

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 25- 00089

DIRECT TESTIMONY

OF

PHILIP J. DRENNAN

ON

Annual Review of Rates Mechanism

SPONSORING PETITIONER'S EXHIBITS:

Petitioner's Exhibit PJD-1

DIRECT TESTIMONY

PHILIP J. DRENNAN

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

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

6 A. I am employed by American Water Works Service Company, Inc. (“Service Company”)
7 as Director, Rates & Regulatory. The Service Company is a subsidiary of American Water
8 Works Company, Inc. (“American Water”) that provides support services to American
9 Water’s subsidiaries, including Tennessee-American Water Company, Inc. (“Tennessee
10 American,” “TAWC” or “Company”).

11 **Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL**
12 **BACKGROUND.**

13 A. I earned a Bachelor of Science degree in Finance from the University of Illinois at Urbana-
14 Champaign Gies College of Business. I earned a Professional Accounting certificate from
15 Oakton College to complete the course requirements to take the Uniform CPA
16 Examination, and the Illinois Board of Examiners has approved my application to sit for
17 the exam. I am also an active holder of the Chartered Financial Analyst (CFA) designation.

18 I began my employment at Service Company as Director of Rates & Regulatory in
19 August 2024. I oversee the regulatory and rate related activities for multiple American
20 Water subsidiaries, including TAWC. My duties at Service Company include the
21 preparation of written testimony, exhibits and work papers in support of rate applications

1 and other regulatory filings for subsidiaries of American Water. Prior to joining Service
2 Company, I held various regulatory and finance roles at Corix Regulated Utilities (US),
3 Inc. (“Corix”) and Nexus Water Group, Inc. (“Nexus”). Corix became a subsidiary of
4 Nexus after a merger with SouthWest Water Company in April 2024. At Corix and Nexus
5 I was responsible for the preparation and filing of base rate cases, annual rate adjustment
6 petitions, and other general regulatory proceedings for the East and South Business Units.
7 I held the role of Regional Director of FP&A for the East Business Unit of Corix and Vice
8 President of Finance for the South Business Unit of Nexus. Additionally, I led the
9 budgeting, forecasting, and financial reporting activities for the respective business units.

10 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**
11 **TENNESSEE PUBLIC UTILITY COMMISSION OR ANY OTHER**
12 **REGULATORY AGENCIES WITH RESPECT TO REGULATORY MATTERS?**

13 A. Yes, I testified before the Tennessee Public Utility Commission (“Commission” or
14 “TPUC”) in Docket No. 24-00028. I have also prepared several rate adjustment petitions
15 and regulatory filings, most supported by testimony, before the Indiana Utility Regulatory
16 Commission, the North Carolina Utilities Commission, the Public Service Commission of
17 South Carolina, the Florida Public Service Commission, the Public Utility Commission of
18 Texas, the Louisiana Public Service Commission, and the Alabama Public Service
19 Commission.

20 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
21 **PROCEEDING?**

22 A. The purpose of my testimony in this proceeding is to support TAWC’s Petition and
23 the Annual Review Mechanism (“ARM”) requested therein. My testimony will provide

1 the Commission with an overview of the ARM and requests Commission authority to
2 implement the ARM framework proposed in the Company's Petition. If approved, TAWC
3 expects to submit its initial ARM filing by March 31, 2027, using a 2026 Historic Base
4 Period.

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

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

- 7 • Exhibit PJD-1 – ARM Filing Schedules (listed below):
 - 8 ○ Schedule 1 – Annual Reconciliation Revenue Deficiency/(Surplus)
 - 9 ○ Schedule 2 – Rate Base
 - 10 ○ Schedule 2.1 – Average Rate Base – Rate Case Adopted Docket
 - 11 ○ Schedule 2.2 Rate Base – 13 Month Average Workpaper
 - 12 ○ Schedule 3 – Lead Lag Results Approved
 - 13 ○ Schedule 4 – Calculation of Operating Expense – Lead Lag (Rate Case)
 - 14 ○ Schedule 4.1 – Calculation of Operating Expense – Lead Lag (Historic Base Period)
 - 15 ○ Schedule 5 – Income Statement (Historic Base Period) Summary
 - 16 ○ Schedule 5.1 – Income Statement Detailed (Rate Case Adopted, Unadjusted
17 Historic Base Period and Adjusted Historic Base Period)
 - 18 ○ Schedule 5.2 – Income Statement (Historic Base Period Schedule of Rate Making
19 Adjustments)
 - 20 ○ Schedule 6 – Income Tax Calculation
 - 21 ○ Schedule 7 – Rate Case Capital Structure
 - 22 ○ Schedule 8 – Gross Revenue Conversion Factor
 - 23 ○ Schedule 9 – Carrying Charges and ARM Asset / (Liability)

1 **Q. WILL TENNESSEE AMERICAN MAKE ANY ADJUSTMENTS TO THE**
2 **HISTORIC BASE PERIOD BEFORE CALCULATING SURPLUS OR**
3 **DEFICIENT EARNINGS?**

4 A. Yes. Tennessee American will make Historic Base Period adjustments consistent with the
5 methodologies ordered by the Commission in TAWC’s 2025 Rate Case (Docket No. 24-
6 00032). TAWC witness Robert C. Lane will testify in detail about the various adjustments,
7 which include adjustments to capital structure, interest expense, production costs
8 associated with non-revenue water loss, and other items. A comprehensive list of Historic
9 Base Period adjustments is shown in Schedule 5.2 of TAWC’s ARM filing.

10 **Q. WILL TENNESSEE AMERICAN CALCULATE CARRYING COSTS ON ANY**
11 **SURPLUS OR DEFICIENT REVENUE AMOUNTS IN THE HISTORIC BASE**
12 **PERIOD?**

13 A. Yes. Tennessee American is not using forecasted data to determine surplus or deficient
14 revenue amounts expected to occur in future periods. Typically, utilities align future test
15 periods with the effective date of new rates to reduce regulatory lag. Tennessee American
16 will forego the use of future test periods in its ARM filing due to the deferral accounting
17 mechanisms TAWC is able to leverage in the formulaic rate setting process. However,
18 exclusively using a Historic Base Period to determine surplus or deficient revenue will
19 result in a 19-month lag between the test periods and rate effective periods, which requires
20 the calculation of carrying charges to compensate for time between the Historic Base
21 Period and the Rate Adjustment Period. Tennessee American will calculate carrying
22 charges using its authorized Rate of Return of 6.846% per the Commission’s *Order Setting*

1 *Rates* in TAWC’s 2025 Rate Case. Tennessee American’s carrying charge calculation will
2 allow TAWC to maintain its uncomplicated ARM approach.

3 **Q. HOW WILL TENNESSEE AMERICAN AVOID DOUBLE COUNTING SURPLUS**
4 **OR DEFICIENT REVENUE AMOUNTS OVER MULTIPLE TEST PERIODS?**

5 A. Tennessee American will align the amortization of the deferral balance with the rate
6 effective period to match the monthly amortization to the amounts collected or credited in
7 each period. The amortization of the deferral balance will offset the monthly revenue
8 collected or credited to avoid double counting. After each 12-month surcharge period, any
9 over or under collected/credited amounts will be known with certainty and will be
10 reconciled in the next annual earnings test.

11 **Q. HOW WILL TAWC CALCULATE THE SURCHARGE PERCENTAGE TO**
12 **APPLY TO CUSTOMERS’ BILLS?**

13 A. TAWC will use current billing determinants and normalized usage to forecast the base
14 revenue the Company expects to collect in the Rate Effective Period (the “Base Revenue
15 Forecast”). The Base Revenue Forecast shall be used as the denominator, with the total
16 ARM revenue deficiency or surplus used in the numerator, to calculate the percentage
17 increase or decrease in the ARM surcharge rates. Even though the ARM is a fully
18 reconciled mechanism, the purpose of the Base Revenue Forecast is to minimize any
19 over/under collection of revenue or over/under credit of revenue in the Rate Effective
20 Period. As customer growth occurs in the TAWC systems, using the level of revenue
21 approved in TAWC’s last rate case as the denominator to calculate surcharge percentage
22 adjustments will eventually lead to consistent over or under collection of surcharge
23 amounts. To be clear, any over or under collected surcharge amounts in the initial Rate

1 Effective Period will be reconciled and offset in a subsequent earnings test. However, using
2 a base revenue forecast instead of a fixed approved revenue amount from the 2025 Rate
3 Case will minimize over or under surcharge collections and decrease surcharge rate
4 adjustment volatility. The Base Revenue Forecast will only be used for setting new
5 surcharge rates and will not be a component of the annual earnings test in the ARM filings.

6 **Q. WILL TAWC NEED TO ADJUST HISTORIC BASE PERIOD REVENUE FOR**
7 **ANY PRODUCTION COSTS AND OTHER PASS-THROUGH (“PCOP”)**
8 **SURCHARGES COLLECTED IN THE EARNINGS TEST PERIOD?**

9 A. No. TAWC will file a production cost rider in early 2026 to recover the remaining PCOP
10 deferral balance and any deferred differences between approved production costs from the
11 Company’s 2025 Rate Case and actual production costs incurred in 2025. The PCOP rider
12 surcharges will post directly to the regulatory asset used to record the balance of the PCOP
13 deferrals and will therefore have no effect on the base revenue used in the ARM’s earnings
14 test. Any remaining balance of the PCOP deferral will be included in a subsequent ARM
15 earnings test when the balance is known with certainty. The remaining PCOP deferral
16 balance will be credited to or recovered from customers in the normal course of the ARM
17 process.

18 **Q. WILL TAWC NEED TO ADJUST HISTORIC BASE PERIOD REVENUE FOR**
19 **RATE CASE EXPENSE SURCHARGES COLLECTED IN THE EARNINGS TEST**
20 **PERIOD?**

21 A. No. Like the PCOP rider surcharges, TAWC’s rate case expense surcharges will post
22 directly to the regulatory asset used to record the balance of the approved costs associated
23 with TAWC’s last rate case in Docket No. 24-00032. Therefore, the rate case expense

1 surcharges will not be reflected in TAWC's income statement, and TAWC's base revenues
2 do not need to be adjusted for the ARM earnings tests. However, TAWC expects a small
3 difference between the ultimate amount of rate case expense amount approved by TPUC
4 and the amount collected via surcharge rates. Once this difference is known with certainty,
5 the remaining balance will be included in the ARM Revenue Adjustment calculation and
6 reconciled in the normal course of the ARM process.

