TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 24-_00011____

DIRECT TESTIMONY

OF

ROBERT C. LANE

ON

2024 ANNUAL INCREMENTAL CAPITAL RECOVERY RIDER TARIFF FILING, CHANGES TO THE QUALIFIED INFRASTRUCTURE INVESTMENT PROGRAM RIDER, THE ECONOMIC DEVELOPMENT INVESTMENT RIDER AND THE SAFETY AND ENVIRONMENTAL COMPLIANCE RIDER AND IN SUPPORT OF THE CALCULATION OF THE INCREMENTAL CAPITAL RIDER REVENUE REQUIREMENT

SPONSORING PETITIONER'S EXHIBITS:

1. Petitioner Exhibit TAWC 2024 Incremental Capital Rider
2. Petitioner Exhibit TAWC 2024 Incremental Capital Rider Revenue Requirement (ICRRR)
3. Petitioner Exhibit TAWC 2023 ROE Test Calculation
4. Petitioner's Exhibit – Annual Approved Tariffs
5. Petitions Exhibit First Revised Sheet No. 12-Riders-1
6. Petitioners Exhibit Working Capital
7. Petitioners Exhibit Incremental Capital Recovery Tariff

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

Q. PLEASE STATE YOUR PROFESSIONAL AND EDUCATIONAL BACKGROUND.

A. I received both a Bachelor of Arts in Economics and Master of Arts in Economics from New Mexico State University.

Prior to my current position at TAWC, I was the Director of Rates and Regulatory Affairs for New Mexico Gas Company from 2020 to 2022, where I led the Rates and Analysis and Regulatory Affairs Group and was responsible for all filings made before the Public Regulation Commission. Prior to joining New Mexico Gas Company, I served in various capacities for Sempra Energy, San Diego Gas and Electric ("SDG&E") and SoCal Gas. From 2015 to 2018, I served as the Manager – Compliance in the Enterprise Risk Management and Compliance Department leadings SDG&E's and SoCal Gas's enterprise compliance program and as liaison with Sempra Energy Corporate Compliance. From 2010 to 2014, I served as the Director, FERC, CAISO and Regulatory Compliance for SDG&E and SoCal Gas, where I managed regulatory affairs with the

Federal Energy Regulatory Commission (FERC), coordinated policy interactions with the California Independent System Operator (CAISO), and led SDG&E's federal reliability standards compliance assurance program. In 2010, I was the Director of Regulatory Strategy for SDG&E and SoCal Gas, where I developed and implemented regulatory strategies to advance SDG&E's and SoCal Gas's regulatory agenda before state and federal regulators. From 2007 to 2010, I was the Manager of Corporate Regulatory Strategy for Sempra Energy and provided regulatory and policy analysis and advice for the Sempra Energy family of Companies, including regulated electric and gas utilities, renewable businesses and natural gas infrastructure business units.

Prior to 2007 I was staff at the California Public Utilities Commission ("CPUC") where I served in the following positions (1) as the Chief Staff to CPUC Commissioner John Bohn from 2005 to 2007: (2) as the Advisor for Policy and Planning for Governor Schwarzenegger from 2004 to 2005; and (3) as Senior Policy Advisor to CPUC Commissioner Jessie J. Knight from 1993 to 2000. In addition, from 1988 to 1993 I held several positions as a Regulatory Analyst in the CPUC's Division of Ratepayer Advocates, Advisory and Compliance Division, as well as in the Division of Strategic Planning.

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

A. Yes, I have submitted testimony before the Tennessee Public Utility Commission ("TPUC" or the "Commission") in several matters, including Docket Nos. 22-00021 (2022 CRRs Recon), 22-00072 (2022 Annual CRRs), 23-00007 (2023 PCOP), 23-00018

(2023 CRRs Recon), 19-00103 (Capital Riders Investigation) 24-0001 (2024 Financing Authority) and 24-00002 (2024 PCOP).

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

A. I am responsible for managing and coordinating regulatory issues in Tennessee, and I am the rates and regulatory lead for TAWC. My primary responsibilities encompass the coordination of regulatory issues in Tennessee. This includes coordinating all reports and filings, working with regulatory staff to make sure that all information produced addresses the requirements or requests, and overseeing the preparation and filing of rate cases and tariff changes. I work with senior management of TAWC. I am also responsible for keeping abreast of changes in regulation, and trends in public utility regulations across the United States that may impact TAWC.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

The purpose of my testimony is to support the calculation of the 2024 Incremental Capital Rider (ICR) described in TAWC's Petition. On December 11, 2023, the Commission approved a new alternative rate mechanism for eligible TWAC projects under its Qualified Infrastructure Investment Program ("QIIP"), its Economic Development Investment Rider ("EDI") and its Safety and Environmental Compliance Rider ("SEC").

Q. ARE YOU SPONSORING ANY EXHIBITS?

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

1. Petitioner Exhibit TAWC 2024 Incremental Capital Rider
2. Petitioner Exhibit TAWC 2024 Incremental Capital Rider Revenue Requirement (ICRRR)
3. Petitioner Exhibit TAWC 2023 ROE Test Calculation

4. Petitioner's Exhibit – Annual Approved Tariffs
5. Petitions Exhibit First Revised Sheet No. 12-Riders-1
6. Petitioners Exhibit Working Capital
7. Petitioners Exhibit Incremental Capital Recovery Tariff

I will discuss these exhibits in further detail in my testimony below.

Q. WERE THE PETITIONER'S EXHIBITS LISTED ABOVE PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes.

Q. WHAT WERE THE SOURCES OF THE DATA USED TO PREPARE THE PETITIONER'S EXHIBITS LISTED ABOVE?

A. The data used to prepare the exhibits was acquired from the books of account and business records of TAWC and other internal sources which I examined in the course of my investigation of the matters addressed in this testimony.

Q. DO YOU CONSIDER THIS DATA TO BE RELIABLE AND OF A TYPE THAT IS NORMALLY USED AND RELIED ON IN YOUR BUSINESS FOR SUCH PURPOSES?

A. Yes.

Q. DO THE PETITIONER'S EXHIBITS LISTED ABOVE ACCURATELY SUMMARIZE SUCH DATA AND THE RESULTS OF ANALYSIS USING SUCH DATA?

A. Yes, they do.

Q. PLEASE SUMMARIZE THE NEW INCREMENTAL CAPITAL RECOVERY RIDER MECHANISM APPROVED IN TPUC DOCKET NO. 19-00103.

A. The Incremental Capital Recovery Rider Tariff approved by the Commission in TPUC Docket No. 19-00103 includes the following design changes to the Company's Capital Recovery Riders Tariffs that were approved by the Commission in Docket No. 13-00130.

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

Starting with the 2024 filing of the Incremental Capital Recovery Rider for qualifying investments made January 1, 2023, through December 31, 2023, the ICRRR will be computed annually. The type of capital investments eligible for inclusion in the ICRRR remain unchanged from the current scope of investment eligible for recovery via the capital recovery riders approved in Docket No. 13-00130 and are discussed in more detail below.

The calculation of the Capital Recovery Riders under the previous mechanism was based on a forward-looking test year based on planned capital additions that was reconciled in the following year based on actual costs associated with capital placed in service and actual rider revenues recovered. However, the new Incremental Capital Recovery Rider Tariff is based on a historic test year and determines the revenue requirement associated with the actual eligible capital investment made during the previous year. A true up of actual revenues to authorized rider revenues is performed to identify over/under collections from the prior period.

Q. SO, WHAT IS THE PURPOSE OF THIS NEW MECHANISM AND WHAT DOES IT PERMIT TAWC TO RECOVER?

A. As outlined in my Pre-filed Testimony in TPUC Docket No. 19-00103, the Commission directed the Company, interested parties and Commission Staff to review the then-existing Capital Recovery Riders to address potential issues and consider and evaluate proposed modifications to improve, make more transparent or further streamline the Capital Recovery Riders. The parties in Docket No. 19-00103 crafted a new mechanism that was approved by the Commission. The purpose of this new mechanism is to allow TAWC timely recovery of the costs associated with making eligible capital investment projects under its QIPP, EDI and SEC Riders in a more streamlined manner, which is accomplished via the revised methodologies and calculations. So, the new mechanism allows TAWC's Capital Recovery Riders programs – the QIPP, EDI and SEC - to continue but to continue in a way that addresses and satisfies the issues and concerns raised in Docket No. 19-00103. This outcome benefits consumers and TAWC and serves the public interests. It affords TAWC the opportunity to earn a reasonable return on invested capital while allowing regulatory review and approval of utility rates. By adjusting rates annually, subject to an ROE test, the agreed upon ICR Tariff seeks to avoid rate shock to customers while assuring that rates remain affordable. Finally, this framework provides a transparent, efficient, and reasonable process for the Commission to exercise its mandate to ensure clean, safe, and reliable water service at reasonable rates.

