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June 18, 2026

## VIA ELECTRONIC FILING

Hon. David Jones, Chairman  
c/o Ectory Lawless, Docket Manager  
Tennessee Public Utility Commission  
502 Deaderick Street, 4<sup>th</sup> Floor  
Nashville, TN 37243  
[TPUC.DocketRoom@tn.gov](mailto:TPUC.DocketRoom@tn.gov)

Electronically Filed in TPUC Docket  
Room on June 18, 2026 at 12:08 p.m.

**RE: *Amended Petition of Tennessee-American Water Company to Adopt Annual Rate Review Mechanism and ARRM Tariff Pursuant to Tenn. Code Ann. § 65-5-103(d)(6), Docket No. 25-00089***


Dear Chairman Jones:

Attached for filing please find the *Amended Petition of Tennessee-American Water Company to Adopt Annual Rate Review Mechanism and ARRM Tariff Pursuant to Tenn. Code Ann. § 65-5-103(d)(6)*, along with the *Supplemental Direct Testimony of Philip J. Drennan*.

As required, copies will be mailed to your office. Should you have any questions concerning this filing, or require additional information, please do not hesitate to contact me.

Very truly yours,

BUTLER SNOW LLP



Melvin J. Malone

clw

Attachments

cc: Philip Drennan, TAWC  
Shilina Brown, Consumer Advocate Division  
Phillip Noblett, City of Chattanooga  
Frederick Hitchcock, City of Chattanooga

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BUTLER SNOW LLP

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION  
NASHVILLE, TENNESSEE**

<b>PETITION OF TENNESSEE-AMERICAN )</b>	
<b>WATER COMPANY TO ADOPT ANNUAL )</b>	
<b>RATE REVIEW MECHANISM AND )</b>	<b>DOCKET NO. 25-00089</b>
<b>ARRM TARIFF PURSUANT TO TENN. )</b>	
<b>CODE ANN. § 65-5-103(d)(6) )</b>	

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**AMENDED PETITION OF TENNESSEE-AMERICAN WATER COMPANY  
TO ADOPT ANNUAL RATE REVIEW MECHANISM AND ARRM TARIFF  
PURSUANT TO TENN. CODE ANN. § 65-5-103(d)(6)**

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**NOW COMES** Tennessee-American Water Company (“Tennessee-American,” “TAWC” or the “Company”), by and through counsel and pursuant to the provisions of Tenn. Code Ann. §§ 65-5-103(d)(6) and 65-5-103(d)(1)(C), respectfully request that the Tennessee Public Utility Commission (“TPUC” or “Commission”) approve TAWC’s amended request for the adoption of an Annual Rate Review Mechanism (“ARRM”) and ARRM Tariff.

In support of the Amended Petition, TAWC respectfully submits the following:

**GENERAL INFORMATION**

1. TAWC is an investor-owned public utility regulated by the Commission pursuant to Tenn. Code Ann. § 65-4-101. The Company does business as a regulated water utility. TAWC is a Tennessee corporation authorized to conduct a public utility business in the State of Tennessee and provides residential, commercial, industrial, and municipal water service, including public and private fire protection service, to the City of Chattanooga, Tennessee and surrounding areas, including certain areas in Georgia. Further, Tennessee-American currently provides water services to Powell’s Crossroads and Suck Creek in Marion County, the City of Whitwell, and Jasper Highlands. TAWC provides water service to approximately 88,000 customers.

2. The Company’s business address is 109 Wiehl Street, Chattanooga, Tennessee 37403.

3. All correspondence and communications with respect to this Petition should be sent to the following:

Ryan A. Freeman, Director, Corporate Counsel  
Tennessee-American Water Company  
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**BACKGROUND OF THE AMENDED PETITION**

4. The currently-tariffed rates and charges of TAWC were approved by the Commission in its April 21, 2025, *Order Setting Rates* in TPUC Docket No. 24-00032.

5. On November 18, 2025, TAWC submitted the Petition of Tennessee-American Water Company to Adopt Annual Rate Review Mechanism and ARRM Tariff Pursuant to Tenn. Code Ann. § 65-5103(d)(6).<sup>1</sup> Subsequent to a hearing held on March 16, 2026, the Commission issued its *Order Denying Petition of Tennessee-American Water Company to Adopt Annual Review Mechanism and ARRM Tariff Pursuant to Tenn. Code Ann. § 65-5103(d)(6)* on June 5, 2026 (“*June 2026 ARRM Order*”). The Commission determined that TAWC’s Petition as

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<sup>1</sup> Both the Consumer Advocate Division of the Office of the Tennessee Attorney General and the City of Chattanooga were granted intervention to participate in the case.

submitted was not in the public interest.<sup>2</sup> Further, the Commission outlined modifications that the Company should make to its ARRM proposal should TAWC decide to amend its proposed ARRM Tariff pursuant to Tenn. Code. Ann. § 65-5-103(d)(1)(C).<sup>3</sup>

6. The *June 2026 ARRM Order* provided that pursuant to Tenn. Code Ann. § 65-5-103(d)(1)(C) the Company “may re-file an amended petition for an annual rate review mechanism in accordance with the findings and conclusions discussed in this Order.”<sup>4</sup>

7. By this Amended Petition, TAWC is seeking the Commission’s approval of its amended request to establish an ARRM, specifically an annual review of rates authorized by Tenn. Code Ann. § 65-5-103(d)(6) based upon the ratemaking methodology approved in its most recent general rate case as reflected in Docket No. 24-00032 (the “2025 Rate Case”) and consistent with the findings and conclusions set forth in the *June 2026 ARRM Order*.

### **2025 GENERAL RATE CASE**

8. Tenn. Code Ann. § 65-5-103(d) requires that a utility seeking to establish an annual review of its rates based upon the methodology adopted in its most recent rates case must have engaged in a general rate case within the prior five years. TAWC’s 2025 Rate Case satisfies this statutory requirement and clearly established a rate-making methodology upon which the requested ARRM can be based.<sup>5</sup>

9. In Docket No. 24-00032, and consistent with Tenn. Code Ann. §§ 65-5-103(d)(6), *et. seq.*, TAWC respectfully requested that the Commission adopt the methodologies required to allow for the consideration of an annual review of its rates, in the event the Company

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<sup>2</sup> *Order Denying Petition of Tennessee-American Water Company to Adopt Annual Review Mechanism and ARRM Tariff Pursuant to Tenn. Code Ann. § 65-5-103(d)(6)*, p. 27, TPUC Docket No. 25-00089 (June 5, 2026) (“*June 2026 ARRM Order*”).

<sup>3</sup> *Id.*

<sup>4</sup> *June 2026 ARRM Order* at 32.

<sup>5</sup> *See Order Setting Utility Rates*, TPUC Docket No. 24-00032 (April 21, 2025) (“*2025 Rate Case Order*”).

later determined to pursue such an annual review petition before the Commission.<sup>6</sup> The Commission announced findings and conclusions in Docket No. 24-00032 with sufficient specificity with regard to the rate-making methodology for TAWC. In its *Order Setting Rates*, the Commission established the necessary and appropriate methodology that can be used as a basis for TAWC's request to adopt an ARRM.<sup>7</sup> Thus, the statutory prerequisites for a request to adopt an ARRM have been met.

### **TAWC'S AMENDED ANNUAL RATE REVIEW MECHANISM**

10. Tenn. Code Ann. § 65-5-103(d)(6) allows utilities to opt for an annual review of their rates via implementation of a mechanism. An annual review mechanism is intended to allow for more frequent reviews of the utility's operations and thus greater transparency regarding the utility's business. To the extent the utility is earning above or below its authorized ROE, an annual review process would capture such variances and implement smaller, incremental changes to the utility's rates and ensure the customer is protected by timely rate adjustments, which result from an annual process that is more streamlined and less burdensome than a general rate case.

11. To allow for the orderly implementation of an ARRM established by Tenn. Code Ann. § 65-5-103(d)(6), and pursuant to Tenn. Code. Ann. § 65-5-103(d)(1)(C), TAWC's amended proposed ARRM sets forth a timetable and list of specific support and documentation that TAWC will file annually. As set forth within the accompanying pre-filed testimony, this support and documentation for the annual filing will be consistent with the *June 2026 ARRM Order*. The amended ARRM will be a one-step, or single filing, annual process. The Company will file each annual ARRM petition no later than March 1<sup>st</sup> of each year with adjusted rates going into effect

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<sup>6</sup> *TAWC's Post-Hearing Brief*, p. 5, n. 12, TPUC Docket No. 24-00032 (Dec. 10, 2024).

<sup>7</sup> *June 2026 Order*, p. 28.

on July 1<sup>st</sup> of the same year. The Company also will use a historical base year review ending December 31<sup>st</sup> of the prior year of its revenues, expenses, investments, and rate of return components per its actual books and records to determine if the Company earned the authorized return on equity adopted in the 2025 Rate Case. There will be no forward-looking or forecasted data and no forward-looking or forecasted components. Once the Company calculates whether there is an excess or deficiency in earnings for the Historic Base Period, the Company will calculate the Annual True-Up Rate Adjustment deferral to either avoid under-recovery for the Company or provide a credit to customers to account for any earnings in excess of the Company's authorized return. TAWC anticipates that its first ARRM annual filing will be submitted no later than March 1, 2027, reconciling the Historic Base Period ending December 31, 2026.

12. The TAWC's annual ARRM filings will include forty-seven (47) specific schedules, consistent with the *June 2026 ARRM Order* and derived from Consumer Advocate's Exhibit CDK-9. These schedules are listed in the Pre-filed Supplemental Direct Testimony of TAWC Witness Philip J. Drennan in **Amended Petition Exhibit PJD-1 – TAWC ARRM Tariff**.<sup>8</sup>

13. In addition to the schedules, as set forth within the Pre-filed Supplemental Direct Testimony of Mr. Drennan, the Company's Amended Petition and proposed ARRM Tariff complies with other findings and conclusions of the *June 2026 ARRM Order*, including as follows: (1) clarifying language that expressly states that the ratemaking adjustments used to determine the Company's earnings position under the ARRM shall be consistent with such ratemaking adjustments adopted in the *2025 Rate Case Order*; (2) explicit language clarifying the removal of

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<sup>8</sup> Upon approval of the Company's proposed ARRM in this proceeding, future ARRM filings will include a compliance verification from TAWC President Grant A. Evitts, similar to the verifications accompanying the Company's previous ICR and PCOP filings.

disallowed cost categories and the application of the established water loss standard consistent with the *2025 Rate Case Order*; (3) language noting that any approved ARRM rate adjustments, including rate surcharges and sur-credits, shall be calculated and expressed in dollars rather than percentages; (4) rate adjustment provisions that provide that the Company may propose any revenue allocation and rate design methodology in each annual ARRM filing, the Consumer Advocate and other intervening parties may object and may propose their own respective revenue allocation and rate design methodology, and the Commission shall, after hearing, determine the appropriate revenue allocation and rate design methodology; and (5) language providing that carrying charges related to any calculated revenue sufficiency or deficiency shall be computed at the Company's approved rate of return for the period commencing with the midpoint of the Historic Base Period and ending with the effective date of any approved rate adjustments.<sup>9</sup>

14. In further support of this Amended Petition, TAWC is filing simultaneously the following:

- (a) Appendix A - Pre-filed Supplemental Direct Testimony of Philip J. Drennan, Director, Rates and Regulatory of American Water Works Service Company, to provide the Commission an overview of the Amended Petition and the Amended ARRM that TAWC is seeking, to summarize the structure of the ARRM and how it would be calculated and applied to customers and to outline the Amended Petition's compliance with the *June 2026 ARRM Order*. Mr. Drennan's Pre-filed Supplemental Direct Testimony will also introduce the Exhibits and Schedules of Philip J. Drennan to explain the basis of the Company's Amended ARRM proposal, the development of the

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<sup>9</sup> The Commission found both the Company's tax adjustment and capital structure proposals reasonable and adopted them. See *June 2026 ARRM Order*, pp. 31-21.

