

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

IN RE:

**TENNESSEE WATER SERVICE, INC.
PETITION TO ADOPT ANNUAL
REVIEW MECHANISM AND TARIFF
PURSUANT TO TENN. CODE ANN. § 65-
5-103(d)(6)**

DOCKET NO. 23-00046

STIPULATION AND SETTLEMENT AGREEMENT

In compromise and settlement of this matter, Tennessee Public Utility Commission (“TPUC” or the “Commission”) Docket No. 23-00046, Jonathan Skrmetti, the Tennessee Attorney General and Reporter, by and through the Consumer Advocate Division (“Consumer Advocate”) and Tennessee Water Services, Inc. (“TWS” or the “Company”) respectfully submit this Stipulation and Settlement Agreement (“Settlement Agreement”). Subject to TPUC approval, the Consumer Advocate and TWS (individually, a Party and, collectively, the Parties) stipulate and agree to the following:

BACKGROUND

1. The Consumer Advocate is authorized by Tenn. Code Ann. § 65-4-118 to represent the interests of consumers of Tennessee public utility services by intervening and participating as a party in proceedings before the Commission in accordance with the Uniform Administrative Procedures Act and Commission rules.

2. TWS is a public utility organized under the laws of Tennessee, operating in Tennessee, and engaged in the provision of water utility service to the public for compensation. The Company’s business address is #2 N. Wolfscratch Drive, Jasper, GA 30143. The Company’s

public utility operations, including its rates, terms, and conditions of service, are subject to the jurisdiction of this Commission.

3. TWS's last general rate case, TPUC Docket No. 19-00028, established the Company's current base rates. The Consumer Advocate Division intervened and participated in that matter.

4. In the current Docket, TWS seeks to utilize the ratemaking methodologies established in its last general rate case to institute an annual review of rates mechanism ("ARM"). An ARM is designed to update and refresh the Company's rates each year through a reconciliation and tariff-setting process.

5. The present Docket is the Company's first petition to adopt an ARM. The Company seeks a one-step filing process in which the Company will calculate whether there is an excess or deficiency in earnings for the historic period, and the Company will calculate an annual true-up rate adjustment deferral to either avoid under-recovery for the Company or provide a credit to customers to account for any earnings in excess of the Company's authorized return. The Company will not file forward-looking or forecasted data.

6. On July 12, 2023, the Consumer Advocate filed its Petition to Intervene, which was granted by the TPUC in an order dated July 12, 2023. The Consumer Advocate is the only intervenor of record in the Docket.

7. On August 25, 2023, the Consumer Advocate submitted direct expert testimony and supporting exhibits from its expert witness, Mr. David N. Dittmore, which focused on the review and ultimately recommended a rejection of the presented Petition, or in the alternative, a Petition filed pursuant to Tenn. Code Ann. § 65-5-103(d)(7), which allows for a more flexible alternative regulatory mechanism not based on methodologies from the Company's last general rate case.

8. TWS responded to both formal and informal discovery requests from the Consumer Advocate, with the Parties' witnesses and other representatives meeting multiple times by video conference and telephone call to discuss the issues and documentation presented in the docket. As the present Docket is the Company's first request to opt into an ARM, additional discovery requests and discussions were necessary to facilitate the Consumer Advocate's investigation into the underlying supporting documentation that backs up the Company's request. Thus, TWS agreed to several sets of additional, informal discovery over and above that authorized by the Commission's scheduling order.

9. The Parties have engaged in extensive settlement discussions in this matter and have resolved all issues raised by the Parties in this docket.

10. For the purpose of avoiding further litigation, resolving this proceeding upon acceptable terms, and in furtherance of this Settlement Agreement and the tariff attached as Exhibit A – originally submitted as Appendix C – ARM Tariff, the Parties have agreed to the settlement terms set forth below, subject to TPUC approval, which the Parties jointly request.

SETTLEMENT TERMS

11. TWS's ARM proposal, as set forth in its Petition, should be approved by the Commission as filed but with the following clarifications and modifications incorporated therein as hereby agreed to by the Parties. Specific changes agreed to by the Parties are as follows:

12. Base Rates Cap. Base rates would be capped at the existing levels for the first two ARM filings. Base rates may be reduced but would not increase as a result of the first two annual filings. Further, there would be no regulatory asset deferrals created as a result of any revenue deficiency identified in the first two ARM filings. This provision would not prohibit revenue

neutral rate design proposals to be submitted by TWS and considered by the Commission. Increases in base rates could be approved beginning with the third ARM filing.