Q. CAN YOU SUMMARIZE THE STEPS FOR CALCULATING THE ICRRR?

A. Yes. This testimony describes the calculation of the Incremental Capital Rider Revenue Requirement adopted and approved by the Commission in TPUC Docket No. 19-00103. As discussed above, in this docket the Commission established a new method for calculating TAWC's Capital Recovery Riders on a going forward basis. The previous Capital Recovery Riders adopted prior to 2024 are referred to in Docket No. 19-00103 and in the Incremental Capital Recovery Rider Tariff as the "Legacy Capital Recovery Riders" or "Legacy Riders." These Legacy Riders amounts were set going forward in TPUC Docket 19-00103 at the levels established in TPUC Docket No. 23-00018 and represent the sum of the QIIP, EDI and SEC riders at that time. They will remain in place and unchanged until TAWC's next rate case at which time they will be eliminated, and the associated costs and investments rolled into the setting of new base rates.

The ICRRR calculation has four (4) steps. The first step is to calculate the incremental capital placed in service during the period January 1, 2023 and December 31, 2023. For 2023 the incremental capital placed in service during this period was $5,037,869. **(Petitioner Exhibit TAWC 2024 Incremental Capital Rider Revenue Requirement (ICRRR))** In this Testimony Mr. Stout discusses various projects and related capital expenditures, with regarding to determining the ICRRR, only those projects placed in service between January 1, 2023 and December 31, 2023 are used to determine the incremental capital.

The second step is to calculate the revenue requirement associated with this incremental capital. The incremental capital revenue requirement is $835,400. **(Petitioner Exhibit TAWC 2024 Incremental Capital Rider Revenue Requirement (ICRRR))**

The third step is to make an adjustment for under or over collection of rider revenues during the period. For the period January 1, 2023 through December 31, 2023 the Company collected $362,155 more than set by the Commission in TPUC Docket No. 23-00018, the 2022 Capital Rider Reconciliation case decided by the Commission on August 14, 2023. The Incremental Capital Rider Revenue Requirement (ICRRR), after adjusting for the over collection is $500,782. **(Petitioner Exhibit TAWC 2024 Incremental Capital Rider Revenue Requirement (ICRRR))**

The fourth step is the applications of the Return on Equity (ROE) test by calculating the adjusted Return on Equity earned by the Company to determine how much, if any, of the ICRRR is recoverable from customers through an ICRR Surcharge. If the calculated ROE, including certain adjustments to Net Book Income, results in an

ROE above that authorized TAWC's last rate case the ICRRR is set to zero. The application of the Return on Equity test yields an adjusted Return on Equity above the ROE authorized in TAWC last Rate Case, TPUC Docket No. 12-00049. Therefore, the ICRRR to be recovered is $0.00. **(Petitioner Exhibit TAWC 2024 ROE Test Calculation)**

Q. WHAT DO YOU MEAN HERE BY THE TERM "REVENUE REQUIREMENT"?

A. The "Revenue Requirement" is the annual cost associated with the capital invested by the Company for investments eligible under the Incremental Capital Recovery Rider Tariff mechanism. These costs include the cost of capital of the invested dollars, the annual depreciation expense, the annual property tax and franchise fees expense.

Q. CAN YOU EXPLAIN THE UNDER OR OVER COLLECTION PROCESS IN TPUC DOCKET NO. 23-00018?

A. Yes. The TAWC compared the actual revenues collected in 2022 that resulted from the riders and compared it to the amount authorized for 2022 in TPUC Docket No. 22-00072. Any over or under collection in 2022 was, under the previous Capital Recovery Riders programs adopted in Docket No. 13-00130, flowed through in an adjustment to the Capital Recovery Riders as part of the annual reconciliation.

Q. CAN YOU EXPLAIN WHY AND HOW THE OVER COLLECTION FROM THE AMOUNT ESTABLISHED IN DOCKET NO. 23-00018 IMPACTS THE AMOUNT OF THE ICRRR?

A. Yes. TAWC compared the actual revenues collected that resulted from the riders and compared it to the amount authorized for 2023 in Docket No. 23-00018. The ICRRR required to support the qualified investments made by TAWC in 2023 was reduced by the amount of the over collected revenues.

Q. HOW DOES THE ROE TEST AFFECT THE RECOVERY OF THE ICRRR?

A. The ROE test determines 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 Docket No. 12-00049 during the test period, while an earnings surplus exists if the adjusted Net Book Income divided by TAWC equity is greater than authorized ROE in effect, currently 10% during the test period. Recovery of the ICRRR is 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.

Q. **WHAT WERE THE THREE CAPITAL RECOVERY RIDERS APPROVED BY THE TPUC IN DOCKET NO. 13-00130**

A. Pursuant to Tennessee Code Annotated Section 65-5-103 *et seq*., the three Capital Recovery Riders authorized in Docket No. 13-00130 were based on certain categories of capital expenditures to cover the investments during the study period in question. The first Capital Recovery Rider is the Qualified Infrastructure Investment Program or QIIP Rider. The QIIP Rider was designed to recover the costs associated with the capital investment in non-revenue producing plant placed in service between rate cases. "Non-revenue plant" is not constructed or installed for the purpose of serving a new customer, e.g., replacing aging infrastructure. On the other hand, "Revenue producing" plant is plant placed in service for serving a new customer. Examples of revenue producing plant are main extensions specifically for a new development, or new services or meters for new customers. As outlined in Docket No. 13-00130, and subsequent Capital Recovery Rider dockets, aging water and wastewater infrastructure is a growing problem across the United States, including Tennessee, which will require significant investments over the next few decades to continue to provide clean and reliable water service. This rider helps TAWC address the replacement of this critical, aging infrastructure. The QIIP Rider includes replacement of existing infrastructure in the areas of mains, meters, services, hydrants, water treatment equipment, pumping equipment, and tank painting.

The second Capital Recovery Rider is the Economic Development Investment or EDI Rider. This rider was primarily for the recovery of investment made in infrastructure to assist in economic development in the communities and areas served by TAWC. Communities across the country are competing for economic development opportunities to provide growth in jobs, tax base, and overall quality of life for residents. This rider provides an opportunity for TAWC to partner with the communities it serves to assist in economic development.

The third Capital Recovery Rider is the Safety and Environmental Compliance or SEC Rider. This rider was for the recovery of investment made to comply with safety and environmental regulations since the previous rate case. TAWC, like other utilities, is faced with increasing capital investment requirements to comply with safety and environmental regulations. This rider assists TAWC in addressing those requirements.

On December 11, 2023, the Commission approved a new Capital Recovery Rider mechanism, the Incremental Capital Recovery Rider tariff. The purpose of this Petition is to comply with the ICRR tariff approved in TPUC Docket No. 19-00103 and to provide the required information and supporting documentation for the Incremental Capital Recovery Riders, and the calculation of the ICRRR, based on the costs associated with actual capital investments placed in service made during the period of January 1, 2023 through December 31, 2023.

Q. HOW IS THE PROCESS UNDER THE APPROVED INCREMENTAL CAPITAL RECOVERY RIDER TARIFF, AND THE ASSOCIATED ICRRR, DIFFERENT FROM THE REGULATORY APPROACH USED BY THE COMMISSION PRIOR TO THE ADOPTION OF THE CAPITAL RECOVERY RIDERS IN TPUC DOCKET NO. 13-00130 WITH RESPECT TO INVESTMENT METHODS?

A. As far as the projects and the investment into those projects are concerned, there isn't any difference. The difference between the riders and the future test year regulatory approach used by TAWC in rate cases is in the method and procedure of filing, the deferral of full rate cases and the lessening of rate shock, and the multiple benefits of the streamlined alternative mechanisms. If it were not for the alternative regulatory methods available to the Commission and the regulated community, TAWC would likely have had to file multiple rate cases in the intervening years since our last rate case in 2012. Riders have made the regulatory process much more streamlined and less burdensome, without reducing effective and meaningful regulatory oversight. As intended under the statute and approved by the Commission, the whole process is more efficient, timely and much less expensive. There is no doubt that the alternative rate adjustment methods are working.

Q. PREVIOUSLY YOU STATED THAT IN DOCKET NO. 19-00103 THE COMMISSION APPROVED A NEW CAPITAL RECOVERY RIDER MECHANISM TO CALCULATE AN INCREMENTAL CAPITAL RIDER REVENUE REQUIREMENT (ICRRR) AND TO PROVIDE FOR ITS RECOVERY. CAN YOU ELABORATE ON THIS?

A. Yes. In Docket No. 19-00103, the TPUC approved a settlement establishing a new Incremental Capital Recovery Rider to be used to recover costs associated with eligible investments made since January 1, 2023.