7 **Q. HOW IS TENNESSEE AMERICAN PROPOSING TO RECOVER THE COSTS OF**
8 **THE ARM FILINGS?**

9 A. TAWC Witness Robert C. Lane discusses the benefits of the ARM process in his Direct
10 Testimony, including the ease of administrative burden afforded to the Commission, and
11 any intervenors, by consolidating TAWC's existing capital recovery and production cost
12 riders into a single ARM filing. TAWC proposes to expense the costs of the ARM
13 Adjustment Filings each year and to recover those costs through the annual earnings tests
14 and surcharge adjustments. Regarding the initial ARM framework filing, TAWC requests
15 the authority to defer the costs of this filing to a regulatory asset to be amortized and
16 recovered in the normal course of the ARM process over three (3) years, subject to the
17 review of the Commission.

18 **III. STRUCTURE OF THE ARM SCHEDULES**

19 **Q. PLEASE GENERALLY DESCRIBE THE PURPOSE OF THE SCHEDULES**
20 **PRESENTED IN EXHIBIT PJD-1.**

21 A. The schedules are meant to provide support for calculating the revenue deficiency or
22 surplus for the period reviewed in the current year ARM filing. The general structure is
23 meant to provide comparison points between the most recent rate case, the prior year ARM,

1 the unadjusted results of the current year, and the adjusted results of the current year
2 reflective of the rate making methodologies administered by the Commission and applied
3 to the unadjusted results. The Company’s goal is to show how the historic “per books”
4 results have been adjusted for rate making purposes to calculate the adjusted results used
5 in the earnings test for the historic period. The adjusted results are consistent with the
6 methodologies applied in TAWC’s 2025 Rate Case. The Company has included illustrative
7 values for 2026 results for illustrative purposes only to demonstrate the mathematical
8 calculations and validate accuracy of the schedules. The values presented for 2026 results
9 are not based on any budgeted or forecasted results; they are illustrative only.

10 Most of the schedules begin with the approved amounts from the TAWC’s 2025
11 Rate Case in the first left column of numbers, then present the prior year ARM docket
12 approved amounts (currently a blank placeholder for ARM filings in the future), followed
13 by the Unadjusted Historic Base Period, then a series of columns showing rate making
14 adjustments applied to the Unadjusted Historic Base Period to be consistent with
15 methodologies used in the 2025 Rate Case, and finally the furthestmost right column shows
16 the Adjusted Historic Base Period after the rate making adjustments have been applied.

17 **Q. PLEASE DESCRIBE SCHEDULE 1.**

18 A. Schedule 1 summarizes the earnings deficiency or surplus calculation and components for
19 the comparison periods previously described. Following standard ratemaking practice, it
20 compares the Earned Net Operating Income and Return to the Authorized Net Operating
21 Income and Return, to determine the revenue amount that should be included in the ARM
22 for recovery (Line 21). The purpose is to aggregate key components of the requested
23 deficiency / (surplus) for ease of comparison to approved amounts in prior dockets.

1 **Q. PLEASE DESCRIBE SCHEDULE 2.**

2 A. Schedule 2 summarizes the rate base components for the comparison periods previously
3 described. The purpose is to aggregate rate base amounts for ease of comparison to
4 approved amounts in prior dockets. Additionally, Schedule 2 shows the rate making
5 adjustment to remove Construction Work in Progress (“CWIP”) from Rate Base. The
6 Adjusted Historic Base Period 13-Month Average Rate Base on line 24 is used to determine
7 the Authorized Net Operating Income and ultimately verify that the ARM produces an
8 ROE of 9.70% as authorized by the Commission in the 2025 Rate Case.

9 **Q. PLEASE DESCRIBE SCHEDULE 2.1.**

10 A. Schedule 2.1 presents the components of rate base approved in the 2025 Rate Case,
11 inclusive of the rate making adjustment to remove CWIP from Rate Base used to calculate
12 the approved revenue deficiency.

13 **Q. PLEASE DESCRIBE SCHEDULE 2.2.**

14 A. Schedule 2.2 presents the components of rate base for the Unadjusted Historic Base Period,
15 beginning with December of the prior year. The schedule provides monthly values for the
16 13 months ending December of the current year so the 13-month average balance can be
17 calculated and used in measurement of the current year Earned Return. The schedule will
18 reflect unadjusted historical results in future filings; the schedule currently reflects
19 illustrative values that are not based on any capital spend forecast or budgeted results.

20 **Q. PLEASE DESCRIBE SCHEDULE 3.**

21 A. Schedule 3 summarizes the Lead Lag results for the previously described comparison
22 periods. The Lead Lag value for the current period is calculated by using the approved
23 lead/lag days in the 2025 Rate Case applied to the current year expense levels (Schedule

1 4.1). This allows the Company to partially update the Lead Lag value used in the current
2 year rate base results for changes in expense levels since the 2025 Rate Case.

3 **Q. PLEASE DESCRIBE SCHEDULE 4.**

4 A. Schedule 4 is the Daily Working Capital Requirement calculation approved in the 2025
5 Rate Case.

6 **Q. PLEASE DESCRIBE SCHEDULE 4.1.**

7 A. Schedule 4.1 calculates the Daily Working Capital Requirement for the current period
8 based on the current period expense levels, using the same Lag Days approved in the 2025
9 Rate Case; the schedule currently reflects illustrative values that are not based on any
10 forecasted or budgeted results.

11 **Q. PLEASE DESCRIBE SCHEDULE 5.**

12 A. Schedule 5 presents the net operating results for the previously described comparison
13 periods. The net operating income for the current year Unadjusted Historic Base Period
14 will reconcile to the Net Operating Income in TAWC's financial accounting results and
15 annual Commission Report¹ in future filings; the schedule currently reflects illustrative
16 values that are not based on any forecasted or budgeted results.

17 **Q. PLEASE DESCRIBE SCHEDULE 5.1.**

18 A. Schedule 5.1 presents the Utility Operating Income for the 2025 Rate Case, a placeholder
19 column for Prior Year Adopted ARM dockets in future filings, and the Unadjusted Historic
20 Base Period; the schedule currently reflects illustrative values that are not based on any
21 forecasted or budgeted results.

¹ Tenn. Code Ann. 65-4-305.

1 **Q. PLEASE DESCRIBE SCHEDULE 5.2.**

2 A. Schedule 5.2 presents a walk from the Unadjusted Historic Base Period Net Income to the
3 Adjusted Historic Base Period Net Income used in the current period ROE measurement.
4 The purpose of the schedule is to present the rate making adjustments applied to the current
5 year results for consistency to the 2025 Rate Case methodologies on a detailed basis. A
6 brief description of the adjustments applied in each column is included at the bottom of the
7 schedule for reference. These adjustments are further described in Witness Lane's
8 testimony. The schedule currently reflects illustrative values that are not based on any
9 forecasted or budgeted results.

10 **Q. PLEASE DESCRIBE SCHEDULE 6.**

11 A. Schedule 6 provides detailed calculations for the Federal Income Tax and State Excise Tax
12 levels for the previously described comparison periods. Schedule 6 details the total federal
13 and state excise calculation per the financial statements for the ARM time period and shows
14 the adjustment to the tax calculation per the books to calculate total federal and state excise
15 taxes based on the methodology of the 2025 Rate Case.

16 As TAWC developed this schedule, the Company identified an omission in the final
17 approved tax amounts provided by the Commission in the 2025 Rate Case. The Federal
18 Income Tax approved in the 2025 Rate Case omitted the impact of Permanent Book to Tax
19 Differences, the Amortization of Excess Deferred Income Taxes (EDIT), the Amortization
20 of Investment Tax Credit benefits (ITC), and Amortization of Other Flow-Through
21 Differences. This exclusion resulted in approximately \$255,000 higher tax expense in the
22 approved order than necessary (see Column C.). TAWC is proposing to not exclude these
23 impacts in the tax expense calculation used in future ARM filings (see column D). This

1 will prospectively remediate the omission to ensure TAWC recovers the correct level of
2 taxes through the ARM and customers receive the benefits of the favorable tax items.

3 Columns F through M provide a walk from the Unadjusted Historic Base Period
4 Income Tax Expense to the Adjusted Historic Base Period Income Taxes. The purpose of
5 this schedule is to provide a detailed calculation of the income tax impact of the pre-tax
6 rate making adjustments applied to the Unadjusted Historic Base Period (see Schedule 5.2)
7 and provide a detailed calculation of the Income Tax Expense used in the current period
8 ROE measurement.

9 **Q. PLEASE DESCRIBE SCHEDULE 7.**

10 A. Schedule 7 summarizes the Capital Structure approved in the 2025 Rate Case (Column D,
11 Row 9), calculates the imputed level of interest expense approved for recovery in the 2025
12 Rate Case (Column D, row 22), calculates an adjustment to synchronize the Unadjusted
13 Historic Base Period interest expense to the imputed interest expense using Capital
14 Structure and Cost of Capital approved in the 2025 rate case (Column F, row 22), and
15 presents the adjusted interest expense for the current period ROE measurement (Column
16 G, row 22).

17 **Q. PLEASE DESCRIBE SCHEDULE 8.**

18 A. Schedule 8 is the approved Revenue Conversion Factor approved in the 2025 Rate Case.

19 **Q. PLEASE DESCRIBE SCHEDULE 9.**

20 A. Schedule 9 calculates the earned ROE and earnings deficiency or surplus for the current
21 period based on the Adjusted Historic Base Period Net Income and Adjusted Rate Base
22 calculated in previously described schedules. The calculated earnings deficiency is then
23 multiplied by the Revenue Conversion Factor to calculate a pre-tax Revenue Deficiency or

1 Surplus for the period. The Company is also requesting carrying charges at the Company's
2 authorized Rate of Return for the pre-tax revenue deficiency or surplus from the beginning
3 of the Historic Base Period (i.e., January 1, 2026) to the beginning of the rate effective
4 period (i.e., August 1, 2027) to compensate the Company or customer for the cash impacts
5 of the current period revenue deficiency or surplus not being reflected in customer rates
6 until 19 months after the Historic Base Period begins. The calculated carrying charges are
7 added to the pre-tax revenue deficiency or surplus for the period and will be included in
8 the revenue deficiency or surplus reflected in the rate effective period.

9 **Q. PLEASE DESCRIBE SCHEDULE 10.**

10 A. The purpose of Schedule 10 is to prove the requested annual revenue deficiency or surplus
11 provides the opportunity to earn the Authorized ROE of 9.70% when applied to the
12 Adjusted Historic Base Period. Column A shows the earnings for the Adjusted Historic
13 Base Period, Column B shows the incremental earnings provided by the requested revenue
14 deficiency or surplus, and Column C is the sum of Column A and Column B, with an
15 additional set of rows calculating the earned ROE after applying the requested deficiency.

16 **Q. PLEASE DESCRIBE SCHEDULE 11**

17 A. Schedule 11 provides a forecast of Tennessee American's next year capital investments
18 and is provided for informational purposes only. Capital forecasts invariably evolve as
19 contingencies become known. The purpose of Schedule 11 is to present regulators with
20 TAWC's current capital forecast for the upcoming year for informational purposes only
21 and to give regulators a view of the expected level of capital investment for TAWC's next
22 ARM filing. The capital investment forecast is the same schedule Tennessee American
23 historically submits with its annual infrastructure rider filings.