13. Hard-Coded Data in ARM Workpapers. TWS will provide ARM template schedules and supporting workpapers for each ARM filing with formulas intact and limit hard-coded data. To the extent data in one workpaper is derived from another workpaper or is raw data extracted from another source or software, and formulas are not practical, TWS shall properly cite or cross-reference the source of the hard-coded data.

14. Non-Revenue Water Rate. TWS shall calculate and supply a Non-Revenue Water rate for the Historic Period Excess or Deficiency Calculation and for the Attrition Period Rate Reset in Schedule B-3. The Non-Revenue Water rate is computed by subtracting Total Metered Consumption from Total Water Supplied and dividing the resulting difference by Total Water Supplied. These inputs shall be derived, for the Historic Period calculation, from TWS's most recent calendar year Annual Report to the Commission. These inputs shall be derived, for the Attrition Period Rate Reset calculation, from the aggregation of the Company's prior three calendar year Annual Reports to the Commission.

15. Non-Revenue Water Threshold. If the Non-Revenue Water rate is above 15% for the Historic Period Excess or Deficiency Calculation or the Attrition Period Rate Reset, the Company shall proportionately adjust the following expenses for the corresponding Period calculation: Purchased Water Expense, Chemicals Expense, and Purchased Power Expense.

16. Term of ARM. TWS shall submit a re-evaluation proposal, recommending either continuation, modification, or termination, with its fifth annual ARM filing or its next base rate case filing, whichever is earlier. The Commission shall rule on the re-evaluation proposal in its Final Order in such future proceedings.

17. Transferability of ARM. The TWS ARM shall not be transferred to any potential acquirer of a direct controlling interest in TWS.

18. Cap on ARM Filing Costs. TWS will limit recovery through the ARM of costs to file and process each annual ARM filing to \$15,000, inclusive of incremental internal costs.

GENERAL TERMS

19. The Settlement Agreement does not address any other issues or adjustments raised by the Consumer Advocate's testimony except those expressly agreed upon within this Settlement Agreement. Any issues or adjustments not expressly addressed in this Settlement Agreement are reserved by both Parties to be raised in future ARM proceedings unless otherwise specified in the preceding terms.

20. All schedules, pre-filed testimony and exhibits, discovery responses, and other documents filed with the Commission in this docket are requested to be admitted into evidence without objection, and the Parties waive their right to cross-examine all witnesses with respect to all such pre-filed testimony, exhibits, and schedules. If the Commission requires the presence of witnesses for the final hearing and if the Commissioners desire to question any witness regarding their testimony or this settlement, any Party may present testimony and exhibits to respond to such questions and may cross-examine any witnesses with respect to such testimony and exhibits. The Parties hereby request approval from TPUC for any out-of-town witnesses to participate by telephone or video conference to reduce the costs associated with appearing physically for the hearing.

21. The Parties agree to support this Settlement Agreement before the Commission and in any testimony, hearing, proposed order, or brief conducted or filed in this proceeding. The

provisions of this Settlement Agreement reflect compromises and acceptance of actions, positions, or policies done solely for the purposes of settlement of this matter. The provisions in this Settlement Agreement do not necessarily reflect the positions asserted by any Party. None of the Parties to this Settlement Agreement shall be deemed to have acquiesced in or agreed to any ratemaking or accounting methodology or procedural principle, including without limitation, any cost-of-service determination or cost-allocation or revenue-related methodology, except to the limited extent necessary to implement the provisions hereof.

22. This Settlement 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 implement the provisions hereof, such as any new or updated schedules to be filed in future ARM docket proceedings. The Parties are free to take different positions in future proceedings as each Party deems appropriate for that proceeding, including the ability to advocate for new or revised schedules for future ARM dockets.

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

24. If the Commission does not accept the settlement in whole, the Parties are not bound by any position or term set forth in this Settlement Agreement. In the event that the Commission does not approve this Settlement Agreement in its entirety, each of the signatories to this Settlement Agreement will retain the right to terminate this Settlement Agreement by giving notice of the exercise of such right within ten (10) business days of the date of such non-approval;

provided, however, that the signatories to this Settlement Agreement could, by unanimous consent, elect to modify this Settlement Agreement to address any modification required by, or issues raised by, the Commission within the same time frame. Should this Settlement Agreement terminate, it would be considered void and have no binding precedential effect, and the signatories to this Settlement Agreement would reserve their rights to resume and advocate for their prior positions and to fully participate in all relevant proceedings notwithstanding their agreement to the terms of this Settlement Agreement.