Q. IN DOCKET NO. 19-00103, DID THE TPUC RETAIN THE ELIGIBILITY REQUIREMENTS PREVIOUSLY ESTABLISHED FOR TAWC's QIIP, EDI AND SEC.

A. Yes. The items eligible for calculating the ICRRR and setting the ICRR remain those that were included in the QIIP, EDI and SEC riders from TPUC Docket No. 13-00130 and subsequent related CRRs dockets. The scope of eligible investment and expenses were not changed by the Commission in Docket No. 19-00103.

Q. IN DOCKET NO. 14-00121, THE TPUC ORDERED CHANGES TO THE ELIGIBLE ITEMS WITHIN THE EDI RIDER. ARE THOSE ITEMS EXCLUDED BY THE COMMISSION EXCLUDED IN THIS PETITION?

A. Yes. In Docket No. 14-00121, the TPUC made modifications to the eligible items within the EDI Capital Recovery Rider, removing new services, new meters, and alternative fuel vehicles. These changes were recognized in Docket No. 15-00111 and are reflected fully in this Petition. TAWC has not included these items in the EDI.

Q. IN DOCKET 15-00029, THE TPUC ORDERED THAT GOING FORWARD, TAWC SHOULD FILE WORKPAPERS IN A FORMAT THAT DOESN'T USE ARRAY FORMULAS IN CALCULATIONS, AND FOLLOWS A CLEAR AUDIT TRAIL FOR CALCULATIONS. HAS TAWC DONE THAT IN THIS FILING?

A. Yes. TAWC prepared the files in an excel workbook similar to what was prepared in Docket No. 13-00130 and Docket No. 14-00121 and subsequent Capital Recovery Riders filings.

Q. CAN YOU EXPLAIN HOW THE EXCEL SPREADSHEET FILED WITH THIS PETITION IS STRUCTURED TO PRESENT THE CALCULATIONS?

A. Certainly. In TPUC Docket No. 19-00103, the approved settlement included an Excel Worksheet. In the filed excel document 2024 ICRRR & ROE Test Calculation the first two tabs titled 2024 ICRRR Calc and 2023 ROE Test Calc, are the electronic versions of the 2024 ICRRR Calc Exhibit and the 2023 ROE Test Exhibit respectively. The excel document includes formulas intact linking to the supporting tabs to the right of the tab titled Support. Each support tab is titled with the respective financial information or assumptions used in the 2024 ICRRR Calc and 2023 ROE Test Calc tabs.

Q. DOES THE SUPPORTING DOCUMENTATION WITH THIS FILING INCLUDE SCHEDULES AND INFORMATION SIMILAR TO THOSE PREVIOUSLY SUBMITTED IN TAWC CAPITAL RIDER RECONCILIATION FILINGS AS SET FORTH ON PAGE 7 OF THE STIPULATION AND SETTLEMENT AGREEMENT?

A. Yes.

Q. HOW HAS THE RECOVERY OF COSTS SURCHARGES WITH EDI ELIGIBLE INVESTMENTS BEEN DIFFERENT FROM THE PREVIOUS INVESTMENT

REGULATORY METHODS UTILIZED BY TAWC PRIOR TO THE APPROVAL OF THE RIDERS IN TPUC DOCKET NO. 13-00130?

A. In his testimony, Grady Stout discusses the individual projects included in the EDI Rider. Without the EDI Rider, these projects may not have been as successful or potentially would not have developed at all. Under its previous investment methods for development, TAWC would have required the developers to pay for the relocation and replacement of assets, thus increasing the upfront costs to them. Given the amount of the investment, coupled with the growth, jobs, and other positive attributes attached to these projects, losing one or more of the projects would have been a disappointment to the communities. These projects demonstrate that the EDI Rider is an extremely valuable tool that can enhance a community's ability to attract future economic development opportunities. Successes such as these will help the area gain an upper hand in the vigorous competition among communities, which ultimately benefits all of TAWC's customers. For instance, additional water sales have the potential to help offset the ongoing declining use that TAWC has experienced, maintaining a water sales level close to authorized and thus contributes to cover a portion of the Company's fixed expenses. This helps maintain lower rates to all of our customers.

Q. HOW IS THE SEC RIDER ALSO DIFFERENT FROM PREVIOUS INVESTMENT METHODS THAT WERE AVAILABLE TO TAWC PRIOR TO THE APPROVAL OF THE RIDERS IN TPUC DOCKET NO. 13-00130?

A. The overall strategy is similar, but an important difference is that the investment is made through a program that expressly delineates and highlights the reason needed for the investment. To the extent that additional investments are made for safety and environmental compliance measures under the SEC Rider, the purpose of the investment will be more transparent to the customer and to the Commission.

Q. DOES THE INCREMENTAL CAPITAL RECOVERY RIDER BENEFIT CUSTOMERS?

A. Yes. The company believes the new ICRR will benefit customers in a similar manner as was demonstrated with the Capital Recovery Riders Capital Riders are mutually beneficial to our customers, the general public, and TAWC. Riders, in part, reduce the need for general rate cases, lessen the occurrence of customer "rate shock," support the maintenance and improvement of essential infrastructure, support opportunities for successful economic development, growth and job creation, ensure safety and reliability, and allow for more efficient, streamlined regulation. More importantly, customers and the public benefit from the safety and reliability components and from the more seamless and timely capital investment in infrastructure replacement, coupled with the related support to economic development, growth and job creation. The Company benefits from a more efficient, streamlined regulatory process that presents TAWC with the opportunity to timely recover its expenses and earn a fair rate of return on its investments.

Q. YOU MENTIONED THAT THE COMPANY BENEFITS FROM THE RIDERS BECAUSE THE RIDERS PROVIDE THE COMPANY WITH THE OPPORTUNITY TO TIMELY RECOVER ITS COSTS AND EARN A FAIR RATE OF RETURN ON ITS INVESTMENTS. CAN YOU ELABORATE ON HOW THIS OCCURS UNDER THE MECHANISM APPROVED BY THE COMMISSION IN TPUC DOCKET NO. 19-00103?

Certainly, capital recovery riders permit TAWC to recover the cost of capital investment between rate cases in an efficient, streamlined regulatory process. As outlined in my testimony, each year TAWC determines the amount of qualified capital investment (QIIP), economic development infrastructure investment (EDI) and safety and environmental compliance investment (SEC) that it placed into service during the preceding calendar year, for this Petition, that is for the calendar year ending December 31, 2023. The Company then calculates what it costs to recover the costs associated with this capital investment. For example, if the Company invested $1 million dollars on a QIIP project during 2023, the Company would not recover that entire $1 million that year. Rather, it will only recover a return on that investment (which includes a weighted return on equity and interest on debt as authorized in the most recent rate case), as well as depreciation expense and taxes. After it calculates what it costs to recover the expenditures associated with the capital investment and expenses, TAWC then determines – through a second calculation – the percentage of the costs to recover those expenditures as an amount of the overall revenue authorized in the last rate case. This is the surcharge amount. The surcharge then represents recovery for the costs to support the capital investments.

Q. BEFORE TPUC APPROVED THE CAPITAL RECOVERY RIDERS, WHAT PROCESS DID TAWC USE TO RECOVER THE EXPENSES ASSOCIATED WITH CAPITAL INVESTMENT AND HAVE THE OPPORTUNITY TO EARN A FAIR RETURN?

A. TAWC cannot adjust its rates without approval of the TPUC, which prior to the passage of the alternative regulation statute required a full rate case filing. So, TAWC employed rate cases for appropriate recovery.

Q. IS THERE A DRAWBACK TO RATE CASES?

Yes. In part, this goes back to my earlier testimony concerning the benefits of the Capital Recovery Riders to the public. Further, regulated utilities continue to invest money in infrastructure (utility plant) and expenses may continue to increase in between rate cases. This “regulatory lag” lessens the opportunity for the Company to earn its authorized return on equity. Additionally, rate cases can impose an administrative and regulatory burden on the Company, the Commission and intervenors as well as significant costs associated with developing and litigating a rate case.