ARRM methodologies, structure of the proposed ARRM annual filing process, and detail and support to be provided in an annual ARRM filing.

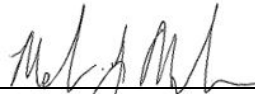
- (b) Appendix B - Proposed Amended ARRM Tariff, which memorializes the ARRM methodologies described and supported within Appendix A, consistent with the *June 2026 ARRM Order*.

WHEREFORE, TAWC respectfully requests:

- (1) That the Commission approve this Amended Petition and issue an order allowing TAWC to adopt an ARRM pursuant to Tenn. Code. Ann. §§ 65-5-103(d)(1)(C) and 65-5-103(d)(6);
- (2) That the Commission approve the Company's new tariff pages, as submitted herein, implementing the ARRM, within sixty (60) days of the date of the filing of this Amended Petition;
- and
- (3) That the Commission grant such other and further relief as circumstances may warrant.

Dated this 18<sup>th</sup> day of June, 2026.

Respectfully Submitted,



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*Attorneys for Tennessee-American Water Company*

# **APPENDIX A**

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

**DOCKET NO. 25-00089**

**SUPPLEMENTAL DIRECT TESTIMONY**

**OF**

**PHILIP J. DRENNAN**

**ON**

**Amended Annual Review of Rates Mechanism**

**SPONSORING PETITIONER'S EXHIBITS:**

Petitioner's Amended Petition Exhibit PJD-1 – TAWC ARRM Tariff

**SUPPLEMENTAL DIRECT TESTIMONY**

**PHILIP J. DRENNAN**

**TENNESSEE AMERICAN WATER COMPANY  
DOCKET NO. 25-00089**

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## SUPPLEMENTAL DIRECT TESTIMONY

PHILIP J. DRENNAN

### I. INTRODUCTION

1

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

3 A. My name is Philip J. Drennan, and my business address is 153 N. Emerson Avenue,  
4 Greenwood, IN 46143.

5 **Q. DID YOU PREVIOUSLY SUBMIT TESTIMONY ON BEHALF OF TENNESSEE**  
6 **AMERICAN WATER COMPANY, INC. (“TAWC” OR THE “COMPANY”) IN**  
7 **THIS PROCEEDING?**

8 A. Yes. I filed direct testimony in this proceeding on November 18, 2025, and rebuttal  
9 testimony on February 19, 2026.

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

11 A. The Tennessee Public Utility Commission (“TPUC” or the “Commission”) held an  
12 evidentiary hearing on March 16, 2026, to hear and consider TAWC’s request to adopt an  
13 Annual Rate Review Mechanism (“ARRM”) and ARRM tariff<sup>1</sup> pursuant to Tennessee  
14 Code Ann. § 65-5-103 (d) (6). Based on the evidentiary record, the Commission found that  
15 the Company’s petition was not in the public interest and should be denied pending six (6)  
16 modifications.<sup>2</sup> For all remaining issues, the Commission found the Company’s “petition

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<sup>1</sup> The terms ARRM and ARM are used interchangeably. The Company’s tariff will refer to the ARM as an Annual Review Mechanism for clarity to assist communicating with customers. Annual filings will entail a review of the Company’s financial result, water loss mitigation outcomes, as well as the Company’s surcharges and sur-credits.

<sup>2</sup> *Order Denying Petition of Tennessee-American Water Company to Adopt Annual Review Mechanism and ARRM Tariff Pursuant to Tenn. Code Ann. § 65-5-103(d)(6)*, TPUC Docket No. 24-00032 (June 5, 2026) (“*June 2026 ARRM Order*”).

1 and ARRM tariff, as set forth in the November 18, 2025, filing are reasonable and should  
2 be adopted.”<sup>3</sup> Pursuant to the *June 2026 ARRM Order*, Tennessee-American may refile an  
3 amended petition within 60 days requesting approval of an Annual Rate Review  
4 Mechanism consistent with the Commission’s order.<sup>4</sup> The purpose of my testimony is to  
5 support the Company’s amended ARRM petition and explain how the Company’s  
6 proposed ARRM adheres to the modifications ordered by the Commission.

7 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

8 A. Yes, I am sponsoring the following exhibit:

- 9 • Amended Petition Exhibit PJD-1 – TAWC ARRM Tariff  
10 ○ Including redline changes to the prior proposed tariff and amended schedules

11 **II. MODIFICATIONS ORDERED BY THE COMMISSION**

12 **Q. PLEASE EXPLAIN HOW YOU WILL ADDRESS THE SIX (6) MODIFICATIONS**  
13 **ORDERED BY THE COMMISSION, IN ADDITION TO THE COMMISSION’S**  
14 **FINDING REGARDING THE RECOVERBILITY OF THE FILING COSTS**  
15 **RELATED TO THE INITIAL ARRM DOCKET.**

16 A. The Commission ordered six (6) modifications to be included in the Company’s amended  
17 ARRM petition. The six (6) modifications address the following items, which I will discuss  
18 in detail in my testimony.

- 19 1) Required ARRM schedules with supporting documents and granular data.

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<sup>3</sup> *Id.* at 31.

<sup>4</sup> *Id.* at 32.

1           2) Clarifying language describing how the ratemaking adjustments applied to the  
2           ARRM are consistent with the Commission’s required ratemaking adjustments in  
3           the Company’s 2025 Rate Case and the ratemaking methodologies established in  
4           TPUC Docket No. 24-00032.

5           3) ARRM surcharges and sur-credits shall be calculated and expressed in dollars  
6           rather than percentages, maintaining consistency with the rate design methodology  
7           approved in the Company’s last rate case.

8           4) The ARRM shall include provisions to allow changes to rate design and revenue  
9           allocation between rate groups.

10          5) Carrying charge calculation shall commence with the midpoint of the Historical  
11          Base Period (“HBP”), ending with the effective date of any approved rate  
12          adjustments.

13          6) The ARRM shall be filed no later than March 1<sup>st</sup> of each year, with any approved  
14          rate adjustments becoming effective the following July 1<sup>st</sup>.

15          The Commission also found that the recoverability of costs related to the ARRM  
16          framework approval docket shall be considered in a separate rate proceeding. Additionally,  
17          the Company is not authorized to defer such costs to a regulatory asset for ratemaking  
18          purposes at this time.

19   **Q. PLEASE EXPLAIN HOW THE COMPANY’S AMENDED PETITION**  
20   **ADDRESSES THE COMMISSION’S MODIFICATION NUMBER ONE (1),**  
21   **CONCERNING ADDITIONAL ARRM SCHEDULES WITH SUPPORTING**  
22   **DOCUMENTS AND DATA.**

1 A. The Commission found that “the schedules listed in the Consumer Advocate’s Exhibit  
2 CDK-9 shall be incorporated as appropriate into the required annual filing in addition to  
3 the Company’s proposed ARRM schedules.”<sup>5</sup> In complying with this directive, our initial  
4 step was to re-review the schedules provided in other ARRM filings resulting from  
5 numerous contested cases. Doing so provided helpful guidance on what was appropriate to  
6 remove from Consumer Advocate Exhibit CDK-9. Further, the Company carefully  
7 reviewed the schedules listed in the Consumer Advocate’s Exhibit CDK-9 and identified  
8 some schedules, workpapers or financial reports that pertain specifically to the gas  
9 industry, like normal heating degree days, purchased gas expense, gas storage expense, gas  
10 transmission and distribution expense schedules, etc. After this review, the Company  
11 eliminated gas industry schedules, workpapers and financial reports in Exhibit CDK-9 that  
12 are not applicable to the water industry and are not appropriate to include in TAWC’s  
13 ARRM schedules. Moreover, Exhibit CDK-9 contains schedules providing Construction  
14 Work-in-Progress (“CWIP”) detail that is not needed for TAWC’s ARRM because CWIP  
15 is removed from TAWC’s rate base, consistent with the methodology in the Company’s  
16 2025 Rate Case. Additionally, multiple schedules shown in Exhibit CDK-9 contained SEC  
17 View and Regulatory View financial reports that are duplicative for TAWC. Tennessee  
18 American reviewed other companies Commission-approved ARRM schedules and did not  
19 see separate SEC and Regulatory View financial reports in the approved ARRM schedules;  
20 the Company understands these reports to be specific to the gas company shown in Exhibit  
21 CDK-9. Tennessee American has a single source of audited accounting data used for  
22 reporting purposes and is therefore able to further condense the number of SEC View and

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<sup>5</sup> *Id.* at 27.

1 Regulatory View schedules shown in Exhibit CDK-9. In a few instances, we did not  
2 remove or eliminate schedules, workpapers or financial reports but combined them for  
3 efficiency and user-friendly transparency, for example, some of the revenue schedules.

4 TAWC's next step was to engage in cooperative discussions with the Consumer  
5 Advocate Division of the Office of the Tennessee Attorney General ("Consumer  
6 Advocate" or "CAD") on the appropriate schedules to use from Exhibit CDK-9 in our  
7 Amended Petition. Here, the purpose of my testimony is not to represent on behalf of  
8 TAWC and the CAD that these parties reached a "formal" resolution on the Company's  
9 proposed schedules. Rather, the aim here is to demonstrate TAWC's good faith efforts to  
10 comply with the Commission's *June 2026 ARRM Order*, and the CAD's cooperative  
11 participation. The Company held informal discussions with the Consumer Advocate to  
12 determine the appropriate number of schedules necessary to facilitate a meaningful and  
13 timely audit review of the Company's annual filings, while also understanding that the  
14 Company must now file its ARRM each year by March 1st instead of by March 31<sup>st</sup> as  
15 originally proposed by the Company.<sup>6</sup> After reviewing the Company's updated ARRM  
16 schedules with the Consumer Advocate, the Company is now proposing to file forty-seven  
17 (47) total schedules and supporting workpapers with each annual filing. The integral  
18 information, supporting documents, and granular accounting data necessary to conduct a  
19 meaningful and timely audit review of the Company's ARRM filing are contained in the  
20 Company's proposed schedules. A complete list of the schedules and supporting  
21 workpapers is shown in *Amended Petition Exhibit PJD-1 - TAWC ARRM Tariff*. Although  
22 the Company does not anticipate this will be necessary, it can file a revised ARRM tariff

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<sup>6</sup> *Id.* at 30.