1 **IV. INCORPORATION OF NEW INFORMATION**

2 **Q. DOES THE PROPOSED ARM ALLOW FOR INCLUSION OF NEW ACTIVITY**
3 **OR MATTERS THAT WERE NOT PREVIOUSLY CONSIDERED IN SETTING**
4 **BASE RATES?**

5 A. Yes. TAWC may require the use of “New Matters” for unique circumstances. For example,
6 to reflect the adoption of changes in accounting standards, reflect changes in the tax law,
7 and to incorporate decisions made by the Commission that would affect the ARM on a
8 prospective basis. This is substantially similar to ARM proposals that have been previously
9 approved by the Commission for Atmos Energy, Chattanooga Gas Company, Piedmont
10 Natural Gas Company, and Tennessee Water Service, Inc.

11 **V. CONCLUSION**

12 **Q. IS THE COMPANY’S PROPOSED ARM IN THE PUBLIC INTEREST?**

13 A. Yes. TAWC’s ARM proposal creates a symmetrical annual earnings test that allows
14 surplus revenue to be credited to customers in a timely manner, while also allowing TAWC
15 the opportunity to earn its authorized rate of return. The ARM creates the ability to timely
16 address issues affecting customers’ rates as new matters invariably arise. TAWC’s ARM
17 proposal provides the Commission with the opportunity to annually review TAWC’s
18 capital investment forecast for the upcoming year along with TAWC’s historical capital
19 investments and operating results from the prior year. TAWC will adjust operating results
20 using methodologies ordered by the Commission in TAWC’s 2025 Rate Case. TAWC’s
21 capital investments and operating results will be subject to an annual prudency review by
22 the Commission. TAWC’s ARM proposal will streamline the regulatory review process by
23 consolidating the Company’s capital recovery and production cost riders into a single ARM

1 filing. If approved by the Commission, TAWC's ARM will also eliminate the need to file
2 costly and time intensive base rate cases on a more frequent basis.

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

4 A. Yes.

**Tennessee-American Water Company
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<u>Schedule</u>	<u>Exhibit</u>	<u>Description</u>
<u>Schedule 1</u>	Exhibit PJD-1	Annual Reconciliation Revenue Deficiency/ (Surplus)
<u>Schedule 2</u>	Exhibit PJD-1	Rate Base
<u>Schedule 2.1</u>	Exhibit PJD-1	Average Rate Base - Rate Case Adopted Docket
<u>Schedule 2.2</u>	Exhibit PJD-1	Rate Base-13 Month Average Workpaper
<u>Schedule 3</u>	Exhibit PJD-1	Lead Lag Results Approved
<u>Schedule 4</u>	Exhibit PJD-1	Calculation of Operating Expense - Lead Lag (Rate Case)
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<u>Schedule 5</u>	Exhibit PJD-1	Income Statement Historic Base Period Summary
<u>Schedule 5.1</u>	Exhibit PJD-1	Income Statement Rate Case Adopted, Prior Adopted, Historic Base Period Without Rate Making Adjustments
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<u>Schedule 6</u>	Exhibit PJD-1	Income Tax Calculation
<u>Schedule 7</u>	Exhibit PJD-1	Rate Case Capital Structure
<u>Schedule 8</u>	Exhibit PJD-1	Gross Revenue Conversion Factor
<u>Schedule 9</u>	Exhibit PJD-1	Carrying Charges and ARM Asset / (Liability)
<u>Schedule 10</u>	Exhibit PJD-1	Return on Equity Proof before and after ARM Deficiency / (Surplus)
<u>Schedule 11</u>	Exhibit PJD-1	TAWC Strategic Capital Expenditure Plan (SCEP) for the Upcoming Calendar Year

**Tennessee-American Water Company
 Annual Review Mechanism ("ARM")
 Annual Reconciliation Revenue Deficiency / (Surplus)
 Twelve Months Ending December 31, 2026
 Schedule 1**

		ILLUSTRATIVE	ILLUSTRATIVE		
Line		Rate Case Adopted Docket	Prior Year Adopted Docket	Unadjusted Historic Base Period	Historic Base Period with Rate Making Adjustments
No.	Description	24-00032	ARM	[D]	[E]
	[A]	[B]	[C]	[D]	[E]
1	Rate Base - Sch 2	300,742,017	-	327,613,978	318,519,966
2					
3	Operating Income - Sch 5	19,843,902	-	20,193,160	19,878,441
4					
5	Earned Return [L3 / L1]	6.60%	-	6.16%	6.24%
6					
7	Fair Rate of Return - Sch 7	6.846%	6.846%	6.846%	6.846%
8					
9	Required Operating Income [L4 X L1]	20,587,295	-	22,426,815	21,804,284
10					
11	Operating Income Deficiency (Surplus) [L9 - L3]	743,393	-	2,233,655	1,925,843
12					
13	Gross Revenue Conversion Factor - Sch 8	1.35585	1.35585	1.35585	1.35585
14					
15	Current Year Revenue Deficiency (Surplus) [L11 X L13]	1,007,930	-	3,028,502	2,611,156
16					
17	Plus: (Over)/Under Collection of Previous Years ARM Balance - Sch 9				-
18					
19	Carrying Charges on Revenue Deficiency (Surplus) - Sch 9				283,016
20					
21	Total Annual Review Mechanism Deficiency (Surplus) [L15 + L17 + L19]				2,894,171

The figures are for illustrative purposes only.

Tennessee-American Water Company
Annual Review Mechanism ("ARM")
Rate Base
Twelve Months Ending December 31, 2026
Schedule 2

Line No.	Description	Rate Case	Prior Year	ILLUSTRATIVE	ILLUSTRATIVE	ILLUSTRATIVE
		Adopted Docket	Adopted Docket	Unadjusted Historic Base Period	Remove CWIP Balance	Adjusted Historic Base Period
	[A]	24-00032	ARM	13 Month Average		13 Month Average
		[B]	[C]	[D]	[E]	[F]
1	Additions					
2	Utility Plant-in-Service	\$ 515,138,706		\$ 547,209,183		\$ 547,209,183
3	Construction Work in Progress (CWIP)	-		9,094,012	(9,094,012)	-
4	Material and Supplies	1,899,351		2,017,597		2,017,597
5	Lead/Lag Study	1,602,081		1,615,576		1,615,576
6	Working Capital	1,066,412		-		-
7		-				-
8		-				-
9		-				-
10	Total Additions	\$ 519,706,551	\$ -	\$ 559,936,369	\$ (9,094,012)	\$ 550,842,357
11						
12	Deductions					
13						
14	Accumulated Depreciation	\$ 126,819,773		134,715,065		134,715,065
15	Accumulated Deferred Income Tax-ADIT	60,093,004		63,834,154		63,834,154
16	Customer Advances for Construction	8,250,965		8,764,637		8,764,637
17	Contributions in Aid of Construction	19,455,803		20,667,044		20,667,044
18	Unamortized Investment Tax Credit	5,010		1,512		1,512
19	Jasper Highlands Reg Liability	590,400		590,400		590,400
20	Utility Plant Acquisition Adjustment	3,749,579		3,749,579		3,749,579
21						
22	Total Deductions	\$ 218,964,534	\$ -	\$ 232,322,391	\$ -	\$ 232,322,391
23						
24	Total Rate Base	\$ 300,742,017	\$ -	\$ 327,613,978	\$ (9,094,012)	\$ 318,519,966

The figures are for illustrative purposes only.

Tennessee-American Water Company
Annual Review Mechanism ("ARM")
Average Rate Base - Rate Case Adopted Docket
Twelve Months Ending December 31, 2025
Schedule 2.1

Line No.	Description	ILLUSTRATIVE		ILLUSTRATIVE	
		Rate Case Adopted Docket 24-00032	Remove CWIP Rate Case Adopted Docket 24-00032	Rate Case Adopted Docket 24-00032	Rate Case Adopted Docket 24-00032
	[A]	[B]	[C]	[D] = [B] - [C]	
1	Additions				
2	Utility Plant-in-Service	\$ 515,138,706		\$ 515,138,706	
3					
4	Construction Work in Progress (CWIP)	8,561,036	(8,561,036)	0	
5					
6	Material and Supplies	1,899,351		1,899,351	
7					
8	Lead/Lag Study	1,602,081		1,602,081	
9					
10	Working Capital	1,066,412		1,066,412	
11					
12	Total Additions	528,267,587	(8,561,036)	519,706,551	
13					
14					
15	Deductions				
16	Accumulated Depreciation	126,819,773		126,819,773	
17					
18	Accumulated Deferred Income Tax-ADIT	60,093,004		60,093,004	
19					
20	Customer Advances for Construction	8,250,965		8,250,965	
21					
22	Contributions in Aid of Construction	19,455,803		19,455,803	
23					
24	Unamortized Investment Tax Credit	5,010		5,010	
25					
26	Jasper Highlands Reg Liability	590,400		590,400	
27					
28	Utility Plant Acquisition Adjustment	3,749,579		3,749,579	
29					
30	Total Deductions	218,964,534	-	218,964,534	
31					
32	Rate Base	309,303,053	(8,561,036)	300,742,017	

The figures are for illustrative purposes only.

