

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 12-00049
SECOND DISCOVERY REQUEST OF THE
CITY OF CHATTANOOGA**

Responsible Witness: Linda C. Bridwell

Other Participating Employees: None

Question:

1. Please ***Identify*** each person who was involved in preparing the responses to these Requests, specifying the Request(s) for which each such person was involved and the nature of the information provided by her or him.

Response:

TAW has identified the responsible witness under whose direction each discovery response is prepared. That person is ultimately responsible for each of his/her responses and will also be available for cross-examination about his/her responses at the evidentiary hearing of this matter

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 12-00049
SECOND DISCOVERY REQUEST OF THE
CITY OF CHATTANOOGA**

Responsible Witness: Linda C. Bridwell

Other Participating Employees: AW Support Services

Question:

2. Please refer to Petitioner's Exhibit RB-9-Deferred Taxes-LCB, from the direct testimony of TAWC witness Linda C. Bridwell.
 - a. For each regulatory asset, regulatory liability and amortization, provide a detailed explanation of how the amount was calculated, the circumstances that required recognition of the balance and the reason(s) why it is appropriate to recognize these balances in the determination of rate base and revenue requirement.
 - b. **Identify** which balance(s) include FIN 48 amounts.
 - c. For each FIN 48 item, provide the amount, an explanation of the circumstances that required the amount appearing on the Exhibit to be recognized and an explanation regarding any change(s) in these circumstances and the effect on the Exhibit amount.
 - d. Please **Identify** and **Explain** whether TAWC was able to record bonus depreciation in 2011 and 2012, and if so, how did this impact its accumulated deferred income tax balance?

Response:

- a. Please see the attached file for the calculation of the amortization of the regulated assets and liabilities.

Upon adoption of FAS 109, deferred tax assets and liabilities were required to be created for all temporary differences. FAS 109 is a balance sheet approach to calculating taxes as opposed to an income statement approach done previously. For regulated companies, a regulatory asset or liability was set up, as offset to the deferred taxes, for example, for items previously flowed through to customers. These regulatory assets and liabilities are then amortized to tax expense over the life of the underlying assets in order to recognize recovery through future rate revenues. Accounting for these items

has been recorded so that annual income tax expense is unchanged from what it would have been had FAS 109 not been adopted.

In addition to items previously flowed through to customers, regulatory assets and liabilities are also created for changes in tax rates and AFUDC. Deferred taxes need to be shown at the tax rate they will turn around. Any excess or deficit deferred taxes need to be returned to or recovered from the customer. FAS 109 requires recognition of a deferred tax liability for the equity component of the allowance for funds used during construction (AFUDC) which had been a permanent item.

The rate base treatment of regulatory assets and liabilities recorded must be consistent with the treatment in rate base of the associated deferred tax liabilities and deferred tax assets. Either both are included or both are excluded. The regulatory assets and liabilities are not included in rate base for TAW and therefore should not be included in the deferred tax portion of rate base.

- b. Account numbers 253301 (Def FIT-Other) and 253701 (Def SIT-Other) include a FIN 48 offset to the repairs deduction taken on the tax returns.
- c. The FIN 48 deferred tax asset provided in the Exhibit under accounts 253301 and 253701 is \$691,657.

The FIN 48 balance in the Exhibit is related to the repairs deduction taken on the 2008-2010 tax returns. In 2008, the Company changed its tax method of accounting for repairs from a capitalization method to an expense method. FIN 48 requires the Company to analyze its tax positions on the tax returns and determine if any of it is uncertain, in other words, more likely than not to be rejected by the IRS. It was determined that a piece of the repairs deduction taken on the tax returns is uncertain, so a FIN 48 liability was established.

Since the time the rate case was filed, the FIN 48 amount related to tax years 2008-2010 has been trued up and an estimate has been booked in the ledger for 2011 and up to June 2012. The updated FIN 48 deferred tax asset at 12/31/11 is \$1,134,928. The FIN 48 deferred tax asset at 06/30/12 is \$1,334,143.