1 with updated or additional schedules if a future ARRM review determines that doing so  
2 would help expedite the audit process.

3 During our informal discussions, the Consumer Advocate also requested that all  
4 lead schedules contain clear references to workpapers and supporting documents where  
5 appropriate. The Company will ensure that all schedules, where appropriate, contain clear  
6 references to supporting information to facilitate a meaningful and timely review of the  
7 Company's ARRM filings.

8 The Company will note that the Commission's *June 2026 Order*, which moves the  
9 ARRM filing date from March 31<sup>st</sup> to March 1<sup>st</sup>, leaves the Company with only two months  
10 between the end of its Historic Base Period and the March 1<sup>st</sup> annual filing date to close its  
11 books and prepare its ARRM filing each year. This two-month period, as shown in Table  
12 1, is the shortest period to prepare an annual filing out of the Commission-approved  
13 ARRM reviewed by the Company.<sup>7</sup> For this reason, it is imperative that the Company  
14 schedules are organized in a streamlined fashion to meet the Company's burden of proof  
15 to support an annual filing, while balancing the need to provide administrative efficiency,  
16 transparency, and auditability in the Company's ARRM petitions; the Company's forty-  
17 seven (47) proposed schedules appropriately accomplish this requirement.<sup>8</sup>

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<sup>7</sup> Approved tariffs: Piedmont NGC Docket No. 25-00036, Atmos Energy Docket No. 26-00009, TWS Docket No. 23-00046, CNG Docket No. 25-00028

<sup>8</sup> Under the circumstances presented, TAWC would not object to the Commission revising the Company's ARRM filing timeline back to that originally proposed – March 31<sup>st</sup> filing with an August 1 effective date.

Table 1

Company	Annual Historic Data Cutoff Date	Annual ARRM Filing Date	Months to Prepare Annual Filing
Piedmont Natural Gas Company	Dec 31st	May 20th	4.6
Atmos Energy	Sep 30th	Feb 1st	4.0
Tennessee Water Service	Dec 31st	Apr 30th	4.0
Chattanooga Natural Gas	Dec 31st	Apr 20th	3.6
Tennessee American Water	Dec 31st	Mar 1st	2.0

**Q. PLEASE EXPLAIN HOW THE COMPANY’S AMENDED PETITION ADDRESSES THE COMMISSION’S MODIFICATION NUMBER TWO (2), CLARIFYING THE RATEMAKING ADJUSTMENTS ORDERED BY THE COMMISSION IN THE COMPANY’S LAST RATE CASE.**

A. The Commission ordered that “clarifying language shall be added to expressly state that the ratemaking adjustments used to determine the Company’s earnings position under the ARRM shall be consistent with such ratemaking adjustments adopted in the Company’s *2025 Rate Case*, as set forth in the *2025 Rate Case Order*.”<sup>9</sup> Although the Commission recognized that TAWC appropriately incorporated all adjustments adopted in the Company’s last rate case, the Commission stated that “the Company should add explicit language to the ARRM tariff clarifying that these expenses will be removed or excluded from the calculation of an earnings deficiency or excess.”<sup>10</sup> To comply with the Commission’s decision, the Company has added clarifying language to its tariff regarding the specific adjustment methodologies adopted in the *2025 Rate Case*. This language is intended to resolve potential confusion and comply with the Commission’s *June 2026*

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<sup>9</sup> *June 2026 ARRM Order* p. 28.

<sup>10</sup> *Id.* at 28.

1        *Order*. Specifically, the Company added Section 4(F) to the proposed ARRM Tariff to  
2        describe each ratemaking adjustment, including adjustments to capital structure. Section  
3        4(F) also expressly states the removal of variable salaries and wages expenses, certain  
4        production costs, ID&E related expenses, certain business development costs, lobbying  
5        expenses, promotional and political advertising costs, and charitable contributions. In  
6        addition, the Company has added Workpapers 5.2 through 5.6 to its ARRM schedules, as  
7        shown on page 20 of its proposed tariff, to provide detailed support of each ratemaking  
8        adjustment.

9        **Q. PLEASE EXPLAIN HOW THE COMPANY’S AMENDED PETITION**  
10        **ADDRESSES THE COMMISSION’S MODIFICATION NUMBER THREE (3),**  
11        **CONCERNING THE CALCULATION OF THE ARRM SURCHARGES OR SUR-**  
12        **CREDITS.**

13        A. The Commission ordered that “Consistent with Commission ARRM precedents and the  
14        *2025 Rate Case* methodology, and to promote rate transparency and auditability, any  
15        approved ARRM rate adjustments, including rate surcharges and sur-credits, shall be  
16        calculated in dollars rather than percentages.”<sup>11</sup> The Commission also noted that the  
17        Company’s proposal to apply the ARRM surcharges or sur-credits to both the fixed and  
18        volumetric portions of customers’ bills was inconsistent “with the base rate allocation  
19        methodology adopted in the *2025 Rate Case*.”<sup>12</sup> In the *2025 Rate Case*, the Commission  
20        “voted to adopt an across-the-board increase, i.e., equal percentage rate increase to each  
21        class, finding that such rate design is more appropriate.”<sup>13</sup> The Commission further ordered

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<sup>11</sup> *Id.* at 28.

<sup>12</sup> *Id.* at 28.

<sup>13</sup> *Order Setting Utility Rates*, p. 80, TPUC Docket No. 24-00032 (April 21, 2025) (“*2025 Rate Case Order*”).

1 that all customer classes “will each receive an approximate 1.45% increase to their monthly  
2 fixed bill to recover the revenue deficiency.”<sup>14</sup> To comply with the *June 2026 ARRM*  
3 *Order*, the Company will calculate the ARRM surcharges or sur-credits as a fixed charge  
4 and present the ARRM fixed charges in dollar amounts in the Company’s tariff sheets,  
5 which are shown on pages 9 through 19 in *Amended Petition Exhibit PJD-1 – TAWC*  
6 *ARRM Tariff*. The ARRM surcharges and sur-credits will continue to appear on customer  
7 bills in dollar amounts matching the Company’s tariff sheets to promote rate transparency  
8 and auditability.

9 For clarification, under the Company’s original proposal, the ARRM rates were  
10 always intended to appear on customers’ bills in dollars. Presenting the ARRM rate as a  
11 percentage in the Company’s tariff was an administrative matter to reduce numerous  
12 additional tariff pages containing thousands of unique rate elements. This tariff  
13 presentation approach (shown as a percentage) has worked sufficiently and efficiently for  
14 the Company’s infrastructure and expense riders for quite some time. Consistent with the  
15 *June 2026 ARRM Order*, the Company will present the ARRM rates in dollar amounts,  
16 rather than percentages, in its tariff, and the Company will provide a revenue proof of those  
17 rates in Schedule 12.2 to support any potential ARRM rate adjustments. If approved, the  
18 Company’s amended ARRM tariff sheets will eventually replace all existing rider tariff  
19 sheets, but the Company’s complete tariffs will continue to include the base customer rates  
20 approved in the 2025 Rate Case. TAWC will continue to charge its approved base tariff  
21 rates in addition to any approved ARRM adjustments. TAWC is including only the

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<sup>14</sup> *Id.* at 80.

1 amended ARRM tariff as an exhibit in the Amended Petition to present the ARRM tariff  
2 changes more clearly.

3 To fully align Modification Three (3) to the rate design methodology used in the  
4 2025 Rate Case, the Company will apply the ARRM surcharges and sur-credits as fixed  
5 dollar amounts. The Company will allocate the annual ARRM revenue deficiency or  
6 surplus to the customer rate groups using the same fixed meter rate ratios shown in the  
7 Company’s base tariffs approved in the 2025 Rate Case. This allocation method is  
8 consistent with the 2025 Rate Case method, and it will ensure customers receive a  
9 proportional ARRM rate adjustment. The result of the Company’s ARRM rate allocation  
10 method, as shown in Table 2, will be exactly the same as the 2025 Rate Case methodology,  
11 which adopted “an across-the-board increase, i.e., equal percentage rate increase to each  
12 class”<sup>15</sup> with each customer class receiving the same “approximate [percentage  
13 adjustment] to their monthly fixed bill to recover the revenue deficiency.”<sup>16</sup>

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<sup>15</sup> *Id.* at 80.

<sup>16</sup> *Id.*

**Table 2**

*Hypothetical Example for Illustrative Purposes*

<u>Meter Size</u>	<b>Base Tariff</b>		<b>ARM Tariff</b>		<u>% Adjustment</u>
	<u>Fixed Base Rate</u>	<u>Ratio to 5/8"</u>	<u>Fixed ARM Rate</u>	<u>Ratio to 5/8"</u>	
5/8"	\$19.92	1.0	\$0.193	1.0	0.97%
3/4"	\$29.88	1.5	\$0.290	1.5	0.97%
1"	\$49.80	2.5	\$0.483	2.5	0.97%
1-1/2"	\$99.60	5.0	\$0.966	5.0	0.97%
2"	\$159.36	8.0	\$1.546	8.0	0.97%
3"	\$298.80	15.0	\$2.898	15.0	0.97%
4"	\$498.00	25.0	\$4.831	25.0	0.97%
6"	\$996.00	50.0	\$9.661	50.0	0.97%
8"	\$1,593.60	80.0	\$15.458	80.0	0.97%

1  
2 It should be noted, however, that the 2025 Rate Case methodology, which applied  
3 an equal percentage increase to all TAWC’s customers’ fixed charges, resulted in the  
4 exclusion of the Company’s special contract customers from the 1.45% fixed charge  
5 increase. The Company’s special contract customers are not charged monthly fixed rates  
6 but instead pay volumetric rates according to the terms of their contracts. Special contract  
7 customers are, however, subject to rider mechanisms like the ICRR and PCOP. Should the  
8 Commission find it appropriate – in this proceeding or in a future ARRM filing - to have  
9 ARRM adjustments also apply to the Company’s special contract customers, the  
10 Commission would have to allow the Company to deviate from the rate design  
11 methodology established in the 2025 Rate Case, which applied equal percentage  
12 adjustments to customers’ fixed rates only. As an alternative, the Commission could  
13 approve a percentage volumetric adjustment for only the Company’s special contract  
14 customers in the form of an ARRM surcharge/sur-credit. The special contract volumetric  
15 ARRM adjustments can be shown in dollars on the Company’s tariff and customers’ bills.