Tennessee-American Water Company
 Annual Review Mechanism ("ARM")
 Rate Base-13 Month Average Workpaper
 Twelve Months Ending December 31, 2026
 Schedule 2.2

Line No.	Description	ILLUSTRATIVE												13-MA	
		December 2025	January 2026	February 2026	March 2026	April 2026	May 2026	June 2026	July 2026	August 2026	September 2026	October 2026	November 2026		December 2026
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]	[O]
1	Additions														
2	Utility Plant-in-Service	\$ 515,138,706	\$ 520,290,093	\$ 525,492,994	\$ 530,747,924	\$ 536,055,403	\$ 541,415,958	\$ 546,830,117	\$ 552,298,418	\$ 557,821,402	\$ 563,399,616	\$ 569,033,613	\$ 574,723,949	\$ 580,471,188	\$ 547,209,183
3	Construction Work in Progress (CWIP)	8,561,036	8,646,646	8,733,113	8,820,444	8,908,648	8,997,735	9,087,712	9,178,589	9,270,375	9,363,079	9,456,710	9,551,277	9,646,790	9,094,612
4	Material and Supplies	1,899,351	1,918,345	1,937,528	1,956,903	1,976,472	1,996,237	2,016,199	2,036,361	2,056,725	2,077,292	2,098,065	2,119,046	2,140,236	2,017,597
5	Lead/Lag Study	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Working Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7															
8															
9															
10	Total Additions	\$ 525,599,093	\$ 530,855,084	\$ 536,163,635	\$ 541,525,272	\$ 546,940,524	\$ 552,409,929	\$ 557,934,029	\$ 563,513,369	\$ 569,148,503	\$ 574,839,988	\$ 580,588,388	\$ 586,394,272	\$ 592,258,214	\$ 558,320,792
11	Deductions														
14	Accumulated Depreciation	(126,819,773)	(128,087,971)	(129,368,850)	(130,662,539)	(131,969,164)	(133,288,856)	(134,621,745)	(135,967,962)	(137,327,642)	(138,700,918)	(140,087,927)	(141,488,806)	(142,903,695)	(134,715,065)
15	Accumulated Deferred Income Tax-ADIT	(60,093,004)	(60,693,934)	(61,300,873)	(61,913,882)	(62,533,021)	(63,158,351)	(63,789,935)	(64,427,834)	(65,072,112)	(65,722,833)	(66,380,062)	(67,043,862)	(67,714,301)	(63,834,154)
16	Customer Advances for Construction	(8,250,965)	(8,333,475)	(8,416,809)	(8,500,977)	(8,585,987)	(8,671,847)	(8,758,566)	(8,846,151)	(8,934,613)	(9,023,959)	(9,114,198)	(9,205,340)	(9,297,394)	(8,764,637)
17	Contributions in Aid of Construction	(19,455,803)	(19,650,361)	(19,846,865)	(20,045,333)	(20,245,787)	(20,448,244)	(20,652,727)	(20,859,254)	(21,067,847)	(21,278,525)	(21,491,310)	(21,706,224)	(21,923,286)	(20,667,044)
18	Unamortized Investment Tax Credit	(5,010)	(4,276)	(3,542)	(2,808)	(2,074)	(1,340)	(606)							(1,512)
19	Jasper Highlands Reg Liability	(590,400)	(590,400)	(590,400)	(590,400)	(590,400)	(590,400)	(590,400)	(590,400)	(590,400)	(590,400)	(590,400)	(590,400)	(590,400)	(590,400)
20	Utility Plant Acquisition Adjustment	(3,749,579)	(3,749,579)	(3,749,579)	(3,749,579)	(3,749,579)	(3,749,579)	(3,749,579)	(3,749,579)	(3,749,579)	(3,749,579)	(3,749,579)	(3,749,579)	(3,749,579)	(3,749,579)
21															
22															
23	Total Deductions	\$ (218,964,534)	\$ (221,109,995)	\$ (223,276,918)	\$ (225,465,518)	\$ (227,676,012)	\$ (229,908,617)	\$ (232,163,556)	\$ (234,441,180)	\$ (236,742,192)	\$ (239,066,214)	\$ (241,413,477)	\$ (243,784,212)	\$ (246,178,654)	\$ (232,322,391)
24															
25	Total Rate Base	\$ 306,634,560	\$ 309,745,089	\$ 312,886,717	\$ 316,059,753	\$ 319,264,512	\$ 322,501,312	\$ 325,770,472	\$ 329,072,189	\$ 332,406,311	\$ 335,773,774	\$ 339,174,911	\$ 342,610,060	\$ 346,079,560	\$ 325,998,402

The figures are for illustrative purposes only.

Tennessee-American Water Company
Annual Review Mechanism ("ARM")
Lead Lag Results Approved
Schedule 3

ILLUSTRATIVE

Line No.	Description	Rate Case Adopted Docket 24-00032	Prior Year Adopted Docket	Historic Base Period 25-XXXXX
	[A]	[B]	[C]	[D]
1	Revenue Lag	44.46		44.46
2				
3	Expense Lag	35.13		35.36
4				
5	Net Lag	9.33	0.00	9.10
6				
7	Daily Cost of Service	171,670		177,471
8				
9	Lead Lag Study	\$ 1,602,081	\$ -	\$ 1,615,576

The figures are for illustrative purposes only.

**Tennessee-American Water Company
Annual Review Mechanism ("ARM")
Working Capital Expense Lag (Rate Case)
Schedule 4**

Line No.	Description	Amount	Lag	Dollar Days
	[A]	[B]	[C]	[D] = [B] x [C]
1	Operating & Maintenance Expenses:			
2	Purchased Water	176,500	37.9	6,689,368
3	Purchased Power	2,672,005	28.0	74,816,128
4	Chemicals	2,116,184	48.3	102,211,672
5	Waste Disposal	759,106	65.7	49,873,294
6	Labor	5,732,989	10.5	60,196,385
7	Group Insurance	323,187	10.5	3,393,465
8	Other Benefits	559,911	9.0	5,039,202
9	Support Services	7,581,319	10.5	79,603,848
10	Contracted Services	886,174	48.5	42,979,447
11	Pensions	619,489	(1.2)	(743,387)
12	Regulatory Expense	0	-	-
13	Insurance Other Than Group	1,205,504	(59.8)	(72,089,139)
14	Customer Accounting	87,556	61.8	5,410,972
15	Rents	30,115	(234.9)	(7,074,111)
16	Telecommunications	336,870	21.5	7,242,711
17	Transportation	428,594	49.1	21,043,965
18	Miscellaneous	1,498,752	45.9	68,792,717
19	Maintenance Expense	1,710,996	12.1	20,703,053
20	Total O&M Expenses	<u>26,725,253</u>	<u>17.51</u>	<u>468,089,590</u>
21				
22	Taxes & Other Expenses:			
23	Federal Income Tax	3,229,112	36.5	117,862,598
24	State Excise Taxes	843,487	44.3	37,366,464
25	Property Taxes	3,576,571	218.1	780,050,135
26	Gross Receipts Tax	217,895	(157.5)	(34,318,463)
27	Franchise Tax	982,116	44.3	43,507,739
28	Utility Tax	289,493	269.0	77,873,617
29	Taxes Other Than Income	436,054	10.5	4,578,567
30	Interest Expense - Long-Term Debt	7,592,232	92.8	704,559,150
31	Interest Expense - Short-Term Debt	104,057	14.6	1,519,228
32	Deferred Taxes	2,898,398	-	-
33	Depreciation Expense	15,763,872	-	-
34	Amortization Expense	1,116	-	-
35	Total Taxes & Other Expenses	<u>35,934,403</u>	<u>48.23</u>	<u>1,732,999,036</u>
36				
37	Total Lead/Lag Expenses	<u>62,659,656</u>	<u>35.13</u>	<u>2,201,088,626</u>
38				
39	Number of Days	365		
40				
41	Daily Working Capital Requirement	<u>171,670</u>		
42				
43				
44	Return on Equity			
45	Total Cost of Service			

Tennessee-American Water Company
Annual Review Mechanism ("ARM")
Working Capital Expense Lag (ARM Historic Base Period)
Schedule 4.1

ILLUSTRATIVE

Line No.	Description	Amount	Lag	Dollar Days
	[A]	[B]	[C]	[D] = [B] x [C]
1	Operating & Maintenance Expenses:			
2	Purchased Water	196,926	37.9	7,463,479
3	Purchased Power	2,606,216	28.0	72,974,040
4	Chemicals	2,176,074	48.3	105,104,366
5	Waste Disposal	846,952	65.7	55,644,758
6	Labor	6,033,925	10.5	63,356,213
7	Group Insurance	210,587	10.5	2,211,165
8	Other Benefits	574,706	9.0	5,172,351
9	Support Services	7,387,398	10.5	77,567,682
10	Contracted Services	988,724	48.5	47,953,137
11	Pensions	691,178	(1.2)	(829,414)
12	Regulatory Expense	0	-	-
13	Insurance Other Than Group	1,345,008	(59.8)	(80,431,477)
14	Customer Accounting	97,688	61.8	6,037,144
15	Rents	33,600	(234.9)	(7,892,745)
16	Telecommunications	375,854	21.5	8,080,856
17	Transportation	478,192	49.1	23,479,226
18	Miscellaneous	1,662,191	45.9	76,294,584
19	Maintenance Expense	1,908,997	12.1	23,098,863
20	Total O&M Expenses	<u>27,614,217</u>	<u>17.57</u>	<u>485,284,228</u>
21				
22	Taxes & Other Expenses:			
23	Federal Income Tax	2,796,856	36.5	102,085,253
24	State Excise Taxes	802,408	44.3	35,546,672
25	Property Taxes	3,799,234	218.1	828,612,939
26	Gross Receipts Tax	219,849	(157.5)	(34,626,246)
27	Franchise Tax	974,771	44.3	43,182,370
28	Utility Tax	287,328	269.0	77,291,245
29	Taxes Other Than Income	486,515	10.5	5,108,410
30	Interest Expense - Long-Term Debt	8,041,037	92.8	746,208,191
31	Interest Expense - Short-Term Debt	110,208	14.6	1,609,035
32	Deferred Taxes	2,898,398	-	-
33	Depreciation Expense	16,745,268	-	-
34	Amortization Expense	957	-	-
35	Total Taxes & Other Expenses	<u>37,162,829</u>	<u>48.57</u>	<u>1,805,017,870</u>
36				
37	Total Lead/Lag Expenses	<u>64,777,046</u>	<u>35.36</u>	<u>2,290,302,098</u>
38				
39	Number of Days	365		
40				
41	Daily Working Capital Requirement	<u>177,471</u>		
42				
43				
44	Return on Equity			
45	Total Cost of Service			

The figures are for illustrative purposes only.

**Tennessee-American Water Company
 Annual Review Mechanism ("ARM")
 Income Statement Historic Base Period Summary
 Twelve Months Ending December 31, 2026
 Schedule 5**

Line		Rate Case Adopted	Prior Year Adopted Docket	ILLUSTRATIVE Historic Base Period Actual Without Rate Making Adjustments	ILLUSTRATIVE Rate Making Adjustments	ILLUSTRATIVE Historic Base Period with Rate Making Adjustments
No.	Description	24-00032	ARM	[D]	[E]	[F] = [D] + [E]
	[A]	[B]	[C]			
1	Water Sales Revenues	\$ 71,219,854	-	\$ 72,950,062	-	\$ 72,950,062
2	ARM Surcharge Revenues			\$ -		\$ -
3	Amortization - ARM Reconciliation Balance	-	-	-	-	-
4	Other Revenues	\$ 1,180,170	-	\$ 1,203,773	-	\$ 1,203,773
5	ARM Revenue Program Accrual	\$ -		\$ 2,894,171	\$ (2,894,171)	\$ -
6						-
7	Total Operating Revenues	\$ 72,400,024	\$ -	\$ 77,048,007	\$ (2,894,171)	\$ 74,153,835
8						
9	Operating & Maintenance Expense					
10						\$ -
11	Operating & Maintenance Expense	27,216,407	-	30,365,958	(2,203,750)	28,162,208
12						-
13	Total Operating & Maintenance Expense	\$ 27,216,407	\$ -	\$ 30,365,958	(2,203,750)	\$ 28,162,208
14						
15	Depreciation Expense	\$ 15,763,872	-	\$ 16,745,268	-	\$ 16,745,268
16	Amortization Expense	\$ 1,116	-	957	-	\$ 957
17	Interest on Customer Deposits	-	-	-	-	-
18	General Taxes	5,502,129	-	5,767,698	-	5,767,698
19	State Excise (Income) Tax	843,487	-	894,605	(92,197)	802,408
20	Federal Income Tax	3,229,112	-	3,080,362	(283,506)	2,796,856
21	Total Other Expense	\$ 25,339,716	\$ -	\$ 26,488,889	\$ (375,702)	\$ 26,113,187
22						
23	Utility Operating Income	\$ 19,843,902	\$ -	\$ 20,193,160	\$ (314,719)	\$ 19,878,441
24						
25	Interest Expense	\$ 7,696,289		7,773,252	377,993	8,151,244
26	AFUDC-Interest	\$ -		100,000	(100,000)	-
27	AFUDC-Equity	-		1,000,000	(1,000,000)	-
28	Other Non-Operating Income/(Loss)	0		250,000	(250,000)	-
29						-
30	Net Income	\$ 12,147,613	\$ -	\$ 13,769,908	\$ (2,042,711)	\$ 11,727,196

The figures are for illustrative purposes only.