- d. The tax law allows a company to take bonus depreciation in 2011 and 2012. For 2011, though, the Company is opting out of taking the bonus depreciation. The Company will be taking the 2012 bonus depreciation.

Taking bonus depreciation would increase ADIT in the year it is taken. For 2012, TAW will take 50% bonus depreciation.

As time goes on, the ADIT will decrease because book depreciation will be higher than tax depreciation. For those assets where bonus depreciation was taken, this reversal will begin in year 2 of the life of the assets.

Tennessee-American
Amortization Schedule
FAS 109 Reg Assets & Liabilities

COMPANY: 26

Input

	108190 46,099.00		186040		186045		186051	
	Acc depr reg asset afudc debt		Flow through regulatory asset		Reg asset other		Reg asset state	
	Depreciation	Balance	Amortization	Balance	Amortization	Balance	Amortization	Balance
balance								
@ 12/31/97		(6,022.18)		8,749,785.00		2,355,228.00		
1998	(1,176.00)	(7,198.18)	(242,083.00)	8,507,702.00	(90,833.00)	2,264,395.00		
1999	(1,176.00)	(8,374.18)	(272,321.00)	8,235,381.00	(90,833.00)	2,173,562.00		
2000	(1,176.00)	(9,550.18)	(302,488.00)	7,932,893.00	(90,833.00)	2,082,729.00		
2001	(1,176.00)	(10,726.18)	(332,653.00)	7,600,240.00	(90,833.00)	1,991,896.00	44,232.00	2,402,851.00
2002	(1,176.00)	(11,902.18)	(362,822.00)	7,237,418.00	(90,833.00)	1,901,063.00	44,232.00	2,447,083.00
2003	(1,176.00)	(13,078.18)	(392,986.00)	6,844,432.00	(90,833.00)	1,810,230.00	44,232.00	2,491,315.00
2004	(1,176.00)	(14,254.18)	(423,155.00)	6,421,277.00	(90,833.00)	1,719,397.00	44,232.00	2,535,547.00
2005	(1,176.00)	(15,430.18)	(449,460.00)	5,971,817.00	(90,833.00)	1,628,564.00	44,232.00	2,579,779.00
2006	(1,176.00)	(16,606.18)	(473,832.00)	5,497,985.00	(90,828.00)	1,537,736.00	44,232.00	2,624,011.00
2007	(1,176.00)	(17,782.18)	(498,216.00)	4,999,769.00	(90,828.00)	1,446,908.00	44,232.00	2,668,243.00
2008	(1,176.00)	(18,958.18)	(523,056.00)	4,476,713.00	(90,828.00)	1,356,080.00	44,232.00	2,712,475.00
2009	(1,176.00)	(20,134.18)	(554,184.00)	3,922,529.00	(90,828.00)	1,265,252.00	44,232.00	2,756,707.00
2010	(1,176.00)	(21,310.18)	(579,600.00)	3,342,929.00	(90,828.00)	1,174,424.00	44,232.00	2,800,939.00
2011	(1,176.00)	(22,486.18)	(598,296.00)	2,744,633.00	(90,828.00)	1,083,596.00	44,232.00	2,845,171.00
2012	(1,176.00)	(23,662.18)	(617,640.00)	2,126,993.00	(90,828.00)	992,768.00	44,232.00	2,889,403.00
2013	(1,176.00)	(24,838.18)	(650,676.00)	1,476,317.00	(90,828.00)	901,940.00	44,232.00	2,933,635.00
2014	(1,176.00)	(26,014.18)	(689,016.00)	787,301.00	(90,828.00)	811,112.00	44,232.00	2,977,867.00
2015	(1,176.00)	(27,190.18)	(711,564.00)	75,737.00	(90,828.00)	720,284.00	44,232.00	3,022,099.00
2016	(1,176.00)	(28,366.18)	(75,737.00)	-	(90,828.00)	629,456.00	44,232.00	3,066,331.00
2017	(1,176.00)	(29,542.18)			(90,828.00)	538,628.00	44,232.00	3,110,563.00
2018	(1,176.00)	(30,718.18)			(90,828.00)	447,800.00		
2019	(1,176.00)	(31,894.18)			(90,828.00)	356,972.00		
2020	(1,176.00)	(33,070.18)			(90,828.00)	266,144.00		
2021	(1,176.00)	(34,246.18)			(90,828.00)	175,316.00		
2022	(1,176.00)	(35,422.18)			(90,828.00)	84,488.00		
2023	(1,176.00)	(36,598.18)			(84,488.00)	-		
2024	(1,176.00)	(37,774.18)						
2025	(1,176.00)	(38,950.18)						
2026	(1,176.00)	(40,126.18)						
2027	(1,176.00)	(41,302.18)						
2028	(1,176.00)	(42,478.18)						
2029	(1,176.00)	(43,654.18)						
2030	(1,176.00)	(44,830.18)						
2031	(1,176.00)	(46,006.18)						
2032	(93.00)	(46,099.18)						
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Tennessee-American
Amortization Schedule
FAS 109 Reg Assets & Liabilities