1 **Q. PLEASE EXPLAIN HOW THE COMPANY’S AMENDED PETITION**  
2 **ADDRESSES THE COMMISSION’S MODIFICATION NUMBER FOUR (4),**  
3 **REGARDING PROPOSALS TO ADJUST RATE DESIGN AND REVENUE**  
4 **ALLOCATIONS.**

5 A. The Company has added language to its proposed ARRM tariff in Section 4(S), Rate  
6 Design and Tariff Matters, to reflect the Commission’s order that “the rate adjustment  
7 provisions shall provide that Tennessee-American Water Company may propose any  
8 revenue allocation and rate design methodology in each annual rate review mechanism  
9 filing; the Consumer Advocate or other intervening parties may object to such revenue  
10 allocation and rate design methodology and may propose their own revenue allocation and  
11 rate design methodology; and the Commission shall, after hearing, determine the  
12 appropriate revenue allocation and rate design methodology based on the parties’ proposals  
13 or such other appropriate revenue allocation and rate design methodology the Commission  
14 finds reasonable and in the public interest.”<sup>17</sup> Additionally, the Company will respond to  
15 requests in the ARRM discovery process to provide supporting information with respect to  
16 any proposals from the Consumer Advocate or other intervening parties to adjust revenue  
17 allocation and rate design. Moreover, the Company’s updated surcharge/sur-credit  
18 proposal will fully accommodate potential changes to rate design if the Commission finds  
19 other rate designs more reasonable.

20 **Q. PLEASE EXPLAIN HOW THE COMPANY’S AMENDED PETITION**  
21 **ADDRESSES THE COMMISSION’S MODIFICATION NUMBER FIVE (5),**

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<sup>17</sup> June 2026 ARRM Order at 33.

1           **REGARDING CARRYING CHARGE CALCULATIONS FOR ANY SURPLUS OR**  
2           **DEFICIENT ARRM REVENUES.**

3    A.     The Company has amended its proposed ARRM tariff to reflect the Commission’s decision  
4           that “Consistent with Commission ARRM precedents, carrying charges related to any  
5           calculated revenue sufficiency or deficiency shall be computed at the Company’s approved  
6           rate of return for the period commencing with the midpoint of the Historic Base Period and  
7           ending with the effective date of any approved rate adjustments.”<sup>18</sup> The Company has also  
8           updated its ARRM tariff and schedules to reflect the 12-month carrying charge period from  
9           the midpoint of the Historic Base Period to the Commission’s rate effective on July 1<sup>st</sup> of  
10          each year.

11   **Q.     PLEASE EXPLAIN HOW THE COMPANY’S AMENDED PETITION**  
12          **ADDRESSES THE COMMISSION’S MODIFICATION NUMBER SIX (6),**  
13          **REGARDING THE ARRM FILING DATE AND EFFECTIVE DATE.**

14   A.     The Commission ordered that “The ARRM filing shall be no later than March 1<sup>st</sup> each year,  
15          with any approved rate adjustments becoming effective the follow July 1<sup>st</sup>.”<sup>19</sup> The  
16          Company has confirmed with its internal tax, regulatory services, and billing teams that  
17          the Company can meet this filing deadline even with the additional schedules the Company  
18          has proposed to provide for the ARRM adjustment filings. However, the Consumer  
19          Advocate has requested TAWC to include its corporate parent’s annual 10-K filing as an  
20          ARRM schedule. The corporate parent’s annual 10-K filing may not be publicly available

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<sup>18</sup> *Id.* at 30.

<sup>19</sup> *Id.* at 30.

1 by March 1<sup>st</sup> each year, and TAWC may have to submit the annual 10-K filing as a  
2 supplemental schedule as soon as it becomes publicly available.

3 **Q. PLEASE DESCRIBE THE COMPANY’S POSITION REGARDING ARRM FILING**  
4 **COSTS.**

5 A. The Company recognizes the Commission’s order, which stated that “Tennessee-American  
6 Water Company may request recovery of costs associated with this annual rate review  
7 mechanism petition in a separate proceeding; however, Tennessee-American Water  
8 Company shall not defer such costs to a regulatory asset for ratemaking purposes at this  
9 time.”<sup>20</sup> The Company will track costs associated to the ARRM framework approval filing  
10 but will not defer these costs to a regulatory asset. The Company will present the filing  
11 related costs to the Commission for recovery consideration in a separate regulatory  
12 proceeding.

13 **III. OTHER MATTERS**

14 **Q. DID THE COMMISSION ADDRESS OTHER ISSUES IN ITS *JUNE 2026 ARRM***  
15 ***ORDER?***

16 A. Yes. The Commission stated that “for all remaining issues, the panel found that the *Petition*  
17 and ARRM Tariff, as set forth in the November 18, 2025, filing, are reasonable and voted  
18 unanimously to adopt them. Such additional issues include tax adjustment corrections from  
19 the *2025 Rate Case* and TAWC’s Capital structure.”<sup>21</sup> The Company will use the capital  
20 structure, Authorized Weighted Average Cost of Debt, and Authorized Rate of Return of  
21 6.846%, as determined by the Commission in the Company’s 2025 Rate Case, for the

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<sup>20</sup> *Id.* at 34.

<sup>21</sup> *Id.* at 31.

1 calculation of any deficient or surplus earnings in the ARRM filings each year. The  
2 Company will also include the amortization of Excess Deferred Income Taxes,  
3 amortization of Investment Tax Credits, and other permanent book-to-tax differences and  
4 flow-through items in the ARRM earnings test to correctly reflect those items in customers'  
5 rates.

#### 6 **IV. CONCLUSION**

7 **Q. WHY IS TAWC'S AMENDED ARRM PROPOSAL IN THE PUBLIC INTEREST**  
8 **AND WHY SHOULD THE COMMISSION APPROVE TAWC'S AMENDED**  
9 **REQUEST FOR AN ANNUAL REVIEW OF ITS RATES UNDER TENN. CODE**  
10 **ANN. § 65-5-103(d)(6)?**

11 A. The Company's Amended Petition complies with the findings and conclusions of the *June*  
12 *2026 ARRM Order*, including the Commission's conditional modifications, and is therefore  
13 now in the public interest. The Company's Amended Petition will benefit customers by  
14 eliminating the need to file costly and time-consuming base rate cases on a frequent basis.  
15 Approval of TAWC's Amended Petition will promote regulatory efficiency and  
16 significantly reduce rate case costs, which will benefit and flow back to customers in the  
17 form of lower rates. If approved, TAWC's ARRM will consolidate the Company's existing  
18 infrastructure and expense riders into a single filing, streamlining the regulatory process.  
19 TAWC's Amended Petition adheres to the ratemaking methodologies established by TPUC  
20 in the Company's rate case docket, as required by Tenn. Code. Ann. § 65-5-103(d)(6).  
21 TAWC's ARRM proposal provides substantive regulatory review of its historic costs and  
22 capital investments to determine the reasonableness and prudence of the Company's costs  
23 recovered under its proposed Annual Rate Review Mechanism. TAWC is incentivized to

1 control costs and will adjust test period expenses to comply with the methodologies ordered  
2 by TPUC, as clearly stated in the Company's amended tariff and supported by granular  
3 detail in the Company's workpapers. TAWC's Amended ARRM proposal will result in  
4 the Company having the opportunity to recover expenses, and earn a fair and reasonable  
5 return on equity as established in its last rate case, while continuing to provide safe, reliable  
6 service to its customers.

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

8 A. Yes.

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION  
NASHVILLE, TENNESSEE

PETITION OF TENNESSEE-AMERICAN )  
WATER COMPANY TO ADOPT ANNUAL )  
RATE REVIEW MECHANISM AND )  
ARRM TARIFF PURSUANT TO TENN. )  
CODE ANN. § 65-5-103(d)(6) )

DOCKET NO. 25-00089

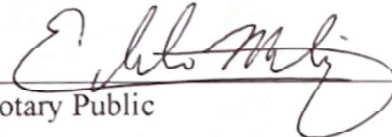
VERIFICATION

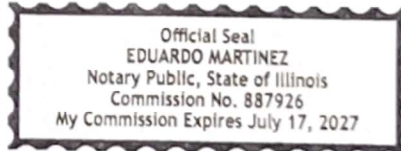
STATE OF Illinois )  
 )  
COUNTY OF Cook )

I, PHILIP J. DRENNAN, being duly sworn, state that I am authorized to testify on behalf of Tennessee-American Water Company in the above-referenced docket, that if present before the Commission and duly sworn, my testimony would be as set forth in my pre-filed testimony in this matter, and that my testimony herein is true and correct to the best of my knowledge, information, and belief.

  
\_\_\_\_\_  
PHILIP J. DRENNAN

Sworn to and subscribed before me  
this 18<sup>th</sup> day of June, 2026.

  
\_\_\_\_\_  
Notary Public



My Commission Expires: 07/17/2027

# **APPENDIX B**

## CLASSIFICATION OF SERVICE

### ANNUAL REVIEW MECHANISM (“ARM”)

#### 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, Special Contract, and Private Fire, an Annual Review Mechanism (“ARM”) surcharge or surcredit will apply to customers in all Approved Service Areas.

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

#### 2. Definitions

For the purposes of the ARM:

“**2025 Rate Case**” means the Company’s most recent base rate case, adjudicated in Docket Number 24-00032. The Commission’s Final Order (“Rate Order”) for the 2025 Rate Case was issued on April 21, 2025.

“**ARM Adjustment Filing**” means the annual filing made no later than ~~by~~ March 31<sup>st</sup> each year to calculate the Earnings Surplus or Deficiency and, the Revenue Surplus or Deficiency, and Annual ARM Revenue in the Historic Base Period, and any resulting ARM Revenue Adjustment.

“**ARM Revenue Adjustment**” the annual revenue deficiency collected in rates via a surcharge, or annual revenue surplus credited to customers in the Rate Effective Period, effective ~~July~~ August 1<sup>st</sup> each year, that reflects the ~~ARM~~ Adjustment Filing methodologies approved by the Commission.

“**Base Revenue Forecast**” means the base tariff rate revenue expected to be collected in the Rate Effective Period which shall be used as a basis to calculate the ARM surcharges or surcredits. The Base Revenue Forecast will reflect the rate design methodology approved by the Commission. The Base Revenue Forecast will use existing billing determinants, which may be adjusted for known and reasonable factors, expected to be in place during the Rate Effective Period. The purpose of the Base Revenue Forecast is to minimize any over/under collection or credit of the ARM Revenue Adjustment amount, and to provide a proof of revenue utilizing the calculated ARM surcharges or surcredits. The Base Revenue Forecast is not used in the annual earnings test.