Tennessee-American Water Company
Annual Review Mechanism ("ARM")
Income Statement Historic Base Period Detail
Schedule 5.1

Line No.	Description	Rate Case Adopted	Prior Year Adopted Docket	ILLUSTRATIVE Unadjusted Historic Base Period Actual Without Rate Making Adjustments Amount	ILLUSTRATIVE Rate Making Adjustments Amount	ILLUSTRATIVE Adjusted Historic Base Period Actual With Rate Making Adjustments Amount
		24-00032 Amount	Amount	[D]	[E]	[F] = [D] + [E]
	[A]	[B]	[C]	[D]	[E]	[F] = [D] + [E]
1	Water Sales Revenues	71,219,854		72,950,062	-	72,950,062
2	ARM Surcharge Revenues	-		-	-	-
3	Amortization - ARM Reconciliation Balance	-		-	-	-
4	Other Revenues	1,180,170		1,203,773	-	1,203,773
5	ARM Revenue Program Accrual	-		2,894,171	(2,894,171)	-
6	Total Water Revenue	72,400,024	\$ -	\$ 77,048,007	\$ (2,894,171)	\$ 74,153,835
7						
8						
9	Purchased Water	176,500		196,926	-	196,926
10	Purchased Power	2,672,005		2,981,216	(375,000)	2,606,216
11	Chemicals	2,116,184		2,361,074	(185,000)	2,176,074
12	Waste Disposal	759,106		846,952	-	846,952
13	Labor - Excluding APP & LTPP	5,567,635		5,836,425	(5,000)	5,831,425
14	APP	165,354		450,000	(247,500)	202,500
15	LTPP	-		110,000	(110,000)	-
16	Group Insurance	323,187		360,587	(150,000)	210,587
17	Other Benefits	559,911		624,706	(50,000)	574,706
18	Support Services - Excluding APP & LTPP	7,280,423		7,233,648	(150,000)	7,083,648
19	APP	300,896		675,000	(371,250)	303,750
20	LTPP	-		550,000	(550,000)	-
21	Contracted Services	886,174		988,724	-	988,724
22	Pensions	619,489		691,178	-	691,178
23	Regulatory Expense	-		-	-	-
24	Insurance Other Than Group	1,205,504		1,345,008	-	1,345,008
25	Customer Accounting	87,556		97,688	-	97,688
26	Uncollectibles	491,153		547,991	-	547,991
27	Rents	30,115		33,600	-	33,600
28	Telecommunications	336,870		375,854	-	375,854
29	Transportation	428,594		478,192	-	478,192
30	Miscellaneous	1,498,752		1,672,191	(10,000)	1,662,191
31	Maintenance Expense	1,710,996		1,908,997	-	1,908,997
32	Total Operating & Maintenance Expenses	\$ 27,216,407	\$ -	\$ 30,365,958	\$ (2,203,750)	\$ 28,162,208
33						
34						
35	Depreciation Expense	15,763,872		16,745,268	-	16,745,268
36	Amortization Expense	1,116		957	-	957
37	General Taxes	5,502,129		5,767,698	-	5,767,698
38	State Excise Taxes	843,487		894,605	(92,197)	802,408
39	Federal Income Taxes	3,229,112		3,080,362	(283,506)	2,796,856
40	Total Operating Expenses	\$ 52,556,123	\$ -	\$ 56,854,847	\$ (2,579,452)	\$ 54,275,395
41						
42	Utility Operating Income	\$ 19,843,902	\$ -	\$ 20,193,160	\$ (314,719)	\$ 19,878,441

The figures are for illustrative purposes only.

**Tennessee-American Water Company
 Annual Review Mechanism ("ARM")
 Income Statement Historic Base Period Schedule of Rate Making Adjustments
 Schedule 5.2**

Line No.	Description	ILLUSTRATIVE Unadjusted Per Books	ILLUSTRATIVE Adjustment 1	ILLUSTRATIVE Adjustment 2	ILLUSTRATIVE Adjustment 3	ILLUSTRATIVE Adjustment 4	ILLUSTRATIVE Adjustment 5	ILLUSTRATIVE Adjustment 6	ILLUSTRATIVE Subtotal: Adjustments [I] = Sum of [C] to [H]	ILLUSTRATIVE Adjusted Historical Base Period [M] = Sum of [B] to [I]
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]		
1	Water Sales Revenues	72,950,062	-	-	-	-	-	-	-	72,950,062
2	ARM Surcharge Revenues	-	-	-	-	-	-	-	-	-
3	Amortization - ARM Reconciliation Balance (ARM Regulatory Asset/(Liability))	-	-	-	-	-	-	-	-	-
4	Other Revenues	1,203,773	-	-	-	-	-	-	-	1,203,773
5	ARM Revenue Program Accrual	2,894,171	(2,894,171)	-	-	-	-	-	(2,894,171)	-
6	Total Operating Revenues	77,048,007	(2,894,171)	-	-	-	-	-	(2,894,171)	74,153,835
7										
8	Purchased Water	196,926	-	-	-	-	-	-	-	196,926
9	Purchased Power	2,981,216	-	-	-	-	(375,000)	-	(375,000)	2,606,216
10	Chemicals	2,361,074	-	-	-	-	(185,000)	-	(185,000)	2,176,074
11	Waste Disposal	846,952	-	-	-	-	-	-	-	846,952
12	Labor - Excluding APP & LTPP	5,836,425	-	-	-	-	-	(5,000)	(5,000)	5,831,425
13	APP	450,000	-	-	-	(247,500)	-	-	(247,500)	202,500
14	LTPP	110,000	-	-	-	(110,000)	-	-	(110,000)	-
15	Group Insurance	360,587	-	-	-	(150,000)	-	-	(150,000)	210,587
16	Other Benefits	624,706	-	-	-	(50,000)	-	-	(50,000)	574,706
17	Support Services - Excluding APP & LTPP	7,233,648	-	-	-	-	-	(150,000)	(150,000)	7,083,648
18	APP	675,000	-	-	-	(371,250)	-	-	(371,250)	303,750
19	LTPP	550,000	-	-	-	(550,000)	-	-	(550,000)	-
20	Contracted Services	988,724	-	-	-	-	-	-	-	988,724
21	Pensions	691,178	-	-	-	-	-	-	-	691,178
22	Regulatory Expense	-	-	-	-	-	-	-	-	-
23	Insurance Other Than Group	1,345,008	-	-	-	-	-	-	-	1,345,008
24	Customer Accounting	97,688	-	-	-	-	-	-	-	97,688
25	Uncollectibles	547,991	-	-	-	-	-	-	-	547,991
26	Rents	33,600	-	-	-	-	-	-	-	33,600
27	Telecommunications	375,854	-	-	-	-	-	-	-	375,854
28	Transportation	478,192	-	-	-	-	-	-	-	478,192
29	Miscellaneous	1,672,191	-	-	-	-	-	(10,000)	(10,000)	1,662,191
30	Maintenance Expense	1,908,997	-	-	-	-	-	-	-	1,908,997
31										
32	Total Operating & Maintenance Expense	30,365,958	-	-	-	(1,478,750)	(560,000)	(165,000)	(2,203,750)	28,162,208
33										
34	Depreciation Expense	16,745,268	-	-	-	-	-	-	-	16,745,268
35	Amortization Expense	957	-	-	-	-	-	-	-	957
36	Interest on Customer Deposits	-	-	-	-	-	-	-	-	-
37	General Taxes	5,767,698	-	-	-	-	-	-	-	5,767,698
38	State Excise (Income) Tax	894,605	(188,121)	(22,750)	(24,570)	96,119	36,400	10,725	(92,197)	802,408
39	Federal Income Tax	3,080,362	(568,271)	(73,723)	(74,219)	290,353	109,956	32,398	(283,506)	2,796,856
40										
41	Total Other Expense	26,488,889	(756,392)	(96,473)	(98,788)	386,471	146,356	43,123	(375,702)	26,113,187
42										
43	Utility Operating Income	20,193,160	(2,137,780)	96,473	98,788	1,092,279	413,644	121,877	(314,719)	19,878,441
44										
45	Interest Expense	7,773,252	-	-	377,993	-	-	-	377,993	8,151,244
46	AFUDC-Interest	100,000	-	(100,000)	-	-	-	-	(100,000)	-
47	AFUDC-Equity	1,000,000	-	(1,000,000)	-	-	-	-	(1,000,000)	-
48	Other Non-Operating Income/(Loss)	250,000	-	(250,000)	-	-	-	-	(250,000)	-
49										
50	Net Income	13,769,908	(2,137,780)	(1,253,528)	(279,204)	1,092,279	413,644	121,877	(2,042,711)	11,727,196
51										
52										
53										
54	Adjustment 1	Remove current year Alternative Revenue Program revenue accrual under ASC 980.								
55	Adjustment 2	Remove AFUDC Equity , AFUDC Debt Income and other Non-Operating Income/(Loss).								
56	Adjustment 3	Align interest expense to authorized capital structure and cost of capital								
57	Adjustment 4	Adjust Salaries and Wages for Annual Performance Plan (APP) and Long-Term Performance Plan (LTPP) consistent with methodology in 24-00032.								
58	Adjustment 5	Adjust production costs consistent with methodology in 24-00032.								
59	Adjustment 6	Adjust ID&E, Business Development, Lobbying, and charitable contribution costs consistent with methodology in 24-00032.								

The figures are for illustrative purposes only.