25. By agreeing to this Settlement Agreement, no Party waives any right to continue litigating this matter should this Settlement Agreement be rejected by the Commission in whole or in part.

26. No provision of this Settlement Agreement shall be deemed an admission of any Party, and no provision of this Settlement Agreement shall be deemed a waiver of any position asserted by a Party in this Docket, except to the limited extent necessary to implement the provisions thereof.

27. The Parties agree that this Settlement Agreement constitutes the complete understanding among the Parties concerning the resolution of issues and matters under this TPUC Docket No. 23-00046, and any oral statements, representations or agreements concerning such issues and matters made prior to the execution of this Settlement Agreement have been merged into this Settlement Agreement.

28. All exhibits and schedules attached to or referenced in this Settlement Agreement are hereby incorporated by reference into this Settlement Agreement.

29. The Consumer Advocate's agreement to this Settlement Agreement is expressly

premised upon the truthfulness, accuracy, and completeness of the information provided by TWS to 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 Settlement Agreement.

30. The acceptance of this Settlement Agreement by the Attorney General shall not be deemed as an approval by the Attorney General of any of TWS' acts or practices.

31. Each signatory to this Settlement Agreement represents and warrants that it/he/she has informed, advised, and otherwise consulted with the Party for whom it/he/she signs regarding the contents and significance of this Settlement Agreement and has obtained authority to sign on behalf of such Party, and based upon those communications, each signatory represents and warrants that it/he/she is authorized to execute this Settlement Agreement on behalf of its/his/her respecting Party.

32. This Settlement Agreement shall be governed by and construed under the laws of the State of Tennessee, Tennessee choice of law rules notwithstanding.

33. Nothing herein limits or alters the sovereign immunity of the State of Tennessee or any of its entities or subdivisions.

34. The Parties agree that approval of the Settlement Agreement will become effective upon the verbal decision of the Commission at a noticed, public Commission conference meeting.

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

Stipulation and Settlement Agreement
Tennessee Public Utility Commission Docket No. 23-00046
Signature Page

TENNESSEE WATER SERVICES, INC.

HAVE SEEN AND AGREED.

By:

Ryan Freeman by Vance Broemel
RYAN FREEMAN, Esq. (TN BPR No. 033299) w/ permission
Baker Donelson
633 Chestnut Street
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Chattanooga, Tennessee 37450
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Counsel for Company

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Stipulation and Settlement Agreement
Tennessee Public Utility Commission Docket No. 23-00046
Signature Page

CONSUMER ADVOCATE DIVISION

HAVE SEEN AND AGREED.

By:


JONATHAN SKREMETTI (BPR No. 031551)
Attorney General and Reporter
State of Tennessee



VICTORIA GLOVER (BPR No. 037954)
Assistant Attorney General
KAREN H. STACHOWSKI (BPR No. 019607)
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Applies to Chalet Village North

Annual Review Mechanism ("ARM")

Section I. PROCESS

This Annual Review Mechanism ("ARM") is implemented under the provisions of Tennessee Code Annotated Section 65-5-103(d) (6), which authorizes the Company to opt for an annual review of the Company's rates. Pursuant to this ARM and the annual filings described below, the Company's tariff rates shall be adjusted to provide that the Company earns the Authorized Return on Equity. The rate adjustments implemented under this mechanism shall reflect changes in the Company's revenues, cost of service, and rate base. The ARM may be terminated or modified as provided under Tennessee Code Annotated 65-5-103(d) (6) (D).

The Company's proposed ARM shall incorporate an historical base year review of its revenues, expenses, investments (rate base), and rate of return components to determine if the Company earned the authorized return on equity adopted in the most recent rate case. If the Company earned more than the authorized return on equity, the earnings excess (grossed up to determine excess revenues) shall be deferred in a regulatory liability and rates shall be reduced for this amount prospectively. If the Company earned less than its authorized return on equity, the Company shall defer expenses to a regulatory asset and rates shall be increased for this amount prospectively. Under both scenarios, the Company is proposing that any carrying charges be computed and accrued for on the simple average of the deferred balance. The simple average shall be determined based on the final year end deferred balance, assuming the balance accrued evenly throughout the year. The average balance shall then be multiplied by the authorized rate of return per the Company's 2019 Rate Case Final Order in Docket No. 19-00028 ("Rate Order").