Q. CAN YOU EXPLAIN THE CALCULATION OF THE INCREMENTAL CAPITAL RIDER REVENUE REQUIREMENT?

A. Certainly. As set forth in the approved tariffs adopted in TPUC Docket 19-00103, going forward the Incremental Capital Rider is established on an annual basis utilizing the average end-of-month balances and reflect only those qualified plant additions placed in service in 2023. Consistent with the tariffs, the qualified plant additions are reduced by the projected retirements associated with the rider eligible additions in the calculation of applicable depreciation and property tax expense. TAWC has not included any operating expenses for EDI or SEC in this Petition. In this case, TAWC has included the additions place in service during the review period beginning in January 1, 2023, and ending December 31, 2023. This annual review period was established in the tariffs adopted in TPUC Docket 19-00103

Q. CAN YOU DISCUSS DETAILS OF THE OPERATION OF THE INCREMENTAL CAPITAL RIDER REVENUE REQUIRMENT NOT ADDRESSED ABOVE?

A. Yes. In calculating the ICRRR TAWC utilizes an annual historic approach to the utility plant additions that qualify for recovery through the ICR. The ICR provides for the recovery of revenue sufficient to cover the capital cost, depreciation and tax expense related to actual investment in qualified utility plant. These costs consider the effects of associated retirements ("Net Plant"), Contributions in Aid of Construction ("CIAC"), and Cost of Removal Spending net of Salvage value for the year. To determine the rate of return recovery, an average of the month-end balances of new utility plant in service is calculated, less ½ of the anticipated annual associated CIAC, plus ½ of the anticipated annual associated cost of removal net of salvage spending, to derive the "Net Plant" amount. TAWC used a 13-month average from the end of the previous year through the end of the period. The current approved pre-tax rate of return ("PTR") is applied to this net amount to determine the revenue requirement of the rate base portion. The PTR is calculated from the weighted common equity and preferred equity, grossed up to include state and federal taxes, plus the weighted cost of long-term debt and the weighted cost of short-term debt. Next, the annual depreciation expense of the additional Net Plant is calculated ("NetDep"), utilizing the current TPUC approved depreciation rates by account and then added. From there, incremental new property and Franchise taxes

("PFT") is added. Operating expenses that previously qualified for recover under the EDI Rider and SEC Rider, would be added as appropriate. The sum of these components are grossed up to include the recovery of the associated additional Gross Receipts taxes, Uncollectible expense, and forfeited discounts to derive the final revenue requirement. Then, any over or under Capital Recovery Rider collection of prior periods would be added or subtracted as applicable. The ICRRR is the adjusted for any over or under collection during the previous year. This total is then divided by the authorized annual level of general metered service and private fire service customer revenues from the prior docket (Docket No. 12-00049), not including any other revenues, to render the Incremental Capital Revenue Recovery Rider percentage.

Q. IS A RECONCILIATION FILING REQUIRED UNDER THE NEW ICRRR MECHANISM ADOPTED BY THE COMMISSION IN TPUC DOCKET NO. 19-00103. CAN YOU EXPLAIN WHY OR WHY NOT?

Q. No separate reconciliation filing is required. The reconciliation had three parts. The first was to reconcile the projected investment with the actual investment made during the period. This is no longer needed because the newly adopted ICRRR is calculated using actual historic information regarding investment that was placed in service during the previous year. Thus, there is no need to reconcile projected to actual investment. The second was that under the previous model the Reconciliation compared actual revenues to collected by the rider surcharges was compared to those authorized. Again, because the current ICRRR is using historical information the ICRRR calculation includes a reconciliation of over or under collection of revenue. Thus, a sperate filing is not required. And finally, the reconciliation made an adjustment if the Company earned its above its authorized Rate of Return. The ICRRR mechanism replaced the Rate of Return based earnings mechanism with a Return on Equity test that determines how much, if any, of the ICRRR was included in the ICR surcharge going forward. Again, because the new ICRRR mechanism includes the application of a Return on Equity test there is no need for a separate reconciliation filing.

Q. HAS TAWC INCLUDED DETAILED INFORMATION REGARDING THE PROJECTS RELATED TO THE QIIP, THE EDI AND THE SEC RIDERS?

A. Yes, Company Witness Grady Stout will discuss the details regarding the Capital expenditures qualified as QIIP, EDI and SEC investments in 2023.

Q. HOW IS THE INCREMENTAL CAPITAL RIDER REVENUE REQUIREMENT RECOVERED?

A. The ICR is expressed as a percentage and applied to the total amount billed to each customer under the otherwise applicable rates and charges for basic service, metered usage charges, and private fire charges, and are applied prior to the inclusion of any other taxes, charges, or surcharges. The new Incremental Capital Recovery Rider Tariff mechanism implements the calculation under the ICRRR and the "Legacy Riders" are combined into one line item on the bill of each customer, which also includes the TCJA tax expense offset approved in Docket No. 18-00039.

Q. HAS TAWC INCLUDED A CHART SHOWING THE PROGRESSION OF THE APPROVED RIDERS IN EACH DOCKET SINCE THE LAST RATE CASE?

A. Yes. I have included a chart reflecting each of the annual approvals with its filing. This is shown as **<u>Petitioner's Exhibit – Annual Approved Tariffs</u>**

Q. WHAT WILL HAPPEN TO THE LEGACY CAPITAL RECOVERY RIDERS UPON APPROVAL OF NEW RATES IN A RATE CASE PROCEEDING?

A. The Legacy Riders, the sum of the QIIP, EDI, and SEC Riders, will all be reset to zero as of the effective date of the new Base Rates, which Base Rates then provide for the recovery of the annual costs that had theretofore been recovered through the Capital Recovery Riders. Thereafter, the Legacy Riders will be eliminated and the new QIIP, EDI, and SEC eligible plant additions and expenses not previously included in rate base and Base Rates will be reflected in the future ICR filings subject to TPUC Approval.

Q. WHAT WILL HAPPEN TO THE INCREMENTAL CAPITAL RECOVERY RIDERS UPON APPROVAL OF NEW RATES IN A RATE CASE PROCEEDING?

A. The Incremental Capital Recovery Rider will be reset to zero. After new base rates are established in a rate case, new QIIP, EDI, and SEC qualified plant additions and expenses not previously included in rate base and Base Rates will be reflected in the future ICR filings subject to TPUC Approval.

Q. WHAT COST OF CAPITAL IS UTILIZED IN THE FORMULA OF THE CAPITAL RECOVERY RIDERS?

A. For this filing, the cost of capital is the established rate of return (on a pre-tax basis) in the Company's immediately preceding Base Rate case Order, currently TPUC Docket No. 12-00049.

Q. WHAT DEPRECIATION RATES ARE USED TO DETERMINE THE DEPRECIATION EXPENSE RECOVERED BY THE QIIP, EDI AND SEC RIDERS?

A. The depreciation rates last approved by the TPUC in Docket 12-00049 for the respective plant accounts in which the specific items of qualified infrastructure under each rider are recorded are the depreciation rates used to determine the depreciation expense. New depreciation rates would be used only after depreciation rates are changed during a general rate proceeding. These are the rates that were used in Docket Nos. 13-00130, 14-00121, 15-00029, 15-00111, 16-00022, 16-00126, 17-0020, 17-00124, 18-00022, 18-00120, 19-00031, 19-00105, 20-00028, 20-00128, 21-00030 and 22-00021.

Q. WHAT PROPERTY TAX RATE IS USED TO DETERMINE THE PROPERTY TAX EXPENSE RELATED TO THE ADDITIONAL INVESTMENT TO BE RECOVERED IN THE INCREMENTAL CAPITAL RIDER?

A. The property tax rate is based on the proportion of property taxes authorized in Docket No. 12-00049 to the utility plant in service, multiplied by the additional utility plant less retirements. This is the same rate used in Docket No. 13-00130 and subsequent Capital Recovery Rider dockets.

Q. WHAT IS THE FEDERAL INCOME TAX RATE USED TO DETERMINE THE APPROPRIATE INCOME TAX EXPENSE RELATED TO THE ADDITIONAL REVENUES GENERATED BY THE Incremental CAPITAL RIDER?

A. As noted previously, TAWC has revised the federal income tax rate to 21% based on the 2017 Tax Cuts and Jobs Act.

Q. HOW ARE BASE RATE ANNUAL REVENUES DETERMINED FOR THE INCREMENTAL CAPITAL RECOVERY RIDER?

A. The projected annual revenues will be the authorized water services revenues from the last case, Docket No. 12-00049, including all service charges and volumetric charges for all classes that are subject to the Capital Recovery Riders. These are the same annual revenues used in Docket Nos. 13-00130, 14-00121, 15-00029, 15-00111, 16-00022, 16-00126, 17-00020, 17-00124, 18-00022, 18-00120, 19-00031, 19-00105, 20-00028, 20-00128, 21-00030, 22-00021 and 22-00072

Q. HAS TAWC INCLUDED ANY OPERATING EXPENSES IN THE CURRENTLY PROPOSED EDI RIDER OTHER THAN THE DEPRECIATION AND TAX EXPENSES?

A. No. In the tariffs approved in Docket No. 13-00130, TAWC included expenses related to specific economic development within the community as a component of the EDI Rider and operating expenses related to specific investment in the SEC Rider. However, in Docket No. 14-00121, the operating expenses related specifically to TAWC contributions to economic development agencies were not approved by the TPUC. In that same Docket, TAWC removed proposed SEC Rider operating expenses, as those expenses would be captured in the PCOP. Other types of operating expenses related to Economic Development or Safety and Environmental Compliance are not included in this current Petition, but TAWC will continue to review and evaluate potential and appropriate operating expenses for the EDI and SEC eligibility and submit them for consideration as appropriate.