“**Commission**” means the Tennessee Public Utility Commission (“TPUC”).

“**Company**” means Tennessee-American Water Company, Inc. (“TAWC”)

“**Earnings Surplus or Deficiency**” the Company shall calculate, based on the methodologies approved by the Commission, any operating income surplus or deficiency for the Historic Base Period. The operating income surplus or deficiency calculation shall be based on the comparison of the Historic Base Period operating income and the authorized rate of return of 6.846% per the Commission’s Order in the Company’s 2025 Rate Case. This amount shall be used to calculate the

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Revenue Surplus or Deficiency.

“**Historic Base Period**” means the most recently completed fiscal year ended December 31<sup>st</sup> as of the time of Annual ARM filing.

“**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 for which there is no explicit prior determination by the Commission regarding the Company. New Matters will be reflected in the Company’s ARM filings on a prospective basis. Changes to Commission methodologies applicable to the ARM that are addressed in other regulatory proceedings shall be applied as a New Matter on a prospective basis.

“**Rate Effective Period**” means the period in which adjusted rates shall be in effect beginning on ~~July~~~~August~~ 1<sup>st</sup> after the ~~Annual~~ARM Adjustment Filing.

“**Revenue Surplus or Deficiency**” means the revenue adjustment necessary to allow the Company to recover from, or credit to, customers the Earnings Surplus or Deficiency. The Earnings Surplus or Deficiency shall be multiplied by the Revenue Conversion Factor to calculate Revenue Surplus or Deficiency. Carrying charges shall be applied to the Revenue Surplus or Deficiency to calculate ARM Revenue Adjustment each year.

### 3. 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 surplus earnings (grossed up to determine surplus 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 revenue 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 deferred balance. The carrying charges on the deferred balance shall be calculated over ~~12~~~~9~~ months from the midpoint of the Historic Base Period to beginning of the ~~the midpoint of the annual~~ Rate Effective Period following the ARM Adjustment Filing. The Company’s authorized rate of return of 6.846%, per the Company’s 2025 Rate Case Final Order in Docket No. 24-00032, shall be used to calculate carrying charges.

The review of the annual earnings deficiency or surplus shall adjust rates based on an adjusted Historic Base Period so that the Company may earn its authorized return, as well as include the collection or credit of the deferred balance reflecting any revenue deficiency or surplus. The annual earnings deficiency or surplus review and rate adjustment calculation shall occur in one filing, made no later than or before March 31<sup>st</sup> of each year. The Historic Base Period for the ARM Adjustment Filing shall align with the Company’s most recent fiscal year end, December 31<sup>st</sup>. There shall be one annual filing that

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shall include the determination of the earnings deficiency or surplus, 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 ~~June~~ July 29th, and adjusted rates shall go into effect ~~on July~~ August 1<sup>st</sup>.

#### 4. Methodology

The following methodologies shall be utilized for determining the appropriate revenue requirement components for the Historic Base Period Surplus or Deficiency Calculations. The Company may adjust certain expenses to reflect methodologies ordered by the Commission in the Company's 2025 Rate Case.

##### A. Rate Effective Period

- Defined as the period in which adjusted rates shall be in effect beginning on ~~July~~ August 1<sup>st</sup> after the ARM Adjustment Filing.

##### B. Historic Base Period

- Defined as the most recently completed fiscal year ended December 31<sup>st</sup> as of the time of the Annual Adjustment filing.

##### C. ~~Annual~~ ARM Revenue ~~Surcharges and Surcredits~~

- ARM Surcharges and Surcredits will be expressed in dollar amounts. ARM Surcharges and Surcredits will be calculated to credit or collect the ARM Revenue Surplus or Deficiency. To collect or credit ARM Revenue Adjustment, the Company shall apply an equal percentage increase to customer bills in the form of a surcharge. The percentage increase will be calculated by dividing ARM Revenue Adjustment by the Base Revenue Forecast for the Rate Effective Period. ARM Revenue Adjustment Surcharges and Surcredits shall be collected or credited beginning in the Rate Effective Period on ~~July~~ August 1<sup>st</sup> following the ARM Adjustment Filing.

##### D. Water Revenues

- Actual base water revenues in the Historic Base Period shall be used to calculate Earnings Surplus or Deficiency.

##### E. Other Revenues

- Actual Other Revenues and Forfeited Discounts in the Historic Base Period shall be used to calculate Earnings Surplus or Deficiency.
- The Revenue Surplus or Deficiency calculation shall use a Forfeited Discounts rate of 1.005373% per the 2025 Rate Case Commission Order.

##### F. Ratemaking Adjustments

- Ratemaking adjustments used to determine the Company's earnings position under the ARM shall be consistent with such adjustments as ordered by the Commission in Docket No. 24-00032 and described in the Commission's 2025 Rate Case Order. These ratemaking adjustments will ensure the calculation of an earnings deficiency or surplus adheres to the methodology established by the Commission in Rate Case Docket No. 24-00032. A list of the ratemaking adjustments is as follows:
- 1) Capital Structure – adjustment to Tennessee American Water's Capital Structure to apply the Capital Structure and Rate of Return approved in Docket No. 24-00032. Adjustment includes interest expense synchronization and corresponding income tax adjustments.

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- 2) Salaries and Wages – adjustment to exclude 55% of Annual Performance Plan (APP) and 100% of Long-Term Performance Plan (LTPP), consistent with Commission methodology in Docket No. 24-00032.
- 3) Production Costs – Chemical costs and Purchase Power and Fuel costs will be reduced for excess water loss, consistent with Commission methodology in Docket No. 24-00032.
- 4) Multiple Expense Categories – adjustment to remove Lobbying, Charitable Contributions, ID&E, Business Development, and certain Advertising costs, consistent with Commission rules and methodology in Docket No. 24-00032.
- 5) Allowance for Funds Used in Construction (AFUDC) and Non-Operating items – adjustment to remove non-operating items and AFUDC to reflect the rate base reduction for Construction Work in Progress (CWIP), consistent with Commission methodology in Docket No. 24-00032.

F.G. Operating & Maintenance Expenses

- Actual expenses as recorded in the Company’s books and records shall be used unless adjustments are required to adhere to methodologies approved by the Commission in the Company’s 2025 Rate Case. Changes to Commission methodologies addressed in other regulatory proceedings shall be applied on a prospective basis.

G.H. Expenses: Non-Revenue Water

- The Company shall calculate and supply a Non-Revenue Water (“NRW”) rate to relevant expense accounts to calculate Earnings Surplus or Deficiency. The Historic Base 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

Non-Revenue Water Rate Less 15% equals  
Non-Revenue Water Variance (Over/Under allowable %)

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

H.I. Depreciation Expense and CIAC Amortization

- The Company shall use actual depreciation and CIAC amortization expense in the Historic Base Period to calculate Earnings Surplus or Deficiency.

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

- The Company shall use actual amortization of Investment Tax Credits, Excess Deferred Income Taxes, Regulatory Liabilities and Regulatory Assets in the Historic Base Period to calculate Earnings Surplus or Deficiency.
- The Company shall expense the costs related to the processing of ARM Adjustment Filings and therefore recover such costs as part of the Earnings Surplus or Deficiency

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calculation in the normal course of the ARM process. The recovery of costs related to the ARM framework filing shall be addressed in a separate rate proceeding. ARM framework filing costs will be verified and evaluated for reasonableness and conformity with Commission policy and rules before such costs are recovered. ~~deferred to a regulatory asset and amortized over three (3) years and recovered as part of the Earnings Surplus or Deficiency calculation in the normal course of the ARM process over three (3) years.~~

J.K. Taxes Other than Income Taxes

- The Company shall use actual Taxes Other than Income Taxes in the Historic Base Period to calculate Earnings Surplus or Deficiency.

K.L. State Excise and Federal Income Taxes

- The Company shall use the statutory State Excise and Federal Income Tax rates at the end of the Historic Base Period to calculate Earnings Surplus or Deficiency.

L.M. Rate Base

- The Company shall use the 13-month average (December to December) of the Rate Base balances to calculate Earnings Surplus or Deficiency.

M.N. Cash Working Capital

- The Company shall use the Historic Base Period expense levels, using the same Lag Days approved in the 2025 Rate Case, to calculate the Cash Working Capital for the Earnings Surplus or Deficiency calculation

N.O. Revenue Conversion Factor

- The Company shall use the approved conversion factor of 1.35585% per the Rate Order to calculate Revenue Surplus or Deficiency. The excise and federal income tax components are subject to change to reflect the then-current rate.

O.P. Rate of Return

- The Company shall use the approved 44.19% weighting of Equity and 9.70% Return on Equity, 55% weighting of Long-Term Debt at 4.59% cost of debt, .81% weighting of Short-Term Debt at 4.27% cost of debt. Overall authorized Rate of Return will be 6.846% per the Rate Order.

P.Q. Other Adjustments

- Consistent with Commission Rules, costs not generally allowed for rate recovery shall be removed or excluded from the Historic Base Period. Removals and exclusions include, but are not limited to, the following categories: Advertising, Lobbying, Charitable Contributions, and Fines & Penalties.

Q.R. New Matters

- New Matters refers to any issue, adjustment, method of accounting, or ratemaking topic that would directly or indirectly affect the ARM Adjustment Filing for which there is no explicit prior determination by the Commission regarding the Company. New Matters will be reflected in the Company's ARM filings on a prospective basis. Changes to Commission methodologies applicable to the ARM that are addressed in other regulatory proceedings shall be applied as New Matters on a prospective basis.

R.S. Rate Design and Tariff Changes

- Any Party to an ARM proceeding may propose adjustments to the then-current rate

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design, miscellaneous terms, tariff language or provisions. The Company may propose any revenue allocation and rate methodology in each ARM adjustment filing; the Consumer Advocate or other intervening parties may object to such revenue allocation and rate design methodology and may propose their own revenue allocation and rate design methodology. The Commission shall, after hearing, determine the appropriate revenue allocation and rate design methodology based upon the proposals of the parties or such other appropriate revenue allocation and rate design methodology the Commission find reasonable and in the public interest.

#### S.T. Revenue Surplus or Deficiency Deferral

- ~~The~~ The Company shall defer any Revenue Surplus or Deficiency incurred in the Historic Base Period. The Company shall recover or credit over the Rate Effective Period any deferred revenue deficiency or surplus ~~amounts deferred~~. The deferral shall accrue carrying charges at the authorized rate of return of 6.846% per the Rate Order. Carrying charges shall be calculated based on the balance of the Revenue Surplus or Deficiency result over a 1~~29~~-month period ~~from the midpoint of~~ ~~covering~~ the Historic Base Period ~~to~~ and the beginning of the Rate Effective Period.