COMPANY

Input

				RATE CHANGE from 6% to 6.5%		RATE CHANGE from 6% to 6.5%	
256211		256220		256232		262598	
Excess deferred federal taxes		Deficit deferred federal tax		Excess deferred state taxes		Excess deferred state taxes-Reserve	
Amortization	Balance	Amortization	Balance	Amortization	Balance	Amortization	Balance
balance							
@ 12/31/97							
1998	14,667.00	(615,984.00)	724,111.00				
1999	14,667.00	(601,317.00)	706,863.00				
2000	14,667.00	(586,650.00)	689,615.00				
2001	14,667.00	(571,983.00)	672,367.00				
2002	14,667.00	(557,316.00)	655,119.00				
2003	14,667.00	(542,649.00)	637,871.00				
2004	14,667.00	(527,982.00)	620,623.00				
2005	14,667.00	(513,315.00)	603,375.00				
2006	14,667.00	(498,648.00)	586,127.00				
2007	14,664.00	(483,984.00)	568,883.00				
2008	14,664.00	(469,320.00)	551,639.00	-	259,330.00		(259,330.00)
2009	14,664.00	(454,656.00)	534,395.00	(8,245.00)	251,085.00	259,330.00	-
2010	14,664.00	(439,992.00)	517,151.00	(8,245.00)	242,840.00	-	-
2011	14,664.00	(425,328.00)	499,907.00	(8,245.00)	234,595.00	-	-
2012	14,664.00	(410,664.00)	482,663.00	(8,245.00)	226,350.00	-	-
2013	14,664.00	(396,000.00)	465,419.00	(8,245.00)	218,105.00	-	-
2014	14,664.00	(381,336.00)	448,175.00	(8,245.00)	209,860.00	-	-
2015	14,664.00	(366,672.00)	430,931.00	(8,245.00)	201,615.00	-	-
2016	14,664.00	(352,008.00)	413,687.00	(8,245.00)	193,370.00	-	-
2017	14,664.00	(337,344.00)	396,443.00	(8,245.00)	185,125.00	-	-
2018	14,664.00	(322,680.00)	379,199.00	(8,245.00)	176,880.00	-	-
2019	14,664.00	(308,016.00)	361,955.00	(8,245.00)	168,635.00	-	-
2020	14,664.00	(293,352.00)	344,711.00	(8,245.00)	160,390.00	-	-
2021	14,664.00	(278,688.00)	327,467.00	(8,245.00)	152,145.00	-	-
2022	14,664.00	(264,024.00)	310,223.00	(8,245.00)	143,900.00	-	-
2023	14,664.00	(249,360.00)	292,979.00	(8,245.00)	135,655.00	-	-
2024	14,664.00	(234,696.00)	275,735.00	(8,245.00)	127,410.00	-	-
2025	14,664.00	(220,032.00)	258,491.00	(8,245.00)	119,165.00	-	-
2026	14,664.00	(205,368.00)	241,247.00	(8,245.00)	110,920.00	-	-
2027	14,664.00	(190,704.00)	224,003.00	(8,245.00)	102,675.00	-	-
2028	14,664.00	(176,040.00)	206,759.00	(8,245.00)	94,430.00	-	-
2029	14,664.00	(161,376.00)	189,515.00	(8,245.00)	86,185.00	-	-
2030	14,664.00	(146,712.00)	172,271.00	(8,245.00)	77,940.00	-	-
2031	14,664.00	(132,048.00)	155,027.00	(8,245.00)	69,695.00	-	-
2032	14,664.00	(117,384.00)	137,783.00	(8,245.00)	61,450.00	-	-
2033	14,664.00	(102,720.00)	120,539.00	(8,245.00)	53,205.00	-	-
2034	14,664.00	(88,056.00)	103,295.00	(8,245.00)	44,960.00	-	-
2035	14,664.00	(73,392.00)	86,051.00	(8,245.00)	36,715.00	-	-
2036	14,664.00	(58,728.00)	68,807.00	(8,245.00)	28,470.00	-	-
2037	14,664.00	(44,064.00)	51,563.00	(8,245.00)	20,225.00	-	-
2038	14,664.00	(29,400.00)	34,319.00	(8,245.00)	11,980.00	-	-
2039	14,664.00	(14,736.00)	17,075.00	(8,245.00)	3,735.00	-	-
2040	14,664.00	(72.00)	-	(3,735.00)	-	-	-
2041	72.00	-		-	-	-	-
2042				-	-	-	-
2043				-	-	-	-
2044				-	-	-	-