Q. HAS TAWC INCLUDED ANY OPERATING EXPENSES IN THE CURRENTLY PROPOSED INCREMENTAL CAPITAL RIDER OTHER THAN THE DEPRECIATION AND TAX EXPENSES?

A, No.

Q. HOW IS THE RETURN ON EQUITY TEST CALCULATED AS ADOPTED BY TPUC DOCKET 19-00103?

A. The calculation of the Return begins with Net Book Income of TAWC for the year, in this case 2023. This Net Book Income adjusted for Income Tax Rate (Debt assigned to Parent), Pay for Performance compensation exclusions (Incentive Compensations) Lobbying Expenses and Salaries, and for an adjustment related for Non-Revenue Water (NRW) in excess of 15%. The Adjusted Net Book Income is then divided by the Equity Financed Rate Base to derive the Return on Equity for purposes of the ROE Test.

Q. HOW IS THE EQUITY FINANCED RATE BASE CALCULATED?

A. The Equity Financed Rate Base is calculated by subtracting short-term and long-term debt from TAWC's total rate base. The remaining amount is the portion of rate based that is equity financed.

Q. HAS THERE BEEN A CHANGE IN THE WAY THAT WORKING CAPITAL IS CALCULATED AS A RESULT FO THE SETTLEMENT APPROVED IN TPUC DOCKET 19-00103?

A. Yes. Consistent with the settlement approved by the Commission in TPUC Docket No. 19-00103, the Cash Working Capital balance included in Rate Base is determined using the lead-lag days established in TPUC Docket No. 12-00049 with updated cost of service balances for the test period. The balance of Working Capital components is determined using appropriate accounts and corresponding balances reflected in the test period, without regard to the accounts/balances relied upon in TPUC Docket No. 12-00049. Materials and Supplies are no longer included in Working Capital and included on the balance sheet as a separate line item. See the Working Capital Table below to see the items included in 2023 Working Capital

Working Capital

Line No.	Item	2023 Amounts[1]	Docket No. 12-00049
1	Prepaid Expenses & Taxes	$853,098	$577,696
2	Deferred Regulatory Expenses	0	1,138,715
3	Unamortized Debt Expense	1,276,694	885,503
4	Other Deferred Debits	0	31,124
5	Lead/Lag Study	268,357	369,982
6	Incidental Collections	(145,861)	(116,192)
7	**Total Working Capital**	**$2,252,288**	**$2,886,828**

Source: Petitioners Exhibit Working Capital

Q. COULD THE AMOUNT OF INVESTMENT RIDER REVENUES COLLECTED FROM THE COMPANY'S CUSTOMERS VARY FROM THE ACTUAL AMOUNT OF REVENUE NEEDED TO COVER A RETURN OF AND A RETURN ON THE COMPANY'S QIIP, EDI AND SEC RIDER INFRASTRUCTURE INVESTMENT AND TAXES?

A. Yes. This would occur as a result of a difference between the actual and the authorized water operating revenues upon which the Capital Recovery Riders are based.

Q. IS THE ICRRR ADJUSTED TO REFLECT ANY OVER OR UNDER COLLECTION OF REVENUES COMPARED TO AUTHORIZED ?

A. Yes. The amount of the ICRRR is reduced by the amount of any over collection or increased to adjust for any under collection.

Q. WAS AN ADJUSTMENT TO THE ICRRR FOR OVER OR UNDER COLLECTION OF REVENUES IN THE CALCULATION OF THE ICRRR NECESSARY IN THIS FILING?

A. Yes. The ICRRR was adjusted downward to adjust for an over collection of revenues consistent with the tariff settlement and tariff adopted by the Commission in TPUC Docket 19-00103.

Q. WHAT IS THE PROPOSED ICRRR?

A. Under the new ICRR mechanism, TAWC's adjusted net book income results in a Return on Equity (ROE) above our currently authorized ROE of 10%. Therefore, under the operation of the new ICRR mechanism, the ICRRR eligible for recovery from customers is zero. Thus, the ICRR is set at 0.0%

Q. HAS TAWC FILED A TARIFF ADDRESSING THE PROPOSED INCREMENTAL CAPITAL RIDER?

A. Yes. A new tariff proposed tariff Sheet No. 12 – Riders – 1 is attached to my testimony as **Petitioners Exhibit First Revised Sheet No. 12-Riders-1.**

Q. IN DOCKET 18-00039, TAWC RECOMMENDED USING EXCESS ACCUMULATED DEFERRED INCOME TAX ("EADIT") NORMALIZATION RESULTING FROM THE TCJA TO ADJUST THE CAPITAL RECOVERY RIDERS. DOES TAWC STILL RECOMMEND THAT?

A. Yes, TAWC still recommends that excess ADIT normalization be used as an offset to Incremental Capital Recovery Rider increases or reconciliations. The EADIT surcharge percentage effective January 1, 2024 is 0.5% and can be seen on the new proposed tariff which is attached to my testimony as **Petitioners Exhibit First Revised Sheet No. 12-Riders-1**.

Q. DOES TAWC ANTICIPATE AN UPDATE TO THE EADIT PERCENTAGE IN 2024?

A. Yes, TAWC anticipates filing for an update to the EADIT percentage late in 2024 This update will be consistent with the TPUC order in Docket No. 18-00039, in which the Commission ordered that the protected portion of EADIT be amortized using the ARAM method. The Unprotected EADIT was to be amortized over a three-year period. The Unprotected EDIT is now fully amortized.

Q. IN DOCKET NO. 18-00039 THE COMMISSION AUTHORIZED USING AN OFFSET TO THE CAPITAL RECOVERY RIDERS FOR TCJA SAVINGS. DOES TAWC STILL RECOMMEND THAT?

A. Yes, TAWC still recommends that TCJA savings be used as an offset to the Capital Recovery Rider increases or reconciliations. The TCJA credit percentage effective September 1, 2019 was 4.32% and can be seen on the new proposed tariff which is attached to my testimony as **Petitioners Exhibit First Revised Sheet No. 12-Riders-1**.

Q. DOES TAWC ANTICIPATE AN UPDATE TO THE TCJA OFFSET PERCENTAGE IN 2024?

A. No. TAWC does not anticipate filing for an update to the TCJA savings percentage.

This TCJA current savings percent is consistent with the TPUC order in Docket No. 18-00039, in which the Commission approved the *Stipulation and Settlement Agreement Regarding Phase One Issues* filed on July 24, 2019. The agreement concluded that TAWC shall offset its annual Capital Recovery Riders surcharge mechanism by the sum of the annual level of Base Rates Tax Savings ($2,035,031) and additionally, for a three-year period (September 2019 – August 2022), one-third of the outstanding balance of deferred Base Rates Tax Savings accrued from January 1, 2018 through August 31, 2019 (that is one-third of the estimated $3,237,169) shall also be offset against TAWC's annual Capital Recovery Riders Surcharge mechanism. Since the three-year period of the outstanding balance of deferred Base Rates Tax Savings accrued ended August 31, 2022, the current TCJA savings offset will continue to reflect only the amount of Base Rates Tax Savings ($2,035,031).

Q. WHAT IS THE IMPACT OF TAWC'S PROPOSAL TO THE AVERAGE CUSTOMER BILL?

A. There is no change to customers' bills as a result of this petition because there is no proposed change to rates due to the Incremental Capital Rider revenue requirement percentage being set at 0.0%.

Q. IS THE ICR IN THE PUBLIC INTEREST?

A. Yes. In TPUC Docket No 19-00103, the Commission found that the proposed changes to the Capital Recovery Riders set forth in the Settlement Agreement were in the public interest and will benefit both consumers and TAWC. As I noted at the outset herein, and as outlined by TAWC in much detail and with supporting documentation when the Capital Recovery Riders were first adopted for the Company in TPUC Docket No. 13-00130, Capital Riders are mutually beneficial to the customers, the public, and TAWC. Among other things, the Capital Recovery Riders reduce the need for general rate cases, lessen the occurrence of consumer "rate shock," support the maintenance and improvement of essential infrastructure, support opportunities for successful economic development, growth and job creation, ensure safety and reliability, and allow for more efficient, streamlined regulation. The ratepayers and the public benefit from the safety and reliability components and from the more seamless and timely capital investment in infrastructure, coupled with the related support to economic development, growth and job creation. The Company benefits from a more efficient, streamlined regulatory process that presents TAWC with the opportunity to timely recover its expenses and earn a fair rate of return on its investments. TAWC understands that the purpose of the alternative regulatory methods legislation ─ Tenn. Code Ann. § 65-5-103 *et. seq*., ─ was, in part, to encourage an increase in certain types of infrastructure investment and recovery by utilities, while reducing the costs to consumers and utilities for regulatory review and implementation, and promoting rate gradualism for consumers. TAWC believes the previously approved Capital Recovery Riders achieved that goal and the newly adopted Incremental Capital Riders will as well.