Tennessee-American Water Company
 Annual Review Mechanism ("ARM")
 Income Tax Calculation
 Schedule 6

24-00032				ILLUSTRATIVE									
Line No.	Description	Rate Case Adopted Docket	Adjustment to Order	Adjusted Order	Prior Year Adopted Docket	Unadjusted Per Books	Adjustment 1	Adjustment 2	Adjustment 3	Adjustment 4	Adjustment 5	Adjustment 6	Adjusted
	[A]	[B]	[C]	[D] = [B] + [C]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M] = Sum of [F] to [L]
1	Operating Revenues	72,400,024	-	72,400,024		77,048,007	(2,894,171)	-	-	-	-	-	74,153,835
2	Pre-Tax Operating Expenses	(48,483,524)	-	(48,483,524)		(52,879,880)	-	-	-	1,478,750	560,000	165,000	(50,676,130)
3	Interest Expense	(7,696,289)	-	(7,696,289)		(7,773,252)	-	-	(377,993)	-	-	-	(8,151,244)
4	Pre-tax Preferred Stock Dividend	-	-	-		-	-	-	-	-	-	-	-
5	Pre-Tax Non-Operating Income/(Loss)	-	-	-		1,350,000	-	(1,350,000)	-	-	-	-	-
6													
7	Pre-Tax Book Income	16,220,212	-	16,220,212	-	17,744,874	(2,894,171)	(1,350,000)	(377,993)	1,478,750	560,000	165,000	15,326,461
8													
9	Tax Adjustments:												
10													
11	Permanent Differences:												
12	Lobbying Expense	-	-	-		-	-	-	-	-	-	-	-
13	Meals & Entertainment	-	17,507	17,507		20,000	-	-	-	-	-	-	20,000
14	Penalties	-	142	142		200	-	-	-	-	-	-	200
15	Qualified Transportation Fringe Benefits (QTF)	-	49,897	49,897		50,000	-	-	-	-	-	-	50,000
16	Stock Options RSU ESPP Windfall	-	-	-		-	-	-	-	-	-	-	-
17													
18	Flow-through Differences:												
19	AFUDC Equity - Origination	-	-	-		(1,000,000)	-	1,000,000	-	-	-	-	-
20	AFUDC Equity - Book Depreciation	-	-	-		25,000	-	-	-	-	-	-	25,000
21													
22	State Taxable Income/(Loss)	16,220,212	67,546	16,287,758	-	16,840,074	(2,894,171)	(350,000)	(377,993)	1,478,750	560,000	165,000	15,421,661
23													
24	State Excise Tax Rate	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
25													
26	State Excise Taxes	1,054,314	4,390	1,058,704	-	1,094,605	(188,121)	(22,750)	(24,570)	96,119	36,400	10,725	1,002,408
27	State Tax Credit	(210,827)	-	(210,827)		(200,000)	-	-	-	-	-	-	(200,000)
28													
29	Net State Excise Taxes	843,487	4,390	847,877	-	894,605	(188,121)	(22,750)	(24,570)	96,119	36,400	10,725	802,408
30													
31	Federal Taxable Income/(Loss)	15,376,725	63,156	15,439,880	-	15,945,470	(2,706,050)	(327,250)	(353,423)	1,382,631	523,600	154,275	14,619,253
32													
33	Federal Income Tax Rate	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%
34													
35	Federal Taxes on Taxable Income/(Loss)	3,229,112	13,263	3,242,375	-	3,348,549	(568,271)	(68,723)	(74,219)	290,353	109,956	32,398	3,070,043
36													
37	Amortization of Excess Deferred Income Taxes	-	(232,555)	(232,555)		(232,555)	-	-	-	-	-	-	(232,555)
38	Amortization of Investment Tax Credit	-	(4,764)	(4,764)		(4,764)	-	-	-	-	-	-	(4,764)
39	Flow Through Regulatory Asset / Liability	-	(35,868)	(35,868)		(35,868)	-	-	-	-	-	-	(35,868)
40	FIN48 Interest	-	-	-		5,000	-	(5,000)	-	-	-	-	-
41													
42	Net Federal Income Tax Expense	3,229,112	(259,924)	2,969,188	-	3,080,362	(568,271)	(73,723)	(74,219)	290,353	109,956	32,398	2,796,856
43													
44	Total Federal and State Excise Taxes	4,072,599	(255,534)	3,817,065	-	3,974,967	(756,392)	(96,473)	(98,788)	386,471	146,356	43,123	3,599,264

The figures are for illustrative purposes only.

Tennessee-American Water Company
Annual Review Mechanism ("ARM")
Rate Case Capital Structure / Historic Base Period Capital Structure
Schedule 7

Line No.	Class of Capital	Percent of Total	Cost Rate	Weighted Cost Rate	ILLUSTRATIVE	ILLUSTRATIVE	ILLUSTRATIVE
					Historic Base Period Unadjusted	Adjustments	Historic Base Period Weighted
	[A]	[B]	[C]	[D] = [B] x [C]	[E]	[F]	[G]
1	Parent Short-Term Debt	0.81%	4.27%	0.035%			0.035%
2							
3	Parent Long Term Debt	55.00%	4.59%	2.525%			2.525%
4							
5	Parent Preferred	0.00%	0.00%	0.000%			0.000%
6							
7	Parent Common Equity	44.19%	9.70%	4.286%			4.286%
8							
9	Total	100.00%		6.846%			6.846%
10							
11							
12	Interest Expense Short-Term Debt						
13	Rate Base			300,742,017			318,519,966
14	Short-Term Weighted Debt Cost			0.0346%			0.0346%
15	Short-Term Debt Interest Expense			104,057			110,208
16							
17	Interest Expense Long-Term Debt						
18	Rate Base			300,742,017			318,519,966
19	Long-Term Weighted Debt Cost			2.5245%			2.5245%
20	Long-Term Debt Interest Expense			7,592,232			8,041,037
21							
22	Total Interest Expense			7,696,289	7,773,252	377,993	8,151,244 ⁽¹⁾

⁽¹⁾ Synchronized Interest Expense Line, 22 (Column E + Column F)

The figures are for illustrative purposes only.

**Tennessee-American Water Company
Annual Review Mechanism ("ARM")
Gross Revenue Conversion Factor
Schedule 8**

Line No.	Description	Amount	Balance
	[A]	[B]	[C]
1	Operating Revenues		1.0000
2			
3	Add: Forfeited Discounts	0.005373	<u>0.0054</u>
4			
5	Balance		1.0054
6			
7	Uncollectible Ratio	0.006833	<u>0.0069</u>
8			
9	Balance		0.9985
10			
11	State Excise Tax	0.065000	<u>0.0649</u>
12			
13	Balance		0.9336
14			
15	Federal Income Tax	0.210000	<u>0.1961</u>
16			
17	Balance		<u><u>0.7375</u></u>
18			
19	Revenue Conversion Factor (Line 1 / Line 17)		<u><u>1.3559</u></u>

**Tennessee-American Water Company
 Annual Review Mechanism ("ARM")
 Carrying Charges and ARM Asset / (Liability)
 Twelve Months Ending December 31, 2026
 Schedule 9**

Line No.	Description	[A]	ILLUSTRATIVE Historic Base Period with Rate Making Adjustments	[B]
1	Water Sales Revenues			72,950,062
2	ARM Surcharge Revenues			-
3	Other Revenues			1,203,773
4	Total Operating Revenues [L1 : L4]			74,153,835
5				
6	Operating & Maintenance Expense-Labor			28,162,208
7	Operating & Maintenance Expense-Non Labor			-
8	Total Operating & Maintenance Expense [L6 : L7]			28,162,208
9				
10	Depreciation Expense			16,745,268
11	Amortization Expense			957
12	Amortization -Prior Year Earnings Deficiency/(Surplus)			-
13	Interest on Customer Deposits			-
14	Taxes Other than Income			5,767,698
15	State Excise (Income) Tax			802,408
16	Federal Income Tax			2,796,856
17	Total Operating Expense [L8 : L16]			54,275,395
18	Utility Operating Income			19,878,441
19				
20	Interest Expense [L23 X L24]			8,151,244
21	Net Income Equity-Earnings [L18 - L20]			11,727,196
22				
23	Rate Base			318,519,966
24	Weighted Cost of Debt -Annual			2.56%
25	Weighted Cost of Equity -Annual			4.29%
26				
27	Required Net Income [L23 X L25]			\$ 13,653,040
28	Earning Deficiency (Surplus) [L27 - L21]			1,925,843
29				
30	Revenue Conversion Factor			1.3559
31	Revenue Deficiency (Surplus) [L28 X L30]			2,611,156
32				
33	Plus: (Over) / Under Collection of Previous Years ARM Balance			-
34				
35	Total Revenue Deficiency/(Surplus) [L31 + L33]			2,611,156
36				
37	Overall ROR Annual			6.846%
38	Annual Carrying Charges [L35 X L37]			178,747
39	Monthly Carrying Costs [L38 / 12]			14,896
40	Carrying Cost Period in Months from Jan 1 of the HBP through July 31 of year after HBP (19 months)			19
41	Carrying Charge [L39 X L40]			283,016
42				
43	Historic Period Earning Deficiency (Surplus) + Carrying Charges [L35 + L41]			\$ 2,894,171

The figures are for illustrative purposes only.

