property & Franchise Tax (Unrecovered in either base rates or capital rider)	Lines 25 + 26 Less Lines 28,29, 30, 31	\$
33	Incremental Property and Franchise Taxes	Property & Franchise Tax Calc	\$
34	Eligible Capital Rider Franchise Tax		
35	Lower of Unrecovered Actual or CR Property and Franchise Tax Expense	Lower of Line 32 or 33	\$

ISSUED:

EFFECTIVE:

BY:

---

**Grant A. Evitts**  
**PRESIDENT**


---

**109 Wiehl Street**  
**Chattanooga, Tennessee 37403**



36	Lag Weighted Return Factor - Pre-Tax	Regulatory Lag Factor	1.1056
37	ICRRR Property and Franchise Tax w/ Regulatory Lag	Line 35 * 36	\$
38	Total ICRRR Revenue Requirement	Lines 14 + 24 + 37	\$
39	CRR Revenue Deficiency	Line 38	\$
40	Revenue Taxes Reciprocal Factor		103.30%
41	Revenues with Revenue Taxes		\$
42	Over/(Under) Collection from Prior Period		
43	<b>After Tax ICRRR</b>		\$

Where:

**“Acquisition Rate Base, Depreciation and Taxes”** means inclusion of net rate base based upon the book value of the acquired system, depreciation and taxes associated with a new service area not previously included in TAWC’s Relevant Rate Order’s authorized rate base, depreciation expense, or taxes.

**“Authorized Depreciation Expense”** means the depreciation expense authorized in the Relevant Rate Order.

**“Authorized Rate Base”** means the rate base authorized in the Relevant Rate Order.

**“Authorized Property & Franchise Tax”** means the property and franchise tax authorized in the Relevant Rate Order.

**“Eligible Capital Rider Rate Base”** means the rate base from all Legacy Capital Rider investments from the QIIP, EDI, and SEC riders through the Annual Review Period.

**“Incremental CR Depreciation Expense”** means the calculation of depreciation expense on the eligible Incremental Capital Rider investment.

ISSUED:

EFFECTIVE:

BY:

**Grant A. Evitts**  
**PRESIDENT**

**109 Wiehl Street**  
**Chattanooga, Tennessee 37403**

**“Incremental Property and Franchise Taxes”** means the difference between the Legacy Capital Rider property and franchise taxes calculation and the current calculation of property and franchise taxes, which includes all eligible capital investment for the Annual Review Period.

**“Lag Weighted Return Factor”** means the computed lag on each ICRRR component from the mid-point of the study period through the mid-point of the collection period, assumed to be 17 months. The lag is applied to the Pre-tax Return adopted in the Relevant Rate Order. The lag period could be adjusted based on procedural schedules, effective dates, and/or other circumstances.

**“Legacy CR Property Tax Recovery”** means the property tax expense authorized in all Legacy Capital Rider investments.

**“Legacy CR Depreciation Recovery”** means the depreciation expense authorized in all Legacy Capital Rider investments.

**“Over/(Under) Collection from Prior Period”** means the difference between actual revenues collected through the ICR from the prior Annual Review Period, compared with the actual ICRRR authorized by the Commission during the prior Annual Review Period.

**“Pre-Tax Return”** means the rate of return on investment before taxes as approved in the Relevant Rate Order.

**“Revenue Taxes Reciprocal Factor”** means the gross up of the effective rate of the revenue tax rate, which includes the uncollectible expense rate and forfeited discounts rate from the relevant rate order, the current gross receipts tax rate, and any applicable Tennessee River Authority fees.

**“TAWC Property Tax”** means TAWC’s property tax expense as reported in the PSC-3.06 monthly report submitted to the Commission.

**“TAWC Depreciation Expense”** means TAWC’s depreciation expense as reported in PSC-3.06 monthly report submitted to the Commission.

**“TAWC 13-Month Average Rate Base”** means TAWC’s total thirteen-month average rate base for December of the prior period through December of the test period.

---

**ISSUED:**

**EFFECTIVE:**

**BY:**

---

**Grant A. Evitts  
PRESIDENT**

---

**109 Wiehl Street  
Chattanooga, Tennessee 37403**

---

**6. New Matters**

If New Matters arise, the Company, TPUC Staff, and the Consumer Advocate will endeavor to reach a resolved treatment, or if necessary, will seek a ruling from the Commission.

**7. New Base Rates**

The ICR and Legacy Capital Rider will be reset to zero upon the establishment of new Commission-authorized base rates and charges to customer billings that provide for the prospective recovery of the annual costs that had theretofore been recovered under the ICR or Legacy Capital Riders. Thereafter, only the costs of new ICR eligible plant additions that have not previously been reflected in the Company's Eligible Rate Base would be reflected in new annual ICR filings.

**8. Annual ICR Percentage Rate Filing**

On or before March 1 of each year, the Company shall submit to the Commission a calculation of the ICR Percentage Rate for the following twelve-month period. The Annual ICR Percentage Rate Filing shall be verified by an officer of the Company. The Annual ICR Percentage Rate Filing shall include a calculation to adjust revenue to recover costs related to the Historical ICR Investment Amount, with such revenue adjustment applied through the ICR Percentage Rate. The interim ICR Percentage Rate shall become effective on April 1 of each year and be applied as an adjustment to Customers' bills for the next twelve months. Rates will be effective on the same day each year and implemented as interim rates until an order is received from the Commission. A true-up of interim rates for over or under collection would be done if the Commission Order differs from the rates that were implemented.

The Company will include in its Annual ICR Percentage Rate Filing the following information at a minimum: (a) computation of the ICR Percentage Rate, including the detailed calculation of each component and (b) such other information as the Commission may direct.

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

---

**ISSUED:****EFFECTIVE:****BY:**

---

**Grant A. Evitts**  
**PRESIDENT**

---

**109 Wiehl Street**  
**Chattanooga, Tennessee 37403**

---

**9. Computation of the Over-Under Collection Adjustment**

The Company will identify and record the total amount of the ICR collected from customers for the prior Annual Review Period. The total amount collected will be based on twelve months of actual collection from January through December. The difference between the Total ICR Collected from Customers and the Total ICRRR authorized by the Commission from the prior Annual Review Period shall constitute the Over-Under Collection Adjustment. The true-up for February and March actuals versus estimates shall be made in the subsequent ICR filing as part of the Over-Under Collection Adjustment. The Over-Under Collection Adjustment shall be included in the current Annual Review Period's ICRRR calculation as identified on Line 43 of the ICR calculation above.

The Over-Under Collection Adjustment shall include any necessary adjustments for over-under collection due to interim rates differing from the Commission Ordered rates from the prior Annual Review Period.

The Company will include in its computation of the Over-Under Collection Adjustment the following information at a minimum: (a) a schedule of all journal entries made related to the ICR 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 ICR collected from customers for the prior annual review period, (c) computation of the annual over-under collection amount, including the detailed calculation of each component, (d) the cumulative amount of ICR and Legacy amounts collected from customers under this Rider and (e) such other information as the Commission may direct.

**10. Notice Requirements**

The Company will file revised tariffs for Commission approval upon 30 days' notice to implement a decrement or increment each 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.

**11. 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.

---

**ISSUED:****EFFECTIVE:****BY:**

---

**Grant A. Evitts  
PRESIDENT**

---

**109 Wiehl Street  
Chattanooga, Tennessee 37403**