As reflected in the evidentiary record in TPUC Docket No. 13-00130, the US Environmental Protection Agency and the American Society of Civil Engineers have published reports regarding the significant capital needs for water and wastewater infrastructure in the United States, including here in Tennessee. Grady Stout also provides a current update on water and wastewater infrastructure capital needs in his testimony. A substantial portion of TAWC's distribution infrastructure is between 50 and 100 years old, and TAWC needs to continue to invest in replacing its infrastructure in order to meet its obligation to provide safe, reliable drinking water to its customers. The recovery QIIP eligible investments Rider assists TAWC in responsibly and strategically addressing the systems' infrastructure replacement needs, while helping to increase the time between rate cases and reducing the cost of rate cases to its customers. As testified to by Company Witness Grady Stout, TAWC has strategically focused its efforts on mains with the highest maintenance concerns.

The evidentiary record in TPUC Docket No. 22-00072, outlines how the presence of the new Black Creek Development in Chattanooga, along with the accompanying jobs and other associated community and public benefits, shows that the recovery of EDI eligible investments thru a rider is working as intended by the Tennessee General Assembly. Grady Stout also addresses other significant and more recent EDI projects under the Capital Riders in his testimony. Moreover, the Company's cooperative and coordinated efforts with the City of Chattanooga to timely address crucial safety, health and reliability issues, including those identified in the US Environmental Protection Agency's April 2013 Consent Decree issued to the City of Chattanooga requiring improvements to the City's sanitary sewer system, demonstrates that the recovery of SEC eligible investments through a rider is serving our customers and the public interest as anticipated.

As it pledged to do when it first submitted the Capital Recovery Riders for review and consideration by the agency in TPUC Docket No. 13-00130, TAWC has been able to partner with the community to promote economic development, which we believe to be consistent with Tenn. Code Ann. § 65-5-103 *et. seq*., consistent with the approved QIIP Rider, EDI Rider, and SEC Rider, and in the public interest. Under the Commission's oversight and within the safeguards set forth in the approved tariffs, TAWC has been able to increase infrastructure replacement and meet environmental compliance needs on a timely basis, which we believe to be in the public interest.

Q. ARE YOU AWARE OF ANY CHANGES IN MARKET CONDITION OR OTHER FACTORS THAT MAY AFFECT WHETHER THE INCREMENTAL CAPITAL RECOVERY RIDER TARIFF MECHANISM STILL SERVES THE PUBLIC INTEREST?

A. No, I am not.

Q. WHAT DO YOU RECOMMEND WITH REGARD TO THIS PETITION?

A. I recommend that the Commission approve TAWC's Petition to set the Incremental Capital Rider based on 2023 results be set at 0.0%.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes. I reserve the ability to submit further testimony as is appropriate.

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 7 day of March, 2024.

Kathryn Robinson
Notary Public

My Commission Expires: 10/20/2024

Kathryn Robinson
STATE
OF
TENNESSEE
NOTARY
PUBLIC
COUNTY OF HAMILTON

Tennessee American Water Company
Qualified Infrastructure Improvement Program Rider (QIIP)
Economic Development Investment Rider (EDI)
Safety and Environmental Compliance Rider (SEC)
Incremental Capital Rider
As of 12/31/2023

Line Number	Description	Qualified Infrastructure Investment Program QIIP Average YTD 12/31/2023 Actual	Economic Development Investment EDI Average YTD 12/31/2023 Actual	Safety and Environmental Compliance SEC Average YTD 12/31/2023 Actual	Total Average YTD 12/31/2023 Actual	Qualified Infrastructure Investment Program QIIP 2022 Legacy Rider Company Totals	Economic Development Investment EDI 2022 Legacy Rider Company Totals	Safety and Environmental Compliance SEC 2022 Legacy Rider Company Totals	Total	Qualified Infrastructure Investment Program QIIP Incremental Company Totals	Economic Development Investment EDI Incremental Company Totals	Safety and Environmental Compliance SEC Incremental Company Totals	Total
1	Additions Subject to Rider:	$104,646,530	$9,439,762	$46,135,023	$160,221,315	$91,148,832	$8,824,903	$40,089,619	$140,063,354	$13,497,698	$614,859	$6,045,404	$20,157,960
2	Plus: Cost of Removal less Salvage	21,746,368	2,021	4,529,637	26,278,025	18,626,758	2,021	4,322,504	22,951,282	3,119,610	0	207,133	3,326,743
3	Less: Contributions in Aid to Construction (CIAC)	2,326,395	291,440	0	2,617,836	2,314,600	273,854	0	2,588,454	11,795	17,586	0	29,382
4	Less: Deferred Income Taxes	11,338,100	792,971	5,297,584	17,428,655	9,972,679	740,433	5,024,195	15,737,307	1,365,421	52,538	273,389	1,691,348
5	Less: Accumulated Depreciation	10,347,376	422,251	6,646,221	17,415,848	7,827,555	289,656	5,304,689	13,421,900	2,519,821	132,595	1,341,532	3,993,948
6	Net Investment Supplied Additions:	$102,381,026	$7,935,120	$38,720,855	$149,037,001	$89,660,756	$7,522,981	$34,083,239	$131,266,975	$12,720,270	$412,139	$4,637,616	$17,770,026
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%	8.45%	8.45%
9	Pre-Tax Return on Additions:	$8,652,684	$670,633	$3,272,475	$12,595,791	$7,577,636	$635,801	$2,880,529	$11,093,966	$1,075,048	$34,832	$391,946	$1,501,825
10													
11	Depreciation Expense on Additions:	2,669,765	138,672	1,455,922	4,264,359	2,369,867	126,510	1,227,139	3,723,517	299,898	12,162	228,782	540,842
12													
13	Property and Franchise Taxes Associated:	1,314,044	127,524	583,678	2,025,246	1,142,581	119,274	507,395	1,769,250	171,464	8,250	76,283	255,996
14													
15	Revenues:	12,636,493	936,829	5,312,074	18,885,396	11,090,084	881,585	4,615,063	16,586,732	1,546,409	55,244	697,011	2,298,664
16													
17	Revenue Taxes	3.19%	3.19%	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	13,053,015	967,709	5,487,169	19,507,893	11,455,633	910,644	4,767,184	17,133,461	1,597,381	57,065	719,986	2,374,432
19													
20	APP Revenue Reduction	(28,436)	(2,106)	(15,454)	(45,996)	(28,436)	(2,106)	(15,454)	(45,996)	0	0	0	0
21													
22	Total Capital Riders Revenues with Revenue Taxes & APP	$13,024,579	$965,602	$5,471,715	$19,461,897	$11,427,198	$908,538	$4,751,730	$17,087,465	$1,597,381	$57,065	$719,986	$2,374,432

Tennessee American Water Company
2024 Incremental Capital Rider Revenue Requirement ("ICRRR")
For the Twelve Months Ending December 31, 2023