#### T.U. 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).

#### V. 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.

### 5. 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 Mechanism, as permitted by law and the rules and regulations of the Commission, for reconsideration of whether it remains in the public interest

### 6. ARM - Annual Filing

A. The Company will file revised tariffs for Commission approval upon 30-day notice to implement an ARM Revenue Adjustment. 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.

B. By March 1st of each year, the Company shall file with the Commission the schedules and workpapers that reflect 1) actual Historic Base Period amounts per its books and records, 2) any adjustments to the Historic Base Period actuals per the methodologies described above, 3) the Surplus or Deficiency Earnings and Revenue Calculations, including carrying charges, and resulting ARM Revenue Adjustment, 4) proposed tariff rates that support the ARM R Surcharge or Surcredit amounts. The list of schedules to be filed includes, but need not be limited to:

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SCHEDULE	LEAD SCHEDULES
1	Annual Reconciliation of Revenue Deficiency / (Surplus)
2	Rate Base
2.1	Average Rate Base – Rate Case Adopted Docket
2.2	Rate Base 13-Month Average Summary
<a href="#"><u>2.3</u></a>	<a href="#"><u>Rate Base 13-Month Average UPIS Detail by Account</u></a>
<a href="#"><u>2.4</u></a>	<a href="#"><u>Rate Base 13-Month Average Accumulated Depreciation Detail by Account</u></a>
<a href="#"><u>2.5</u></a>	<a href="#"><u>Rate Base 13-Month Average Customer Advances and Contributions</u></a>
<a href="#"><u>2.6</u></a>	<a href="#"><u>Rate Base 13-Month Average ADIT Balances by Account</u></a>
<a href="#"><u>2.7</u></a>	<a href="#"><u>Regulatory Asset and Liability 13-Month Average Balances</u></a>
3	Lead Lag Results Approved
4	Rate Case Calculation of Operating Expense Lead Lag
4.1	ARM Historic Base Period Calculation of Operating Expense Lead Lag
5	Income Statement: Historic Base Period Summary
5.1	Income Statement: Historic Base Period Detail
5.2	Income Statement: Historic Base Period Schedule of Rate Making Adjustments
<a href="#"><u>5.3</u></a>	<a href="#"><u>Income Statement: Historic Base Period Monthly Depreciation Expense by Account</u></a>
6	Income Tax Calculation
7	Rate Case Capital Structure
8	Gross Revenue Conversion Factor
9	Carrying Charges and ARM Asset / (Liability)
10	Return on Equity Proof before and after ARM Deficiency / (Surplus)
11	TAWC Strategic Capital Expenditure Plan (SCEP) for the Upcoming Calendar Year
<a href="#"><u>12</u></a>	<a href="#"><u>Revenue Summary for the Historic Base Period</u></a>
<a href="#"><u>12.1</u></a>	<a href="#"><u>Base Revenue Forecast – Billing Determinants</u></a>
<a href="#"><u>12.2</u></a>	<a href="#"><u>Proof of Revenues and Calculation of ARM Surcharges</u></a>
<a href="#"><u>12.1</u></a>	<a href="#"><u>Revenue Reconciliation – ARM Revenue Surcharge</u></a>
<a href="#"><u>13</u></a>	<a href="#"><u>Non-Revenue Water (NRW) – Lost and Unaccounted for Water Report</u></a>

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<u>SCHEDULE</u>	<u>WORKPAPERS AND SUPPORTING DOCUMENTS</u>
<u>WP 1</u>	<u>Trial Balance (Electronic Format)</u>
<u>WP 2</u>	<u>General Ledger Capital Expenditure Data (Electronic Format)</u>
<u>WP 3</u>	<u>General Ledger Operating Expenditure Data (Electronic Format)</u>
<u>WP 4</u>	<u>Calculation of Annual EDIT Amortization</u>
<u>WP 5</u>	<u>Supporting Workpapers for Rate Making Adjustments on Schedule 5.2</u>
<u>WP 5.1</u>	<u>Remove Current Year ARM Revenue Accrual</u>
<u>WP 5.2</u>	<u>Remove AFUDC and Other Non-Operating Income/(Loss), Docket No. 24-00032 Methodology</u>
<u>WP 5.3</u>	<u>Synchronized Interest Expense to Authorized Capital Structure, Docket No. 24-00032 Methodology</u>
<u>WP 5.4</u>	<u>Adjust Salaries and Wages Expense for APP and LTPP, Docket No. 24-00032 Methodology</u>
<u>WP 5.5</u>	<u>Adjust Production Costs for Excess Water Loss, Docket No. 24-00032 Methodology</u>
<u>WP 5.6</u>	<u>Adjust Lobbying, Charitable, ID&amp;E, Business Development, Advertising Costs (24-00032 Method)</u>
<u>WP 5.7</u>	<u>Amortization of Ratemaking Regulatory Assets and Liabilities</u>
<u>WP 6</u>	<u>General Tax Detail</u>
<u>WP 7</u>	<u>Corporate Allocation Manual (CAM) - Confidential</u>
<u>WP 8</u>	<u>American Water Works Company, Inc. Form 10-K (Supplemental when Publicly Available)</u>
<u>WP 9</u>	<u>TAWC Capital Structure and Long-Term Debt Holdings</u>
<u>WP 10</u>	<u>Pension and OPEB Actuarial Reports</u>
<u>WP 11</u>	<u>Corporate Organization Structure (if Changed from Docket 24-00032 or the Prior Year)</u>
<u>WP 12</u>	<u>Incentive Compensation Documents (if Changed from Docket 24-00032 or the Prior Year)</u>
<u>WP 13</u>	<u>Additional Workpapers as Required, Referenced to Applicable ARM Filing Schedules</u>

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ANNUAL REVIEW MECHANISM ("ARM")

Classification of Service  
Residential

ARM Rates per Month

<u>Meter Size</u>	<u>Chattanooga</u>	<u>Lookout Mountain</u>	<u>Lakeview</u>
<u>5/8"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>3/4"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>1"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>1-1/2"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>2"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>3"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>4"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>6"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>8"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>

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ANNUAL REVIEW MECHANISM ("ARM")

Classification of Service

Residential

ARM Rates per Month

Suck Creek - Residential

Monthly Fixed Charge

All Meters

Suck Creek General

Water Service

\$0.00

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ANNUAL REVIEW MECHANISM ("ARM")

Classification of Service

All Service Types

ARM Rates per Month

City of Whitwell - For All Service Types

<u>Monthly Fixed Charge</u>	<u>Whitwell Inside City</u>	<u>Whitwell Outside City</u>
<u>All Meters</u>	<u>\$0.00</u>	<u>\$0.00</u>

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ANNUAL REVIEW MECHANISM ("ARM")

Classification of Service  
All Service Types

ARM Rates per Month

Jasper Highlands - For All Service Types

<u>Monthly Fixed Charge</u>	<u>Jasper Highlands General</u> <u>Water Service</u>
<u>All Meters</u>	<u>\$0.00</u>

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ANNUAL REVIEW MECHANISM ("ARM")

Classification of Service

Commercial

ARM Rates per Month

<u>Meter Size</u>	<u>Chattanooga</u>	<u>Lookout Mountain</u>	<u>Lakeview</u>
<u>5/8"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>3/4"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>1"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>1-1/2"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>2"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>3"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>4"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>6"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>8"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>

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ANNUAL REVIEW MECHANISM ("ARM")

Classification of Service  
Commercial

ARM Rates per Month

<u>Meter Size</u>	<u>Chattanooga</u>	<u>Lookout Mountain</u>	<u>Lakeview</u>
<u>5/8"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>3/4"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>1"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>1-1/2"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>2"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>3"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>4"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>6"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>8"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>

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ANNUAL REVIEW MECHANISM ("ARM")

Classification of Service  
Commercial

ARM Rates per Month

Suck Creek - Commercial

Monthly Fixed Charge

Suck Creek General  
Water Service

All Meters

\$0.00

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ANNUAL REVIEW MECHANISM ("ARM")

Classification of Service  
Industrial

ARM Rates per Month

<u>Meter Size</u>	<u>Chattanooga</u>	<u>Lookout Mountain</u>	<u>Lakeview</u>
<u>5/8"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>3/4"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>1"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>1-1/2"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>2"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>3"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>4"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>6"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>8"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>

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ANNUAL REVIEW MECHANISM ("ARM")

Classification of Service  
Other Public Authority

ARM Rates per Month

<u>Meter Size</u>	<u>Chattanooga</u>	<u>Lookout Mountain</u>	<u>Lakeview</u>
<u>5/8"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>3/4"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>1"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>1-1/2"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>2"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>3"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>4"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>6"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>8"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>

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ANNUAL REVIEW MECHANISM ("ARM")

Classification of Service  
Sale For Resale

ARM Rates per Month

<u>Meter Size</u>	<u>Chattanooga</u>	<u>Lookout Mountain</u>	<u>Lakeview</u>
<u>5/8"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>3/4"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>1"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>1-1/2"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>2"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>3"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>4"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>6"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
<u>8"</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>

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ANNUAL REVIEW MECHANISM ("ARM")

Classification of Service  
Private Fire Service

ARM Rates per Quarter

Private Fire Service Connections

<u>Service Diameter</u>	<u>Rate</u> <u>Per Quarter</u>
<u>1"</u>	<u>\$0.00</u>
<u>1-1/2"</u>	<u>\$0.00</u>
<u>2"</u>	<u>\$0.00</u>
<u>2-1/2"</u>	<u>\$0.00</u>
<u>3"</u>	<u>\$0.00</u>
<u>4"</u>	<u>\$0.00</u>
<u>6"</u>	<u>\$0.00</u>
<u>8"</u>	<u>\$0.00</u>
<u>10"</u>	<u>\$0.00</u>
<u>12"</u>	<u>\$0.00</u>
<u>Private Hydrants</u>	<u>\$0.00</u>

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## CLASSIFICATION OF SERVICE

### ANNUAL REVIEW MECHANISM (“ARM”)

#### 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, Special Contract, and Private Fire, an Annual Review Mechanism (“ARM”) surcharge or surcredit will apply to customers in all Approved Service Areas.

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

#### 2. Definitions

For the purposes of the ARM:

**“2025 Rate Case”** means the Company’s most recent base rate case, adjudicated in Docket Number 24-00032. The Commission’s Final Order (“Rate Order”) for the 2025 Rate Case was issued on April 21, 2025.

**“ARM Adjustment Filing”** means the annual filing made no later than March 1<sup>st</sup> each year to calculate the Earnings Surplus or Deficiency and the Revenue Surplus or Deficiency in the Historic Base Period, and any resulting ARM Revenue Adjustment.