Tennessee-American Water Company
Annual Review Mechanism ("ARM")
Return on Equity Proof before and after ARM Deficiency / (Surplus)
Twelve Months Ending December 31, 2026
Schedule 10

Line No.	Description	ILLUSTRATIVE	ILLUSTRATIVE	
		Adjusted Historic Base Period [A]	Proposed Rate Increase [B]	Proposed Rates [C] = [A] + [B]
1	Water Sales Revenues	\$ 72,950,062	\$ -	\$ 72,950,062
2	ARM Surcharge Revenues	\$ -	\$ 2,611,156	\$ 2,611,156
3	Other Revenues	\$ 1,203,773	\$ 14,030	\$ 1,217,803
4	ARM Revenue Program Accrual	\$ -	\$ -	\$ -
5		\$ -	\$ -	\$ -
6	Total Operating Revenues	\$ 74,153,835	\$ 2,625,185	\$ 76,779,021
7				
8	Operating & Maintenance Expense			
9				
10	Operating & Maintenance Expense	\$ 28,162,208	\$ 17,938	\$ 28,180,146
11				
12	Total Operating & Maintenance Expense	\$ 28,162,208	\$ 17,938	\$ 28,180,146
13				
14	Depreciation Expense	\$ 16,745,268	\$ -	\$ 16,745,268
15	Amortization Expense	\$ 957	\$ -	\$ 957
16	Amortization - ARM Reconciliation Balance	\$ -	\$ -	\$ -
17	Interest on Customer Deposits	\$ -	\$ -	\$ -
18	General Taxes	\$ 5,767,698	\$ -	\$ 5,767,698
19	State Excise (Income) Tax	\$ 802,408	\$ 169,471	\$ 971,879
20	Federal Income Tax	\$ 2,796,856	\$ 511,933	\$ 3,308,789
21	Total Other Expense	\$ 26,113,187	\$ 681,404	\$ 26,794,591
22				
23	Utility Operating Income	<u>\$ 19,878,441</u>	<u>\$ 1,925,843</u>	<u>\$ 21,804,284</u>
24				
25	Interest Expense	\$ 8,151,244	\$ -	\$ 8,151,244
26	AFUDC-Interest	\$ -	\$ -	\$ -
27	AFUDC-Equity	\$ -	\$ -	\$ -
28	Other Non-Operating Income/(Loss)	\$ -	\$ -	\$ -
29				
30	Net Income	<u>\$ 11,727,196</u>	<u>\$ 1,925,843</u>	<u>\$ 13,653,040</u>
31				
32	Rate Base	\$ 318,519,966		\$ 318,519,966
33	Authorized Equity Ratio	44.19%		44.19%
34	Authorized Equity - Rate Base	\$ 140,753,973		\$ 140,753,973
35				
36	Earned Return on Equity	8.33%		9.70%
37	Authorized ROE	9.70%		9.70%
38				
39	Above / (Below) Authorized ROE			0.00%
40				
41	Earnings Deficiency			\$ -
42	Revenue Conversion Factor			135.59%
43	Revenue Deficiency / (Surplus)			-

Tennessee-American Water Company
Annual Review Mechanism ("ARM")
TAWC Strategic Capital Expenditure Plan (SCEP) for the Upcoming Calendar Year
Schedule 11

Illustrative

202X Capital Expenditure - Tennessee

\$ 7,257,994.00

Line No.			202X Original Budget	202X Adjusted Budget	Variance to YTD Budget
1	Developer & IP Projects				
2	D26	Addition	\$ 1,500,000	\$ 1,500,000	\$ -
3	I26-020048	Replace Elder Mt Transmission Main	\$ 819,703	\$ 819,703	\$ -
4	I26-020086	Switch Gear Offset Storage Building	\$ -	\$ -	\$ -
5	I26-020051	Switch Gear - Ph 1 & 2	\$ 6,214,944	\$ 6,214,944	\$ -
6	I26-020089	Swth Gear - Ph2	\$ -	\$ -	\$ -
7	I26-020055	St Elmo Booster Replacement	\$ 12,281	\$ 12,281	\$ -
8	I26-020067	Lookout Redun - Citico Tank	\$ 521,087	\$ 521,087	\$ -
9	I26-020068	Lookout Valley Redun - River Crossing	\$ 218,967	\$ 218,967	\$ -
10	I26-020072	Lookout Valley Tank #2	\$ 119,666	\$ 119,666	\$ -
11	I26-020081	Aetna Mtn Tank	\$ 2,681,427	\$ 2,681,427	\$ -
12	I26-020088	Aetna Mtn Tank Transmission Mains	\$ -	\$ -	\$ -
13	I26-020082	Cummings Hwy Booster	\$ 488,874	\$ 488,874	\$ -
14	I26-0200XX	Browns Ferry Improvement	\$ 4,094	\$ 700,000	\$ (695,906)
15	I26-020092	LCRR - Ph 1	\$ 150,113	\$ 150,113	\$ -
16	I26-020087	PFAS Treatment	\$ 200,047	\$ 200,047	\$ -
17	I26-050003	Whitwell Clearwell	\$ 108,389	\$ 108,389	\$ -
18	I26-050016	Whitwell Dist Tanks	\$ 1,329,643	\$ 1,329,643	\$ -
19	I26-050017	Whitwell Plant Improvements	\$ 82,858	\$ 82,858	\$ -
20	I26-020085	1206 Broad St	\$ -	\$ -	\$ -
21	I26-020045	Remove Filter Bldg 3 Citico	\$ -	\$ -	\$ -
22	I26-020060	Replace High Svc Header Valve - Cit	\$ -	\$ -	\$ -
23	I26-020065	Replace North Traveling Screen	\$ -	\$ -	\$ -
24	I26-020084	1510 Riverside Dr Property Purchase	\$ -	\$ -	\$ -
25	I26-050006	Hwy 283 Main Extension	\$ -	\$ -	\$ -
26	I26-050008	Magnolia Main Extension	\$ -	\$ -	\$ -
27	I26-020034	Old River Crossing	\$ -	\$ -	\$ -
28	I26-050001	Whitwell Intake Ph1	\$ -	\$ -	\$ -
31		Total IPs	\$ 12,952,094	\$ 13,648,000	
32					
33	Recurring Projects				
34	A	Mains - New	\$ 445,000	\$ 445,000	\$ -
35	B	Mains - Replaced	\$ 5,044,307	\$ 5,044,307	\$ -
36	C	Mains - Unscheduled	\$ 1,792,975	\$ 1,792,975	\$ -
37	D	Mains - Relocated	\$ 321,750	\$ 321,750	\$ -
38	E	Hydrants, Valves, & Manholes - New	\$ 324,500	\$ 324,500	\$ -
39	F	Hydrants, Valves, & Manholes - Replaced	\$ 780,000	\$ 780,000	\$ -
40	G	Services and Lateral - New	\$ 3,147,110	\$ 3,147,110	\$ -
41	H	Services and Lateral - Replaced	\$ 749,667	\$ 749,667	\$ -
42	I	Meters - New	\$ -	\$ -	\$ -
43	J	Meters - Replaced	\$ 2,955,497	\$ 2,955,497	\$ -
44	K	ITS Equipment & Systems - Local	\$ 375,455	\$ 375,455	\$ -
45	L	SCADA Equipment & Systems	\$ 150,000	\$ 150,000	\$ -
46	M	Security Equipment and Systems	\$ 200,000	\$ 200,000	\$ -
47	N	Offices and Operations Centers	\$ 27,500	\$ 27,500	\$ -
48	O	Vehicles	\$ 1,660,000	\$ 1,660,000	\$ -
49	P	Tools and Equipment	\$ 142,000	\$ 142,000	\$ -
50	Q	Process Plant - Facilities and Equipment	\$ 1,614,000	\$ 718,000	\$ 896,000
51	R	Capitalized Tank Rehab/Painting	\$ 1,550,000	\$ 1,550,000	\$ -
52	S	Engineering Studies	\$ 50,000	\$ 50,000	\$ -
53	OH	Overhead	\$ -	\$ -	\$ -
54		Total RPs + OH	\$ 21,329,760	\$ 20,433,760	\$ 896,000
55					
56	Contributions, Advances, & Refunds				
57		DV Advances (72801000, 72801100)	\$ (900,000)	\$ (900,000)	\$ -
58		DV Contributions (72802000, 72802100)	\$ (540,000)	\$ (540,000)	\$ -
59		Other Contributions (RPs)	\$ -	\$ -	\$ -
60		Refunds	\$ 400,000	\$ 400,000	\$ -
61	Totals				
62		Gross	\$ 43,039,847	\$ 42,839,753	\$ 200,094
63		Net	\$ 41,999,847	\$ 41,799,753	\$ 200,094
64					
65		Centrally Sponsored Costs	\$ -		

Appendix C
Proposed ARM Tariff

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, and Private Fire, an Annual Review Mechanism (“ARM”) surcharge 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:

“**ARM Adjustment Filing**” means the annual filing made by March 31st each year to calculate Earnings Surplus or Deficiency, Revenue Surplus or Deficiency, and Annual ARM Revenue in the Historic Base Period.

“**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 August 1st each year, that reflects the Arm Adjustment Filing methodologies approved by the Commission.

“**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 Revenue Surplus or Deficiency.

“**Base Revenue Forecast**” means the base revenue forecast for the Rate Effective Period which shall be used as the denominator to calculate the ARM Revenue Adjustment surcharge percentage. The purpose of the Base Revenue Forecast is to minimize any over/under collection of revenue or over/under credit of revenue of the ARM Revenue Adjustment amount. The Base Revenue Forecast is not used in the annual earnings test.

“**Historic Base Period**” means the most recently completed fiscal year ended December 31st 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

Issued: November 18, 2025

Issued by: Grant A. Evitts, President

109 Wiehl Street

Chattanooga, Tennessee 37403

Effective:

ARM. 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.

"Rate Effective Period" means the period in which adjusted rates shall be in effect beginning on August 1st after the Annual ARM 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 Annual ARM Revenue.

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

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 19 months from the midpoint of the Historic Base Period to 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 on or before March 31st of each year. The Historic Base Period for the ARM Adjustment Filing shall align with the Company's most recent fiscal year end, December 31st. There shall be one annual filing that 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 July 29th, and adjusted rates shall go into effect on August 1st.

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 August 1st after the ARM Adjustment Filing.

B. Historic Base Period

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

C. Annual ARM Revenue Surcharge

- 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 shall be collected or credited beginning in the Rate Effective Period on August 1st 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. 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. 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

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Issued by: Grant A. Evitts, President

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Chattanooga, Tennessee 37403

Effective:

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. 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.

I. 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 costs for the ARM framework filing shall be 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. 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. 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. 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. 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. 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. Rate of Return

- The Company shall use the approved 44.19% weighting of Equity and 9.70% Return on

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Effective:

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. 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. 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. 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. 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.

S. 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 revenue deficiency or surplus 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 19-month period covering the Historic Base Period and the Rate Effective Period.

T. 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).

U. 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.

V. Annual ARM Filing

- By March 31st 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 Annual ARM Revenue Surcharge amounts. The list of schedules to be filed includes, but need not be limited to:

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Effective:

SCHEDULE	NAME
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 Workpaper
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
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

CLASSIFICATION OF SERVICE

INCREMENTAL CAPITAL RIDER

1. Applicability

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

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

2. Definitions

For the purposes of this Rider:

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

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

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

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

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

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

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

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

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

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

~~“Relevant Rate Order”~~ is defined as the methodologies approved and adopted by the Commission in Docket Nos. 12-00049, 13-00130, 19-00103, any subsequent general rate case, the most recent final order of the Commission specifically prescribing or fixing the factors and procedures to be used in the application of this Rider, or as modified following a determination of a New Matter (defined in part 2).