Tennessee-American
Amortization Schedule
FAS 109 Reg Assets & Liabilities

COMPANY

Input

	256310		256311		256312		255101	
	Reg liability for 3% ITC		Reg liability for 4% ITC		Reg liability for 10% ITC		Unamortized ITC - 3%	
	Amortization	Balance	Amortization	Balance	Amortization	Balance	Amortization	Balance
balance								
@ 12/31/97								
1998	1,982.00	(43,696.00)	3,045.00	(86,963.00)	39,611.00	(968,503.00)	3,096.00	(68,695.00)
1999	1,982.00	(41,714.00)	3,045.00	(83,918.00)	39,611.00	(928,892.00)	3,096.00	(65,599.00)
2000	1,982.00	(39,732.00)	3,045.00	(80,873.00)	39,611.00	(889,281.00)	3,096.00	(62,503.00)
2001	1,982.00	(37,750.00)	3,045.00	(77,828.00)	39,611.00	(849,670.00)	3,096.00	(59,407.00)
2002	1,982.00	(35,768.00)	3,045.00	(74,783.00)	39,611.00	(810,059.00)	3,096.00	(56,311.00)
2003	1,982.00	(33,786.00)	3,045.00	(71,738.00)	39,611.00	(770,448.00)	3,096.00	(53,215.00)
2004	1,982.00	(31,804.00)	3,045.00	(68,693.00)	39,611.00	(730,837.00)	3,096.00	(50,119.00)
2005	1,982.00	(29,822.00)	3,045.00	(65,648.00)	39,611.00	(691,226.00)	3,096.00	(47,023.00)
2006	1,982.00	(27,840.00)	3,045.00	(62,603.00)	39,611.00	(651,615.00)	3,096.00	(43,927.00)
2007	1,980.00	(25,860.00)	3,048.00	(59,555.00)	39,612.00	(612,003.00)	3,096.00	(40,831.00)
2008	1,980.00	(23,880.00)	3,048.00	(56,507.00)	39,612.00	(572,391.00)	3,096.00	(37,735.00)
2009	1,980.00	(21,900.00)	3,048.00	(53,459.00)	39,612.00	(532,779.00)	3,096.00	(34,639.00)
2010	1,980.00	(19,920.00)	3,048.00	(50,411.00)	39,612.00	(493,167.00)	3,096.00	(31,543.00)
2011	1,980.00	(17,940.00)	3,048.00	(47,363.00)	39,612.00	(453,555.00)	3,096.00	(28,447.00)
2012	1,980.00	(15,960.00)	3,048.00	(44,315.00)	39,612.00	(413,943.00)	3,096.00	(25,351.00)
2013	1,980.00	(13,980.00)	3,048.00	(41,267.00)	39,612.00	(374,331.00)	3,096.00	(22,255.00)
2014	1,980.00	(12,000.00)	3,048.00	(38,219.00)	39,612.00	(334,719.00)	3,096.00	(19,159.00)
2015	1,980.00	(10,020.00)	3,048.00	(35,171.00)	39,612.00	(295,107.00)	3,096.00	(16,063.00)
2016	1,980.00	(8,040.00)	3,048.00	(32,123.00)	39,612.00	(255,495.00)	3,096.00	(12,967.00)
2017	1,980.00	(6,060.00)	3,048.00	(29,075.00)	39,612.00	(215,883.00)	3,096.00	(9,871.00)
2018	1,980.00	(4,080.00)	3,048.00	(26,027.00)	39,612.00	(176,271.00)	3,096.00	(6,775.00)
2019	1,980.00	(2,100.00)	3,048.00	(22,979.00)	39,612.00	(136,659.00)	3,096.00	(3,679.00)
2020	1,980.00	(120.00)	3,048.00	(19,931.00)	39,612.00	(97,047.00)	3,096.00	(583.00)
2021		-	3,048.00	(16,883.00)	39,612.00	(57,435.00)	583.00	-
2022			3,048.00	(13,835.00)	39,612.00	(17,823.00)		
2023			3,048.00	(10,787.00)	17,823.00	-		
2024			3,048.00	(7,739.00)				
2025			3,048.00	(4,691.00)				
2026			3,048.00	(1,643.00)				
2027			1,643.00	-				
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Tennessee-American
Amortization Schedule
FAS 109 Reg Assets & Liabilities