In addition to the review of the annual earnings deficiency or excess, rates shall be adjusted prospectively based on an adjusted historic base period ("Attrition Period") so that the Company may earn its authorized return in the future, as well as include the recovery or refund of the deferred balance reflecting any earnings deficiency or excess. The annual earnings deficiency or excess review and Rate Reset shall occur in one filing, made on or before April 30th of each year. The historic base period for the ARM filing shall align with the Company's most recent fiscal year end, December 31. In summary, there shall be one annual filing that shall include the determination of the earning deficiency or excess, based on a reconciliation of the historic base period, and the Rate Reset, based on an adjusted cost of service for the historic base period. Per TCA 65-5-103(d)(1)(B), the Commission shall make a final determination on the filing no later than 120 days from the initial filing. Therefore, the final determination shall be issued by August 28th, and adjusted rates shall go into effect on September 1st.

The Company's rates shall not be increased as a result of the first two ARM filings, made on or before April 30, 2024 and April 30, 2025. If there is an earnings excess resulting from such filings, rates shall be reduced accordingly. However, revenue-neutral rate design changes may be requested.

Finally, the methodologies detailed below have been ordered and are numbered consistent with the applicable corresponding sections and page numbers in the Rate Case Order. Based on the Commission's rationale and discussions of the methodologies adopted in the Rate Order, the Company has determined that its proposed adjustment methodologies would be a reasonable basis for its ARM.

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 Month Day Year Month Day Year
 Issued by Tiffany Van Horn President
 Name of Officer Title

#2 N. Wolfscratch Drive, Jasper, GA 30143
 Address of Officer

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Applies to Chalet Village North

Annual Review Mechanism ("ARM")

Section II. METHODOLOGIES

The below methodologies shall be utilized for determining the appropriate revenue requirement components for both the Attrition Period Rate Reset and the Historic Period Excess or Deficiency Calculation. For the Attrition Period, the Company may adjust certain expenses to reflect annualization of new or changed circumstances (e.g., a new rent expense due to an office move or new office being added).

A. Attrition Period

Defined as the year in which adjusted rates shall be in effect – September 1st to August 31st.

B. Historic Period

Defined as the most recently completed fiscal year ended December 31st as of the time of ARM filing.

C. Water Revenues

For the Attrition Period Rate Reset, the Company shall set its billing determinants based on projecting the average monthly customer counts in the Attrition Period and using the average per customer monthly consumption in the prior three calendar years. These billing determinants shall be applied to the applicable present tariff rates and usage blocks to determine Attrition Period present revenues.

For the Historic Period Excess or Deficiency Calculation, recorded revenues shall be used.

D. Other Revenues

For the Attrition Period Rate Reset, a rate of 1.4773% shall be used for late fees (forfeited discounts) per the Rate Order. For the remainder of Other Revenues, the Company shall use the actual Other Revenues per customer for the prior three calendar years, then multiply this value times the forecasted Attrition Period customer count per the Water Revenues methodology above.

For the Historic Period Excess or Deficiency Calculation, actual Other Revenues shall be used.

E. Expenses: Salaries and Wages

For the Attrition Period Rate Reset and the Historic Period Excess or Deficiency Calculation, the Company shall use the actual Salaries and Wages and capitalized labor as booked in the Historic Period.

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Annual Review Mechanism ("ARM")

F. Expenses: Purchased Power, Maintenance Testing, Transportation, Office Supplies, Benefits, Insurance, Maintenance and Repair, Chemicals, Office Utilities, Outside Services, Rent, and Miscellaneous, Purchased Water, Bad Debt

For the Attrition Period Rate Reset in these expense line items, the Company shall use the actual expenses per customer for the prior three calendar years, then multiply this amount times the CPI Index – Water & Sewerage Maintenance value for the end of the Historic Period, compounded by 20 months (midpoint of the Historic Period through midpoint of the Attrition Period). Then, this value is multiplied by the forecasted Attrition Period customer count per the Water Revenues methodology above.

For the Historic Period Excess or Deficiency Calculation, actual expenses for these line items shall be used.

G. Expenses: Non-Revenue Water

The Company shall calculate and supply a Non-Revenue Water ("NRW") rate for the Historic Period Excess or Deficiency Calculation and for the Attrition Period Rate Reset in Schedule B-3. The Historic Period NRW rate is calculated on an annual historic basis as follows:

(Historic Period Total Metered Consumption minus Total Water Supplied)

Divided by: Historic Period Total Water Supplied

Non-Revenue Water Rate

Less: 15%

Non-Revenue Water Variance (Over/Under allowable %)

If the Historic Period NRW rate is above 15%, the Company shall adjust Purchased Water, Purchased Power, and Chemical Expenses for the proportion above 15% applicable to each expense. If the Historic Period NRW rate is below 15% for the Historic Period, the actual Purchased Water, Purchased Power, and Chemical Expense incurred in the Historic Period shall be used in the Historic Period Excess or Deficiency Calculation.