3. General Description

- (A) ~~The ICR allows the Company to recover outside of a base rate case its qualifying incremental non-revenue producing plant infrastructure investment costs, with such recovery limited to the lower of the ICRRR necessary to allow the Company to earn its authorized return on equity, or its actual incremental ICRRR. Starting with the 2024 filing for investments made through December 31, 2023, the annual Incremental Capital Rider Revenue Requirement (“ICRRR”) will be calculated using the Eligible Rate Base less the amount recovered in the Legacy Capital Riders rates.~~
- (B) ~~Investments eligible for recovery under the ICR are subject to the same requirements initially adopted in TRA Docket No. 13-00130 for the Qualified Infrastructure Improvement Program (“QIIP”), Economic Development Investment (“EDI”), and Safety and Environmental Compliance (“SEC”) Riders.~~
- (C) ~~General Description QIIP: QIIP allows the Company to recover outside of a rate case its qualifying incremental non-revenue producing plant infrastructure investment. For purposes of this Rider, qualifying QUP investment includes the following:~~
- ~~• *Distribution Infrastructure*—Replacement distribution and transmission mains and valves installed as replacements for existing facilities, reinforcement of existing facilities or otherwise insuring reliability of existing facilities; Hydrant, Services, Meters and Meter Installations—installed as in-kind replacements, reinforcements or insuring reliability of existing facilities; Unreimbursed funds related to capital projects to relocate facilities required by governmental highway projects; Capitalized tank repairs and maintenance that serve to replace, reinforce, or otherwise insure reliability of existing facilities.~~

- ~~Production and Pumping Infrastructure~~—Replacement of water treatment facilities and equipment installed as replacements for existing facilities, reinforcement of existing facilities or otherwise insuring reliability of existing facilities; Raw Water and Finished Water pumping equipment and structures installed as replacements, reinforcements or otherwise insuring reliability of existing facilities.
- ~~Other Infrastructure~~—Infrastructure designed to utilize alternative fuels.
- ~~QHP Investment is to be identifiable on the Company's books and segregated into the following general accounts:~~
 - ~~Account 331~~—Transmission & Distribution Mains;
 - ~~Account 333~~—Services;
 - ~~Account 334~~—Meters & Meter Installations;
 - ~~Account 335~~—Hydrants;
 - ~~Account 320~~—Water Treatment Equipment, Non-Media;
 - ~~Account 311~~—Pumping Equipment;
 - ~~Account 303~~—Land and Land Rights;
 - ~~Account 304~~—Structures and Improvements;
 - ~~Account 306~~—Lake, River and Other Intakes;
 - ~~Account 307~~—Wells and Springs;
 - ~~Account 309~~—Supply Mains;
 - ~~Account 310~~—Power Generation Equipment
 - ~~Account 330~~—Distribution Reservoirs and Standpipes;
 - ~~Account 341~~—Transportation Equipment; and
 - ~~Account 3300003~~—Capitalized Tank Painting.

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

- ~~Distribution, Production, and Other Infrastructure~~—Distribution, production, and other infrastructure that may be identified as being for the purpose of economic development.
- ~~Economic Development Expenses~~—Operational expenses that are specifically to support economic development and economic development investment utility plant.

- ~~EDI Investment is to be identifiable on the Company's books and segregated into the following general accounts:~~

- ~~Account 331—Transmission & Distribution Mains;~~
- ~~Account 333—Services;~~
- ~~Account 334—Meters & Meter Installations;~~
- ~~Account 335—Hydrants;~~
- ~~Account 320—Water Treatment Equipment, Non-Media;~~
- ~~Account 311—Pumping Equipment;~~
- ~~Account 303—Land and Land Rights;~~
- ~~Account 304—Structures and Improvements;~~
- ~~Account 306—Lake, River and Other Intakes;~~
- ~~Account 307—Wells and Springs;~~
- ~~Account 309—Supply Mains;~~
- ~~Account 310—Power Generation Equipment;~~
- ~~Account 330—Distribution Reservoirs and Standpipes; and~~
- ~~Account 330003—Capitalized Tank Painting.~~

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

- ~~Distribution and Production infrastructure—Distribution, production, and other infrastructure that may be identified as being for the purpose of safety and environmental compliance.~~
- ~~Safety and Environmental Expenses—Operational expenses similar to other expenses authorized in previous rate cases that are specifically new expenses for safety and environmental compliance or to support safety and environmental compliance utility plant.~~
- ~~SEC Investment is to be identifiable on the Company's books and segregated into the following general accounts:~~
 - ~~Account 331—Transmission & Distribution Mains;~~
 - ~~Account 333—Services; Account 334—Meters & Meter Installations;~~
 - ~~Account 335—Hydrants;~~
 - ~~Account 320—Water Treatment Equipment, Non-Media;~~
 - ~~Account 311—Pumping Equipment;~~
 - ~~Account 303—Land and Land Rights;~~
 - ~~Account 304—Structures and Improvements;~~
 - ~~Account 306—Lake, River and Other Intakes;~~
 - ~~Account 307—Wells and Springs;~~

~~Account 309—Supply Mains;
Account 310—Power Generation Equipment
Account 330—Distribution Reservoirs and Standpipes; and
Account 330003—Capitalized Tank Painting~~

~~(F) Investments eligible for recovery under the ICR are subject to the conditions established by Commission Order in TPUC Docket No. 19-00103.~~

~~(G) An annual return on equity test will determine any limitation that shall apply to the recovery of the ICRRR.~~

4. Computation of the Return on Equity Test

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

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

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

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

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

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

14	Add Amortization of prior years' deferred Depreciation Property Taxes and Debt Carrying Cost	
15	Reserved for Adjustment to Book Income	
16	Adjustments to Net Income (Lines 5 thru 15)	\$
17	Adjusted Net Income (Line 3+36)	\$

18	Calculation of Equity	
19	TAWC 13-Month Avg Rate Base	\$
20	Less: 13-Month Avg Debt:	
21	Long-Term Debt	
22	Short-Term Debt	
23	Equity Financed Rate Base (Line 19 Less 21 and 22)	\$
24	Earned Return on Equity (Line 17/23)	%
25	Less: Authorized Return on Equity	9.70%
26	Excess Return on Equity (Line 24 less Line 25)	%
27	Multiplied by Equity Balance (Line 26 * Line 23)	\$
28	Tax Gross-up Factor	
29	Revenue Excess—Subtotal (Line 27 * Line 28)	\$
30	Multiplied by: Reciprocal Factor—Revenue Taxes at 3.19%	
31	Revenue Excess/(Deficiency)	\$

Where:

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

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

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

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

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

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

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

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

5. Determination of the ICR

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

Line No.	Description	Source	
	<u>Section A: Return</u>		
	<u>Determining Capital Rider Rate Base</u>		
	<u>And Rate of Return</u>		
1	TAWC 13-Month Average Rate Base		\$
2	Eligible Capital Rider Rate Base		
3	Plus:		
4	Authorized Rate Base	Rate Order 24-000XX	
5	Acquisition Rate Base		
6	Eligible Capital Rider Rate Base Plus	Line 2 + Line 4 + Line 5	\$
7	Lower of the Rate Base Calculation	Lower of Line 1 or Line 6	\$
8	Eligible Rate Base	Line 7 Less Lines 4 and 5	\$
9	Less: Previously Recovered CR Rate Base		\$0.00
10	Incremental CR Investment	Line 8 Less Line 9	\$
11	Pre-Tax Return	Rate Order 24-000XX	%
12	Pre-Tax Revenue Deficiency on ICR Investment	Lines 10 * 11	%
13	Lag Weighted Return Factor—Pre-Tax	Regulatory Lag Factor	1.1056
14	Return on Rate Base Revenue Deficiency w/Regulatory Lag	Line 12 * Line 13	%
	<u>Section B: Depreciation</u>		
	<u>Determining Depreciation Expense</u>		
15	TAWC Depreciation Expense	PSC-3.06	\$
16	Minus:		
17	Authorized Depreciation Expense	Rate Order 24-000xx	
18	Acquisition Depreciation Expense		

19	Incremental Depreciation Expense Cap		
20	(Depreciation expense unrecovered in either base rates or capital rider)	Line 15 Less Lines 17, 18, 19	\$
21	Incremental CR Depreciation Expense		
22	Lower of the Depr Expense on Incremental CR Expenditures or Unrecovered Depreciation Expense	Lower of Line 20 or 21	\$
23	Lag Weighted Return Factor—Pre Tax	Regulatory Lag Factor	1.1056
24	ICRRR Depreciation Expense w/ Regulatory Lag	Line 22 * 23	\$

	Section C: Property and Franchise Tax Expense		
	Determining Property & Franchise Tax Expense	PSC 3.06	\$
25	TAWC Property Tax		
26	TAWC Franchise Tax		
27	Minus:		
28	Authorized Property & Franchise Tax	Rate Order 24-000xx	\$
29	Acquisition Property Tax		
30	Acquisition Franchise Tax		
31	Legacy CR Property Tax Recovery		\$
32	Incremental Property & Franchise Tax (Unrecovered in either base rates or capital rider)	Lines 25+26 Less Lines 28,29,30,31	\$
33	Incremental Property and Franchise Taxes	Property & Franchise Tax Calc	\$
34	Eligible Capital Rider Franchise Tax		
35	Lower of Unrecovered Actual or CR Property and Franchise Tax Expense	Lower of Line 32 or 33	\$

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

Where:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

~~6. New Matters~~

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

~~7. New Base Rates~~

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

~~8. Annual ICR Percentage Rate Filing~~

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

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

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

~~9. Computation of the Over Under Collection Adjustment~~

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

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

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

~~10. Notice Requirements~~

~~The Company will file revised tariffs for Commission approval upon 30 days' notice to implement a decrement or increment each April 1. Along with the tariff filing, the Company will include a copy of the computation of the new rate adjustment. The Company will simultaneously copy the Consumer Advocate on this filing.~~

~~11. Public Interest Review~~

~~Nothing herein shall be construed to eliminate or otherwise restrict the opportunity of the Consumer Advocate or any other interested party from seeking a review of this Rider, as permitted by law and the rules and regulations of the Commission, for a reconsideration of whether it remains in the public interest.~~

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE

PETITION OF TENNESSEE-AMERICAN)
WATER COMPANY TO ADOPT ANNUAL)
REVIEW MECHANISM AND ARM) DOCKET NO. 25-_____
TARIFF PURSUANT TO TENN. CODE)
ANN. § 65-5-103(d)(6))

VERIFICATION

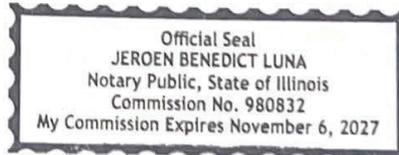
STATE OF Illinois)
COUNTY OF Cook)

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
PHILIP J. DRENNAN

Sworn to and subscribed before me
this 17th day of November, 2025.

J. Luna
Notary Public



My Commission Expires: 11/06/2027

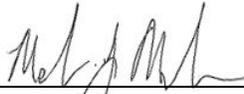
CERTIFICATE OF SERVICE

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

Vance Broemel, Esq.
Managing Attorney
Office of the Tennessee Attorney General
Consumer Advocate Division
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This the 18th day of November 2025.



Melvin Malone