**“ARM Revenue Adjustment”** the annual revenue deficiency collected in rates via a surcharge, or annual revenue surplus credited to customers in the Rate Effective Period, effective July 1<sup>st</sup> each year, that reflects the ARM Adjustment Filing methodologies approved by the Commission.

**“Base Revenue Forecast”** means the base tariff rate revenue expected to be collected in the Rate Effective Period which shall be used as a basis to calculate the ARM surcharges or surcredits. The Base Revenue Forecast will reflect the rate design methodology approved by the Commission. The Base Revenue Forecast will use existing billing determinants, which may be adjusted for known and reasonable factors, expected to be in place during the Rate Effective Period. The purpose of the Base Revenue Forecast is to minimize any over/under collection or credit of the ARM Revenue Adjustment amount, and to provide a proof of revenue utilizing the calculated ARM surcharges or surcredits. The Base Revenue Forecast is not used in the annual earnings test.

**“Commission”** means the Tennessee Public Utility Commission (“TPUC”).

**“Company”** means Tennessee-American Water Company, Inc. (“TAWC”)

**“Earnings Surplus or Deficiency”** the Company shall calculate, based on the methodologies approved by the Commission, any operating income surplus or deficiency for the Historic Base Period. The operating income surplus or deficiency calculation shall be based on the comparison of the Historic Base Period operating income and the authorized rate of return of 6.846% per the Commission’s Order in the Company’s 2025 Rate Case. This amount shall be used to calculate the

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Revenue Surplus or Deficiency.

**“Historic Base Period”** means the most recently completed fiscal year ended December 31<sup>st</sup> as of the time of Annual ARM filing.

**“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 for which there is no explicit prior determination by the Commission regarding the Company. New Matters will be reflected in the Company’s ARM filings on a prospective basis. Changes to Commission methodologies applicable to the ARM that are addressed in other regulatory proceedings shall be applied as a New Matter on a prospective basis.

**“Rate Effective Period”** means the period in which adjusted rates shall be in effect beginning on July 1<sup>st</sup> after the ARM Adjustment Filing.

**“Revenue Surplus or Deficiency”** means the revenue adjustment necessary to allow the Company to recover from, or credit to, customers the Earnings Surplus or Deficiency. The Earnings Surplus or Deficiency shall be multiplied by the Revenue Conversion Factor to calculate Revenue Surplus or Deficiency. Carrying charges shall be applied to the Revenue Surplus or Deficiency to calculate ARM Revenue Adjustment each year.

### 3. 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 surplus earnings (grossed up to determine surplus 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 revenue 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 deferred balance. The carrying charges on the deferred balance shall be calculated over 12 months from the midpoint of the Historic Base Period to beginning of the Rate Effective Period following the ARM Adjustment Filing. The Company’s authorized rate of return of 6.846%, per the Company’s 2025 Rate Case Final Order in Docket No. 24-00032, shall be used to calculate carrying charges.

The review of the annual earnings deficiency or surplus shall adjust rates based on an adjusted Historic Base Period so that the Company may earn its authorized return, as well as include the collection or credit of the deferred balance reflecting any revenue deficiency or surplus. The annual earnings deficiency or surplus review and rate adjustment calculation shall occur in one filing, made no later than March 1<sup>st</sup> of each year. The Historic Base Period for the ARM Adjustment Filing shall align with the Company’s most recent fiscal year end, December 31<sup>st</sup>. There shall be one annual filing that shall include

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the determination of the earnings deficiency or surplus, 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 June 29th, and adjusted rates shall go into effect July 1<sup>st</sup>.

#### **4. Methodology**

The following methodologies shall be utilized for determining the appropriate revenue requirement components for the Historic Base Period Surplus or Deficiency Calculations. The Company may adjust certain expenses to reflect methodologies ordered by the Commission in the Company's 2025 Rate Case.

##### **A. Rate Effective Period**

- Defined as the period in which adjusted rates shall be in effect beginning on July 1<sup>st</sup> after the ARM Adjustment Filing.

##### **B. Historic Base Period**

- Defined as the most recently completed fiscal year ended December 31<sup>st</sup> as of the time of the Annual Adjustment filing.

##### **C. ARM Surcharges and Surcredits**

- ARM Surcharges and Surcredits will be expressed in dollar amounts. ARM Surcharges and Surcredits will be calculated to credit or collect the ARM Revenue Surplus or Deficiency. ARM Surcharges and Surcredits shall be collected or credited beginning in the Rate Effective Period on July 1<sup>st</sup> following the ARM Adjustment Filing.

##### **D. Water Revenues**

- Actual base water revenues in the Historic Base Period shall be used to calculate Earnings Surplus or Deficiency.

##### **E. Other Revenues**

- Actual Other Revenues and Forfeited Discounts in the Historic Base Period shall be used to calculate Earnings Surplus or Deficiency.
- The Revenue Surplus or Deficiency calculation shall use a Forfeited Discounts rate of 1.005373% per the 2025 Rate Case Commission Order.

##### **F. Ratemaking Adjustments**

- Ratemaking adjustments used to determine the Company's earnings position under the ARM shall be consistent with such adjustments as ordered by the Commission in Docket No. 24-00032 and described in the Commission's 2025 Rate Case Order. These ratemaking adjustments will ensure the calculation of an earnings deficiency or surplus adheres to the methodology established by the Commission in Rate Case Docket No. 24-00032. A list of the ratemaking adjustments is as follows:
  - 1) Capital Structure – adjustment to Tennessee American Water's Capital Structure to apply the Capital Structure and Rate of Return approved in Docket No. 24-00032. Adjustment includes interest expense synchronization and corresponding income tax adjustments.
  - 2) Salaries and Wages – adjustment to exclude 55% of Annual Performance Plan (APP) and 100% of Long-Term Performance Plan (LTPP), consistent with Commission methodology in Docket No. 24-00032.
  - 3) Production Costs – Chemical costs and Purchase Power and Fuel costs will be reduced

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for excess water loss, consistent with Commission methodology in Docket No. 24-00032.

- 4) Multiple Expense Categories – adjustment to remove Lobbying, Charitable Contributions, ID&E, Business Development, and certain Advertising costs, consistent with Commission rules and methodology in Docket No. 24-00032.
- 5) Allowance for Funds Used in Construction (AFUDC) and Non-Operating items – adjustment to remove non-operating items and AFUDC to reflect the rate base reduction for Construction Work in Progress (CWIP), consistent with Commission methodology in Docket No. 24-00032.

#### G. Operating & Maintenance Expenses

- Actual expenses as recorded in the Company’s books and records shall be used unless adjustments are required to adhere to methodologies approved by the Commission in the Company’s 2025 Rate Case. Changes to Commission methodologies addressed in other regulatory proceedings shall be applied on a prospective basis.

#### H. Expenses: Non-Revenue Water

- The Company shall calculate and supply a Non-Revenue Water (“NRW”) rate to relevant expense accounts to calculate Earnings Surplus or Deficiency. The Historic Base 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

Non-Revenue Water Rate Less 15% equals  
Non-Revenue Water Variance (Over/Under allowable %)

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

#### I. Depreciation Expense and CIAC Amortization

- The Company shall use actual depreciation and CIAC amortization expense in the Historic Base Period to calculate Earnings Surplus or Deficiency.

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

- The Company shall use actual amortization of Investment Tax Credits, Excess Deferred Income Taxes, Regulatory Liabilities and Regulatory Assets in the Historic Base Period to calculate Earnings Surplus or Deficiency.
- The Company shall expense the costs related to the processing of ARM Adjustment Filings and therefore recover such costs as part of the Earnings Surplus or Deficiency calculation in the normal course of the ARM process. The recovery of costs related to the ARM framework filing shall be addressed in a separate rate proceeding. ARM framework filing costs will be verified and evaluated for reasonableness and conformity with Commission policy and rules before such costs are recovered.

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## K. Taxes Other than Income Taxes

- The Company shall use actual Taxes Other than Income Taxes in the Historic Base Period to calculate Earnings Surplus or Deficiency.

## L. State Excise and Federal Income Taxes

- The Company shall use the statutory State Excise and Federal Income Tax rates at the end of the Historic Base Period to calculate Earnings Surplus or Deficiency.

## M. Rate Base

- The Company shall use the 13-month average (December to December) of the Rate Base balances to calculate Earnings Surplus or Deficiency.

## N. Cash Working Capital

- The Company shall use the Historic Base Period expense levels, using the same Lag Days approved in the 2025 Rate Case, to calculate the Cash Working Capital for the Earnings Surplus or Deficiency calculation

## O. Revenue Conversion Factor

- The Company shall use the approved conversion factor of 1.35585% per the Rate Order to calculate Revenue Surplus or Deficiency. The excise and federal income tax components are subject to change to reflect the then-current rate.

## P. Rate of Return

- The Company shall use the approved 44.19% weighting of Equity and 9.70% Return on Equity, 55% weighting of Long-Term Debt at 4.59% cost of debt, .81% weighting of Short-Term Debt at 4.27% cost of debt. Overall authorized Rate of Return will be 6.846% per the Rate Order.

## Q. Other Adjustments

- Consistent with Commission Rules, costs not generally allowed for rate recovery shall be removed or excluded from the Historic Base Period. Removals and exclusions include, but are not limited to, the following categories: Advertising, Lobbying, Charitable Contributions, and Fines & Penalties.

## R. New Matters

- New Matters refers to any issue, adjustment, method of accounting, or ratemaking topic that would directly or indirectly affect the ARM Adjustment Filing for which there is no explicit prior determination by the Commission regarding the Company. New Matters will be reflected in the Company's ARM filings on a prospective basis. Changes to Commission methodologies applicable to the ARM that are addressed in other regulatory proceedings shall be applied as New Matters on a prospective basis.

## S. 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. The Company may propose any revenue allocation and rate methodology in each ARM adjustment filing; the Consumer Advocate or other intervening parties may object to such revenue allocation and rate design methodology and may propose their own revenue allocation and rate design methodology. The Commission shall, after hearing, determine the appropriate revenue allocation and rate design methodology based upon the proposals of the parties or such other appropriate revenue allocation and rate design methodology the Commission find reasonable and in the public interest.

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**T. Revenue Surplus or Deficiency Deferral**

- The Company shall defer any Revenue Surplus or Deficiency incurred in the Historic Base Period. The Company shall recover or credit over the Rate Effective Period any deferred revenue deficiency or surplus amounts. The deferral shall accrue carrying charges at the authorized rate of return of 6.846% per the Rate Order. Carrying charges shall be calculated based on the balance of the Revenue Surplus or Deficiency result over a 12-month period from the midpoint of the Historic Base Period to the beginning of the Rate Effective Period.