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Annual Review Mechanism ("ARM")

H. Cap on ARM Filing Costs

TWS will limit recovery through the ARM of costs to file and process each annual ARM filing to \$15,000, inclusive of incremental internal costs.

I. Depreciation Expense and CIAC Amortization Expense

For the Attrition Period Rate Reset, the Company shall use the authorized depreciation and CIAC amortization rates as applicable to utility plant balances as of the end of the Historic Period.

J. Amortization of Investment Tax Credits, Excess Deferred Income Taxes, Regulatory Liabilities and Regulatory Assets

For the Attrition Period Rate Reset, the Company shall use the authorized amortization life applied to the authorized balances per the Rate Order. Should the amortization conclude during an Attrition Period, the Company shall reflect only the amount relevant for that Attrition Period in the Rate Reset calculation (i.e., not an annualized level).

For the Historic Period Excess or Deficiency Calculation, actual amortization for these line items shall be used. The Company shall expense the costs related to the processing of the annual ARM filing, and therefore recover such costs as part of the Excess or Deficiency Calculation in the normal course of the ARM process.

Taxes Other than Income: Payroll Taxes, Real Estate Tax

For the Attrition Period Rate Reset and the Historic Period Excess or Deficiency Calculation, the Company shall use the actual Payroll Taxes as booked in the Historic Period.

K. Taxes Other than Income: Franchise Tax, Gross Receipts Tax, Property Tax

For the Attrition Period Rate Reset in these tax line items, the Company shall use the actual expenses per customer for the prior three calendar years, then multiply this amount times the CPI Index – Water & Sewerage Maintenance value for the end of the Historic Period, compounded by 20 months (midpoint of the Historic Period through midpoint of the Attrition Period). Then, this value is multiplied by the forecasted Attrition Period customer count per the Water Revenues methodology above.

For the Historic Period Excess or Deficiency Calculation, actual expenses for these line items shall be used.

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Annual Review Mechanism ("ARM")

M. State Excise and Federal Income Taxes

For the Attrition Period Rate Reset, the Company shall use the applicable statutory rates.

For the Historic Period Excess or Deficiency Calculation, the statutory State Excise and Federal Income Tax rates as of the end of the Historic Period shall be used.

N. Utility Plant in Service, Accumulated Depreciation, CIAC, Accumulated Amortization of CIAC, Accumulated Deferred Income Taxes

For the Attrition Period Rate Reset, the Company shall use the balances for these line items as of the end of the Historic Period.

For the Historic Period Excess or Deficiency Calculation, the Company shall use the 13-month average (December to December) of the balances for these line items.

O. Cash Working Capital

For both the Attrition Period Rate Reset and Historic Period Excess or Deficiency Calculation, the Company shall use the applicable Period's total Operation and Maintenance Expenses and Taxes Other than Income, less Purchased Water, multiplied by $1/8^{\text{th}}$.

P. Deferred Operating Losses, Deferred Return on Incremental Plant Investment, Deferred Rate Case Costs, Regulatory Liability – Uninsured Property, Excess Deferred Income Taxes

For both the Attrition Period Rate Reset and Historic Period Excess or Deficiency Calculation, the Company shall use the applicable Period's 13-month average (December to December for Historic Period, September to August for Attrition Period) of the unamortized balances for these line items.

Q. Revenue Conversion Factor

For both the Attrition Period Rate Reset and Historic Period Excess or Deficiency Calculation, the Company shall use the approved conversion factor of 1.337392 per the Rate Order, adjusted as needed for any changes per the above methodologies. The excise and federal income tax components are subject to change to reflect the then-current rate.

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Annual Review Mechanism ("ARM")

R. Rate of Return

For both the Attrition Period Rate Reset and Historic Period Excess or Deficiency Calculation, the Company shall use the approved 50%/50% debt/equity ratio, 5.04% cost of debt, and 10.50% return on equity per the Rate Order.

S. Other Adjustments

Consistent with Commission Rules, costs not generally allowed for rate recovery shall be removed or excluded from both the Historic Period and Attrition Period. Removals and exclusions include, but are not limited to, the following categories: Advertising, Lobbying, Charitable Contributions, and Fines & Penalties. Any material one-time, non-recurring items impacting income or costs may be identified and adjusted for by the Company for either the Historic Period or Attrition Period.