Line No.	Description	Source		2023
	Section A Return			
	Determining Capital Rider Rate Base and Rate of Return			
1	TAWC 13-Month Average Rate Base		$	267,385,056
2	Eligible Capital Rider Rate Base		$	149,037,001
3	Plus:			
4	Authorized Rate Base	Rate Order 12-00049	$	132,015,472
5	Acquisiton Rate Base			(935,260)
6	Eligible Capital Rider Rate Base Plus	Line 2 + Line 4 + Line 5	$	280,117,213
7	Lower of the Rate Base Calculation	Lower of Line 1 or Line 6		$267,385,056
8	Eligible Rate Base	Line 7 Less Lines 4 and 5	$	136,304,844
9	Less: Previously Recovered CR Rate Base		$	131,266,975
10	Incremental CRR Investment	Line 8 Less Line 9	$	5,037,869
11	Pre-Tax Return	12-00049		8.45%
12	Pre-Tax Revenue Deficiency on ICR Investment	Lines 10 * 11	$	425,773
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	**$**	**470,753**
	Section B: Depreciation			
	Determining Depreciation Expense			
15	TAWC Depreciation Expense	PSC--3.06	$	11,635,460
16	Minus:			
17	Authorized Depreciation Expense	Rate Order 12-00049	$	6,090,861
18	Acquisiton Depreciation Expense		$	24,878
19	Legacy CRR Depreciation Recovery		$	3,723,517
20	Incremental Depreciation Expense Cap (Depreciation Expense Unrecovered in either base rates or Capital Rider)	Line 15 Less Lines 17, 18, 19	$	1,796,204
21	Incremental CR Depreciation Expense		$	540,842
22	Lower of the Depr Expense on incremental CR expenditures or Unrecovered Depreciation Expense	Lower of Line 20 or 21		$540,842
23	Lag Weighted Return Factor - Pre-Tax	Regulatory Lag Factor		1.1056
24	**ICRRR Depreciation Expense w/ Regulatory Lag**	Line 22 * 23	**$**	**597,978**
	Section C: Property and Franchise Tax Expense			
25	Determining Property & Franchise Tax Expense			
26	TAWC Property tax	PSC--3.06	$	3,901,685
27	TAWC Franchise tax		$	835,732
28	Minus:			
29	Authorized Property & Franchise Tax	Rate Order 12-00049		$3,166,568
30	Acquisiton Property tax		$	10,298
31	Acquistion Franchise Tax		$	2,338
32	Legacy CR Property Tax Recovery		$	1,769,250
33	Incremental Property & Franchise Tax (Unrecovered in either base rates or capital rider)	Lines 26 + 27 Less Lines 29, 30, 31, 32	$	(211,037)
34	Incremental Property and Franchise Taxes	Property & Franchise Tax Calc	$	255,996
35	Eligible Capital Rider Franchise Tax			
36	Lower of unrecovered actual or CR property and franchise tax expense	Lower of Line 33 or 34		($211,037)
37	Lag Weighted Return Factor - Pre-Tax	Regulatory Lag Factor		1.1056
38	ICRRR Property and Franchise Tax w Regulatory Lag	Line 36 * 37	$	(233,331)
39	**Total ICRRR Revenue Requirement**	Lines 14 + 24 + 38	**$**	**835,400**
40	CRR Revenue Deficiency	Line 39	$	835,400
41	Revenue Taxes Reciprocal Factor			103.30%
42	**Revenues with Revenue Taxes**			**$862,936**
43	(Over)/Under Collection from Prior Period		$	(362,155)
44	**After Tax ICRRR**			**$500,782**

Tennessee American Water Company
Calculation of Return on Equity Test
For the Twelve Months Ending December 31, 2023
Docket No. 24-000XX

Line No.		
1	2024 ICRRR	
2	**Calculation of Adjusted Net Income**	
3	Book Net Income	$ 13,717,971
4	Adjustments to Book Income	$ -
5	Deferred Depreciation, Property Tax and Debt Carrying Cost	$ -
6	New ICRRR Revenue	$ -
7	Allowance for Funds Used During Construction	$ -
8	Adjustment to reflect effective Federal Rate	$ -
9	Income Tax Rate (debt assigned to parent)	$ 415,560
10	Interest on Customer Deposits	$ -
11	Incentive Compensation	$ 806,628
12	Lobbying Expenses	$ 57,498
13	Lobbying - Salary	$ 17,745
14	Deferral of Operating Costs - Main Break	$ -
15	Excess Production Costs > 15% Adjustment	$ 389,068
16	Reserved for Adjustment to Book Income	$ 344,357
17	Adjustments to Net Income (Lines 5-16)	$ 2,030,857
18	Adjusted Net Income (Line 3+17)	$ 15,748,828
19	**Calculation of Equity**	
20	TAWC 13-Month Avg Rate Base	$ 267,385,056
21	Less: 13-Month Avg Debt:	
22	Short-Term Debt	$ 7,649,113
23	Long-Term Debt	$ 113,434,422
24	Equity Financed Rate Base * (Line 20-22-23)	$ 146,301,521
25	Earned Return on Equity (Line 18/24)	10.76%
26	Less: Authorized Return	10.00%
27	Excess Return on Equity (Line 25- 26)	0.76%
28	*Earned Return on Equity above authorized. No Revenue Deficiency.	
29	**Capital Structure per TN Statements @ 12/23**	
	Total Stockholders Equity	$ 147,264,584
	Long-Term Debt	$ 122,674,751
	Short-Term Debt	$ 8,252,789
	Total	$ 278,192,125
30	**Capital Structure per TN Statements @ 12/22**	
	Total Stockholders Equity	$ 132,848,716
	Long-Term Debt	$ 107,655,632
	Short-Term Debt	$ 11,946,731
	Total	$ 252,451,079

Authorization of Tennessee American Water Capital Recovery Riders
Since Last Rate Case (Docket No. 12-00049)

TPUC Docket No.	Effective Date	Rider	Authorized Annual Change	Total Cumulative Rider	Reconciliation Authorized	Individual Authorized Rider Total	Capital Riders Cumulative Total	TCJA Offset	Impact to Bill
13-00130	4/15/2014	QIIP	0.790%	0.790%	0.000%	0.790%			
		EDI	0.180%	0.180%	0.000%	0.180%			
		SEC	0.110%	0.110%	0.000%	0.110%			
		Total	1.080%		0.000%		**1.080%**	**0.00%**	**1.080%**
14-00121	6/30/2015	QIIP	1.340%	2.130%	0.000%	2.130%			
		EDI	-0.130%	0.050%	0.000%	0.050%			
		SEC	3.430%	3.540%	0.000%	3.540%			
		Total	4.640%		0.000%		**5.720%**	**0.00%**	**5.720%**
15-00029*	11/1/2015	QIIP	0.000%	2.130%	0.254%	2.384%			
		EDI	0.000%	0.050%	-0.150%	-0.100%			
		SEC	0.000%	3.540%	0.064%	3.604%			
		Total	0.000%	5.720%	0.168%		**5.888%**	**0.00%**	**5.888%**
15-00111	3/15/2016	QIIP	2.430%	4.560%	0.000%	4.560%			
		EDI	0.050%	0.100%	0.000%	0.100%			
		SEC	2.180%	5.720%	0.000%	5.720%			
		Total	4.660%		0.000%		**10.380%**	**0.00%**	**10.380%**
16-00022*	10/11/2016	QIIP	0.000%	4.560%	1.166%	5.726%			
		EDI	0.000%	0.100%	-0.178%	-0.078%			
		SEC	0.000%	5.720%	-0.118%	5.602%			
		Total	0.000%		0.870%		**11.250%**	**0.00%**	**11.250%**
16-00126	3/14/2017	QIIP	2.960%	7.520%	0.000%	7.520%			
		EDI	0.240%	0.340%	0.000%	0.340%			
		SEC	0.370%	6.090%	0.000%	6.090%			
		Total	3.570%		0.000%		**13.950%**	**0.00%**	**13.950%**
17-00020*	8/16/2017	QIIP	0.000%	7.520%	1.763%	9.283%			
		EDI	0.000%	0.340%	-0.031%	0.309%			
		SEC	0.000%	6.090%	-0.826%	5.264%			
		Total	0.000%		0.906%		**14.856%**	**0.00%**	**14.856%**
17-00124	4/10/2018	QIIP	2.530%	10.050%	0.000%	10.050%			
		EDI	0.070%	0.410%	0.000%	0.410%			
		SEC	-0.120%	5.970%	0.000%	5.970%			
		Total	2.480%		0.000%		**16.430%**	**0.00%**	**16.430%**
18-00022*	12/17/2018	QIIP	0.000%	10.050%	1.542%	11.592%			
		EDI	0.000%	0.410%	-0.081%	0.329%			
		SEC	0.000%	5.970%	-0.628%	5.342%			
		Total	0.000%		0.833%		**17.263%**	**0.00%**	**17.263%**
18-00120	9/1/2019	QIIP	1.600%	11.650%	0.000%	11.650%			
		EDI	0.240%	0.650%	0.000%	0.650%			
		SEC	0.910%	6.880%	0.000%	6.880%			
		Total	2.750%		0.000%		**19.180%**	**-6.62%**	**12.560%**
19-00031*	12/9/2019	QIIP	0.000%	11.650%	-1.140%	10.510%			
		EDI	0.000%	0.650%	-0.320%	0.330%			
		SEC	0.000%	6.880%	-0.920%	5.960%			
		Total	0.000%		-2.380%		**16.800%**	**-6.62%**	**10.180%**
19-00105	1/1/2020	QIIP	2.630%	14.280%	0.000%	14.280%			
		EDI	0.490%	1.140%	0.000%	1.140%			
		SEC	1.910%	8.790%	0.000%	8.790%			
		Total	5.030%		0.000%		**24.210%**	**-6.62%**	**17.590%**
20-00028*	4/1/2020	QIIP	0.000%	14.280%	-2.310%	11.970%			
		EDI	0.000%	1.140%	-0.510%	0.630%			
		SEC	0.000%	8.790%	-1.260%	7.530%			
		Total	0.000%		-4.080%		**20.130%**	**-6.62%**	**13.510%**
20-00128	1/1/2021	QIIP	4.860%	19.140%	0.000%	19.140%			
		EDI	0.110%	1.250%	0.000%	1.250%			
		SEC	0.910%	9.700%	0.000%	9.700%			
		Total	5.880%		0.000%		**30.090%**	**-11.16%**	**18.930%**
21-00030*	4/1/2021	QIIP	0.000%	19.140%	2.650%	21.790%			
		EDI	0.000%	1.250%	-0.500%	0.750%			
		SEC	0.000%	9.700%	0.790%	10.490%			
		Total	0.000%		2.940%		**33.030%**	**-11.16%**	**21.870%**
21-00030*	8/9/2021	QIIP	0.000%	19.140%	2.390%	21.530%			
		EDI	0.000%	1.250%	-0.510%	0.740%			
		SEC	0.000%	9.700%	0.620%	10.320%			
		Total	0.000%		2.500%		**32.590%**	**-11.16%**	**21.430%**
21-00030	2/1/2022	QIIP	0.000%	19.140%	0.000%	19.140%			
		EDI	0.000%	1.250%	0.000%	1.250%			
		SEC	0.000%	9.700%	0.000%	9.700%			
		Total	0.000%		0.000%		**30.090%**	**-11.16%**	**18.930%**
22-00021*	4/1/2022	QIIP	0.000%	19.140%	-0.250%	18.890%			
		EDI	0.000%	1.250%	0.560%	1.810%			
		SEC	0.000%	9.700%	-1.250%	8.450%			
		Total	0.000%		-0.940%		**29.150%**	**-11.16%**	**17.990%**
22-00072*	8/1/2022	QIIP	5.080%	24.220%	-0.250%	23.970%			
		EDI	0.660%	1.910%	0.560%	2.470%			
		SEC	0.270%	9.970%	-1.250%	8.720%			
		Total	6.010%		-0.940%		**35.160%**	**-11.16%**	**24.000%**
22-00072*	9/1/2023	QIIP	0.000%	24.220%	-0.250%	23.970%			
		EDI	0.000%	1.910%	0.560%	2.470%			
		SEC	0.000%	9.970%	-1.250%	8.720%			
		Total	0.000%		-0.940%		**35.160%**	**-4.55%**	**30.610%**
23-00018*	10/6/2023	QIIP	0.000%	24.280%	0.840%	25.120%			
		EDI	0.000%	1.930%	0.550%	2.480%			
		SEC	0.000%	10.090%	-1.420%	8.670%			
		Total	0.000%				**36.270%**	**-4.55%**	**31.720%**
23-00018*	1/1/2024	QIIP	0.000%	24.280%	0.000%	24.280%			
		EDI	0.000%	1.930%	0.000%	1.930%			
		SEC	0.000%	10.090%	0.000%	10.090%			
		Total	0.000%		0.000%	36.300%	**36.300%**	**-3.72%**	**32.580%**