**U. 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).

**V. 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.

**5. 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 Mechanism, as permitted by law and the rules and regulations of the Commission, for reconsideration of whether it remains in the public interest

**6. ARM - Annual Filing**

- A. The Company will file revised tariffs for Commission approval upon 30-day notice to implement an ARM Revenue Adjustment. 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.
- B. By March 1st of each year, the Company shall file with the Commission the schedules and workpapers that reflect 1) actual Historic Base Period amounts per its books and records, 2) any adjustments to the Historic Base Period actuals per the methodologies described above, 3) the Surplus or Deficiency Earnings and Revenue Calculations, including carrying charges, and resulting ARM Revenue Adjustment, 4) proposed tariff rates that support the ARM R Surcharge or Surcredit amounts. The list of schedules to be filed includes, but need not be limited to:

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<b>SCHEDULE</b>	<b>LEAD SCHEDULES</b>
1	Annual Reconciliation of Revenue Deficiency / (Surplus)
2	Rate Base
2.1	Average Rate Base – Rate Case Adopted Docket
2.2	Rate Base 13-Month Average Summary
2.3	Rate Base 13-Month Average UPIS Detail by Account
2.4	Rate Base 13-Month Average Accumulated Depreciation Detail by Account
2.5	Rate Base 13-Month Average Customer Advances and Contributions
2.6	Rate Base 13-Month Average ADIT Balances by Account
2.7	Regulatory Asset and Liability 13-Month Average Balances
3	Lead Lag Results Approved
4	Rate Case Calculation of Operating Expense Lead Lag
4.1	ARM Historic Base Period Calculation of Operating Expense Lead Lag
5	Income Statement: Historic Base Period Summary
5.1	Income Statement: Historic Base Period Detail
5.2	Income Statement: Historic Base Period Schedule of Rate Making Adjustments
5.3	Income Statement: Historic Base Period Monthly Depreciation Expense by Account
6	Income Tax Calculation
7	Rate Case Capital Structure
8	Gross Revenue Conversion Factor
9	Carrying Charges and ARM Asset / (Liability)
10	Return on Equity Proof before and after ARM Deficiency / (Surplus)
11	TAWC Strategic Capital Expenditure Plan (SCEP) for the Upcoming Calendar Year
12	Revenue Summary for the Historic Base Period
12.1	Base Revenue Forecast – Billing Determinants
12.2	Proof of Revenues and Calculation of ARM Surcharges
12.1	Revenue Reconciliation – ARM Revenue Surcharge
13	Non-Revenue Water (NRW) – Lost and Unaccounted for Water Report

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<b>SCHEDULE</b>	<b>WORKPAPERS AND SUPPORTING DOCUMENTS</b>
WP 1	Trial Balance (Electronic Format)
WP 2	General Ledger Capital Expenditure Data (Electronic Format)
WP 3	General Ledger Operating Expenditure Data (Electronic Format)
WP 4	Calculation of Annual EDIT Amortization
WP 5	Supporting Workpapers for Rate Making Adjustments on Schedule 5.2
WP 5.1	Remove Current Year ARM Revenue Accrual
WP 5.2	Remove AFUDC and Other Non-Operating Income/(Loss), Docket No. 24-00032 Methodology
WP 5.3	Synchronized Interest Expense to Authorized Capital Structure, Docket No. 24-00032 Methodology
WP 5.4	Adjust Salaries and Wages Expense for APP and LTPP, Docket No. 24-00032 Methodology
WP 5.5	Adjust Production Costs for Excess Water Loss, Docket No. 24-00032 Methodology
WP 5.6	Adjust Lobbying, Charitable, ID&E, Business Development, Advertising Costs (24-00032 Method)
WP 5.7	Amortization of Ratemaking Regulatory Assets and Liabilities
WP 6	General Tax Detail
WP 7	Corporate Allocation Manual (CAM) - Confidential
WP 8	American Water Works Company, Inc. Form 10-K (Supplemental when Publicly Available)
WP 9	TAWC Capital Structure and Long-Term Debt Holdings
WP 10	Pension and OPEB Actuarial Reports
WP 11	Corporate Organization Structure (if Changed from Docket 24-00032 or the Prior Year)
WP 12	Incentive Compensation Documents (if Changed from Docket 24-00032 or the Prior Year)
WP 13	Additional Workpapers as Required, Referenced to Applicable ARM Filing Schedules

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**ANNUAL REVIEW MECHANISM ("ARM")**

**Classification of Service**  
**Residential**

ARM Rates per Month

<u>Meter Size</u>	<u>Chattanooga</u>	<u>Lookout Mountain</u>	<u>Lakeview</u>
5/8"	\$0.00	\$0.00	\$0.00
3/4"	\$0.00	\$0.00	\$0.00
1"	\$0.00	\$0.00	\$0.00
1-1/2"	\$0.00	\$0.00	\$0.00
2"	\$0.00	\$0.00	\$0.00
3"	\$0.00	\$0.00	\$0.00
4"	\$0.00	\$0.00	\$0.00
6"	\$0.00	\$0.00	\$0.00
8"	\$0.00	\$0.00	\$0.00

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**ANNUAL REVIEW MECHANISM ("ARM")**

**Classification of Service**  
**Residential**

ARM Rates per Month

**Suck Creek - Residential**

<u>Monthly Fixed Charge</u>	<u>Suck Creek General Water Service</u>
All Meters	\$0.00

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**ANNUAL REVIEW MECHANISM ("ARM")**

**Classification of Service**  
**All Service Types**

ARM Rates per Month

**City of Whitwell - For All Service Types**

<u>Monthly Fixed Charge</u>	<u>Whitwell Inside City</u>	<u>Whitwell Outside City</u>
All Meters	\$0.00	\$0.00

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**ANNUAL REVIEW MECHANISM ("ARM")**

**Classification of Service**  
**All Service Types**

ARM Rates per Month

**Jasper Highlands - For All Service Types**

<u>Monthly Fixed Charge</u>	<u>Jasper Highlands General</u> <u>Water Service</u>
All Meters	\$0.00

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**ANNUAL REVIEW MECHANISM ("ARM")**

**Classification of Service**

**Commercial**

ARM Rates per Month

<u>Meter Size</u>	<u>Chattanooga</u>	<u>Lookout Mountain</u>	<u>Lakeview</u>
5/8"	\$0.00	\$0.00	\$0.00
3/4"	\$0.00	\$0.00	\$0.00
1"	\$0.00	\$0.00	\$0.00
1-1/2"	\$0.00	\$0.00	\$0.00
2"	\$0.00	\$0.00	\$0.00
3"	\$0.00	\$0.00	\$0.00
4"	\$0.00	\$0.00	\$0.00
6"	\$0.00	\$0.00	\$0.00
8"	\$0.00	\$0.00	\$0.00

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**ANNUAL REVIEW MECHANISM ("ARM")**

**Classification of Service**  
**Commercial**

ARM Rates per Month

<u>Meter Size</u>	<u>Chattanooga</u>	<u>Lookout Mountain</u>	<u>Lakeview</u>
5/8"	\$0.00	\$0.00	\$0.00
3/4"	\$0.00	\$0.00	\$0.00
1"	\$0.00	\$0.00	\$0.00
1-1/2"	\$0.00	\$0.00	\$0.00
2"	\$0.00	\$0.00	\$0.00
3"	\$0.00	\$0.00	\$0.00
4"	\$0.00	\$0.00	\$0.00
6"	\$0.00	\$0.00	\$0.00
8"	\$0.00	\$0.00	\$0.00

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**ANNUAL REVIEW MECHANISM ("ARM")**

**Classification of Service**  
**Commercial**

ARM Rates per Month

**Suck Creek - Commercial**

<u>Monthly Fixed Charge</u>	<u>Suck Creek General Water Service</u>
All Meters	\$0.00

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**ANNUAL REVIEW MECHANISM ("ARM")**

**Classification of Service**  
**Industrial**

ARM Rates per Month

<u>Meter Size</u>	<u>Chattanooga</u>	<u>Lookout Mountain</u>	<u>Lakeview</u>
5/8"	\$0.00	\$0.00	\$0.00
3/4"	\$0.00	\$0.00	\$0.00
1"	\$0.00	\$0.00	\$0.00
1-1/2"	\$0.00	\$0.00	\$0.00
2"	\$0.00	\$0.00	\$0.00
3"	\$0.00	\$0.00	\$0.00
4"	\$0.00	\$0.00	\$0.00
6"	\$0.00	\$0.00	\$0.00
8"	\$0.00	\$0.00	\$0.00

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**ANNUAL REVIEW MECHANISM ("ARM")**

**Classification of Service**  
**Other Public Authority**

ARM Rates per Month

<u>Meter Size</u>	<u>Chattanooga</u>	<u>Lookout Mountain</u>	<u>Lakeview</u>
5/8"	\$0.00	\$0.00	\$0.00
3/4"	\$0.00	\$0.00	\$0.00
1"	\$0.00	\$0.00	\$0.00
1-1/2"	\$0.00	\$0.00	\$0.00
2"	\$0.00	\$0.00	\$0.00
3"	\$0.00	\$0.00	\$0.00
4"	\$0.00	\$0.00	\$0.00
6"	\$0.00	\$0.00	\$0.00
8"	\$0.00	\$0.00	\$0.00

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**ANNUAL REVIEW MECHANISM ("ARM")**

**Classification of Service**  
**Sale For Resale**

ARM Rates per Month

<u>Meter Size</u>	<u>Chattanooga</u>	<u>Lookout Mountain</u>	<u>Lakeview</u>
5/8"	\$0.00	\$0.00	\$0.00
3/4"	\$0.00	\$0.00	\$0.00
1"	\$0.00	\$0.00	\$0.00
1-1/2"	\$0.00	\$0.00	\$0.00
2"	\$0.00	\$0.00	\$0.00
3"	\$0.00	\$0.00	\$0.00
4"	\$0.00	\$0.00	\$0.00
6"	\$0.00	\$0.00	\$0.00
8"	\$0.00	\$0.00	\$0.00

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**ANNUAL REVIEW MECHANISM ("ARM")**

**Classification of Service**  
**Private Fire Service**

ARM Rates per Quarter

**Private Fire Service Connections**

<u>Service Diameter</u>	<u>Rate</u> <u>Per Quarter</u>
1"	\$0.00
1-1/2"	\$0.00
2"	\$0.00
2-1/2"	\$0.00
3"	\$0.00
4"	\$0.00
6"	\$0.00
8"	\$0.00
10"	\$0.00
12"	\$0.00
Private Hydrants	\$0.00

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CERTIFICATE OF SERVICE


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

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This the 18<sup>th</sup> day of June 2026.

  
\_\_\_\_\_  
Melvin Malone