

BAKER DONELSON

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Room on October 26, 2023 at 3:27 p.m.

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October 26, 2023

TPUC Staff
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

RE: **TPUC Docket No. 23-00046 – Petition of Tennessee Water Service, Inc. to Adopt Annual Review Mechanism and Tariff Pursuant to Tenn. Code Ann. § 65-5-103(d)(6)**

Dear TPUC Staff,

On October 13, 2023, the Tennessee Public Utility Commission moved for and approved the adoption of an annual review mechanism pursuant to Tennessee Water Service, Inc.'s ("TWS") request in this docket and reflecting the stipulation and settlement agreement entered into between TWS and the Consumer Advocate Division of the Office of the Attorney General. Pursuant to the approval of this motion, TWS now files only the attached updated tariff pages reflecting the adoption of the annual review mechanism as amended by the stipulation and settlement agreement.

Please let us know if anything further is required.

Sincerely,



BAKER, DONELSON, BEARMAN, CALDWELL
& BERKOWITZ, PC
Ryan Freeman

Enclosures
cc: Victoria Glover
Karen Stachowski

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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

Effective: 1 1 2024
Month Day Year

Issued by: Tiffany Van Horn
Name of Officer

President
Title

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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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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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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.

K. 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.

L. 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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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 1/8th.

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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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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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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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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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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