* Reconciliations are only effective until December 31 of the year authorized by the TPUC.

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%
Incremental Capital Recovery Rider	0.00%
Total of Legacy and Incremental Capital Recovery Riders	36.%
Reconciliation Rate (expires December 31, 2023)	NA
Offset to Legacy and ICR Riders for TCJA Savings	-4.32%
Offset to Legacy and ICR Riders for Excess ADIT	0.50%
PCOP	2.13%

Tennessee American Water Company
Docket No. 24-000XX
Working Capital

Line No.	Item	2023 Amounts[1]	Docket No. 12-00049	
1	Prepaid Expenses & Taxes	$853,098	$577,696	
2	Deferred Regulatory Expenses	0	1,138,715	
3	Unamortized Debt Expense	1,276,694	885,503	
4	Other Deferred Debits	0	31,124	
5	Lead/Lag Study	268,357	369,982	
6	Incidental Collections	(145,861)	(116,192)	
7	**Total Working Capital**	**$2,252,288**	$2,886,828	
8				
9			$301,364	Materials & Supplies[2]
10				
11			(24,657)	Effect of including TN income tax
12			246,349	Effect of use CAPD Property Tax amount
13				
14			$3,409,884	Settlement

(1) Working Capital components updated for 2023 actuals.
(2) Materials & Supplies included in Rate Base as separate line item.

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%
Incremental Capital Recovery Rider	xx.xx%
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: December 11, 2023 EFFECTIVE: January 1, 2024

BY: Grant A. Evitts

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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%
Legacy SEC	10.09%
Total of Legacy Capital Recovery Riders	36.30%

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 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) General Description QIIP: QIIP allows the Company to recover outside of a rate case its qualifying incremental non-revenue producing plant infrastructure investment. For purposes of this Rider, qualifying QUP investment includes the following:

- *Distribution Infrastructure* -Replacement distribution and transmission mains and valves installed as replacements for existing facilities, reinforcement of existing facilities or otherwise insuring reliability of existing facilities; I hydrant, Services, Meters and Meter Installations - installed as in-kind replacements, reinforcements or insuring reliability of existing facilities; Unreimbursed funds related to capital projects to relocate facilities required by governmental highway projects; Capitalized tank repairs and maintenance that serve to replace, reinforce, or otherwise insure reliability of existing facilities.

- *Production and Pumping Infrastructure* -Replacement of water treatment facilities and equipment installed as replacements for existing facilities, reinforcement of existing facilities or otherwise insuring reliability of existing facilities; Raw Water and Finished Water pumping equipment and structures installed as replacements, reinforcements or otherwise insuring reliability of existing facilities.

- *Other Infrastructure* – Infrastructure designed to utilize alternative fuels.

- QIIP Investment is to be identifiable on the Company's books and segregated into the following general accounts:
  Account 331 - Transmission & Distribution Mains;
  Account 333 - Services;
  Account 334 - Meters & Meter Installations;
  Account 335 - Hydrants;
  Account 320 - Water Treatment Equipment, Non-Media;
  Account 311 - Pumping Equipment;
  Account 303 - Land and Land Rights;
  Account 304 - Structures and Improvements;
  Account 306 - Lake, River and Other Intakes;
  Account 307 - Wells and Springs;
  Account 309 - Supply Mains;
  Account 310 - Power Generation Equipment
  Account 330 - Distribution Reservoirs and Standpipes;
  Account 341 - Transportation Equipment; and
  Account 3300003 - Capitalized Tank Painting.

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

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

- *Economic Development Expenses* - Operational expenses that are specifically to support economic development and economic development investment utility plant.

- EDI Investment is to be identifiable on the Company's books and segregated into the following general accounts:
  Account 331 - Transmission & Distribution Mains;
  Account 333 - Services;
  Account 334 - Meters & Meter Installations;
  Account 335 - Hydrants;
  Account 320 - Water Treatment Equipment, Non-Media;
  Account 311 - Pumping Equipment;
  Account 303 - Land and Land Rights;
  Account 304 - Structures and Improvements;
  Account 306 - Lake, River and Other Intakes;
  Account 307 - Wells and Springs;
  Account 309 - Supply Mains;
  Account 310 - Power Generation Equipment;

Account 330 - Distribution Reservoirs and Standpipes; and
Account 330003 - Capitalized Tank Painting.

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

- Distribution and Production infrastructure - Distribution, production, and other infrastructure that may be identified as being for the purpose of safety and environmental compliance.

- Safety and Environmental Expenses - Operational expenses similar to other expenses authorized in previous rate cases that are specifically new expenses for safety and environmental compliance or to support safety and environmental compliance utility plant.

- SEC Investment is to be identifiable on the Company's books and segregated into the following general accounts:
  Account 331 - Transmission & Distribution Mains;
  Account 333 - Services; Account 334 - Meters & Meter Installations;
  Account 335 - Hydrants;
  Account 320 - Water Treatment Equipment, Non-Media;
  Account 311 - Pumping Equipment;
  Account 303 - Land and Land Rights;
  Account 304 - Structures and Improvements;
  Account 306 - Lake, River and Other Intakes;
  Account 307 - Wells and Springs;
  Account 309 - Supply Mains;
  Account 310 - Power Generation Equipment
  Account 330 - Distribution Reservoirs and Standpipes; and
  Account 330003 - Capitalized Tank Painting

(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.

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	**Calculation of Adjusted Net Income**	
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	

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	**Calculation of Equity**	
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: December 11, 2023 **EFFECTIVE: January 1, 2024**

BY: Grant A. Evitts

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"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. **<u>Determination of the ICR</u>**

(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:

Line No.	Description	Source	
	Section A: Return		
	Determining Capital Rider Rate Base and Rate of Return		
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	**$**

	Section B: Depreciation		
	Determining Depreciation Expense		
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: December 11, 2023 EFFECTIVE: January 1, 2024

BY: Grant A. Evitts

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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	$
	Section C: Property and Franchise Tax Expense		
	Determining Property & Franchise Tax Expense		
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	$

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	**After Tax ICRRR**		$

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.

"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.

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.

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: December 11, 2023 **EFFECTIVE: January 1, 2024**

BY: Grant A. Evitts

Grant A. Evitts
PRESIDENT

109 Wiehl Street
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