T. New Matters

New Matters 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 ARM Filing for which there is no explicit prior determination by the Commission regarding the Company. The Company may reflect, for the Attrition Period, amortization expense and unamortized balances for new deferral amounts incurred since the Rate Order or for deferral amounts not yet authorized for amortization. The Attrition Period shall also reflect any other relevant changes since the Rate Order in GAAP or other regulatory pronouncements or tax law changes. The Company may include and present studies or other evidence supporting other necessary changes since the Rate Order, such as depreciation studies.

U. Rate Design and Tariff Changes

Any Party to an ARM proceeding may propose adjustments to the then-current rate design, miscellaneous terms, tariff language or provisions.

V. Excess or Deficiency Deferral

The Company shall defer any revenue excess or deficiency incurred in the Historic Period. The Company shall recover/credit over the Attrition Period any revenue deficiency/excess deferred. Further, there would be no regulatory asset deferrals created as a result of any revenue deficiency produced in the first two ARM filings. The deferral shall accrue carrying charges at the authorized rate of return of 7.77% per the Rate Order. Carrying charges shall be calculated based on a simple average of the starting and ending balance of the Historic Period.

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Annual Review Mechanism ("ARM")

W. Additional Alternative Rate Mechanisms

Authorization of the ARM process does not preclude the Company requesting or being approved to implement additional alternative rate mechanisms, as allowed pursuant to T.C.A. § 65-5-103(d).

X. Affidavit Certifying Filing

The Company shall include with its annual filings an affidavit signed by an officer of the Company, certifying that the information included within the filing is accurate and complete.

Y. Cost Allocation Manual

The Company shall include with its annual filings the most current iteration of its Cost Allocation Manual ("CAM"), which details the allocation methodologies for affiliate costs supporting operating companies such as TWS. The CAM shall be consistent with the terms of the active Affiliate Interest Agreement for TWS.

Section III. DEFINED TERMS

A. Excess or Deficiency Calculation

The Company shall calculate, based on the methodologies described above, any excess earnings or deficiency for the Historic Period. The excess earnings or deficiency shall be based on the comparison of the earned return on equity and the authorized 10.50%. This amount shall be used to calculate the Annual True-Up Rate Adjustment.

B. Annual True-Up Rate Adjustment

Defined as the revenue adjustment necessary to allow the Company to recover from or credit to customers the Historic Period deficiency or excess earnings. The Excess or Deficiency Calculation result shall be multiplied by the Revenue Conversion Factor, then shall incorporate any carrying charges, to determine the revenue adjustment required in setting the Attrition Period revenue requirement.

C. Attrition Period Rate Reset

Defined as the adjustment of rates applicable to the Attrition Period, effective September 1st each year, that reflects the Attrition Period methodologies described above and incorporates the Annual True-Up Rate Adjustment into the revenue requirement.

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Title

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Annual Review Mechanism ("ARM")

D. Annual ARM Filing

By April 30th each year, the Company shall file with the Commission the schedules and workpapers that reflect 1) actual Historic Period amounts per its books and records, 2) any adjustments to the Historic Period actuals per the methodologies described above, 3) the Excess Earnings or Deficiency Calculation and resulting Annual True-Up Rate Adjustment, 4) the Attrition Period Rate Reset revenue requirement, inclusive of any recovery/credit from the Annual True-Up Rate Adjustment, calculated per the methodologies described above, 5) proposed tariff rates that support the Attrition Period Rate Reset revenue requirement, and 6) the most current version of the Company's Cost Allocation Manual ("CAM"). The list of schedules to be filed include, but need not be limited to:

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Annual Review Mechanism ("ARM")

SCHEDULE	NAME
A	Rate Base
B	Income Statement
C	Annual True Up Reconciliation and Attrition Period Rate Reset
D	Income Taxes
E	Capital Structure and Retention Factor
F	Rate of Return
G	Proposed Tariff
H	Current Cost Allocation Manual
I	Affidavit by Officer
A-1	Plant In-Service and Depreciation Expense
A-2	Accumulated Depreciation
A-3	Cash Working Capital
A-4	Deferred Charges, Regulatory Commission Expense and Deferred Maintenance Expense
A-5	Regulatory Liability and EDIT
A-6	CIAC and CIAC Amortization Expense
B-1	Attrition Period Revenues and Rate Design
B-2	Bill Comparisons at Present Rates and Proposed Rates
B-3	Non-Revenue Water Rate

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