COMPANY

Input

				BALANCES					
255102		255103		Net Assets	Net Liability (Excl ITC)	Net (Excl ITC)	ITC	Net	
Unamortized ITC - 4%		Unamortized ITC - 10%							
	Amortization	Balance	Amortization	Balance					
balance									
@ 12/31/97									
1998	4,764.00	(136,020.00)	68,508.00	(1,675,229.00)	11,105,013.00	(991,035.00)	10,113,978.00	(1,879,944.00)	8,234,034.00
1999	4,764.00	(131,256.00)	68,508.00	(1,606,721.00)	10,772,097.00	(948,978.00)	9,823,119.00	(1,803,576.00)	8,019,543.00
2000	4,764.00	(126,492.00)	68,508.00	(1,538,213.00)	10,408,943.00	(906,921.00)	9,502,022.00	(1,727,208.00)	7,774,814.00
2001	4,764.00	(121,728.00)	68,508.00	(1,469,705.00)	10,015,622.00	(864,864.00)	9,150,758.00	(1,650,840.00)	7,499,918.00
2002	4,764.00	(116,964.00)	68,508.00	(1,401,197.00)	11,994,987.00	(822,807.00)	11,172,180.00	(1,574,472.00)	9,597,708.00
2003	4,764.00	(112,200.00)	68,508.00	(1,332,689.00)	11,585,564.00	(780,750.00)	10,804,814.00	(1,498,104.00)	9,306,710.00
2004	4,764.00	(107,436.00)	68,508.00	(1,264,181.00)	11,145,977.00	(738,693.00)	10,407,284.00	(1,421,736.00)	8,985,548.00
2005	4,764.00	(102,672.00)	68,508.00	(1,195,673.00)	10,676,221.00	(696,636.00)	9,979,585.00	(1,345,368.00)	8,634,217.00
2006	4,764.00	(97,908.00)	68,508.00	(1,127,165.00)	10,180,160.00	(654,579.00)	9,525,581.00	(1,269,000.00)	8,256,581.00
2007	4,764.00	(93,144.00)	68,508.00	(1,058,657.00)	9,659,732.00	(612,519.00)	9,047,213.00	(1,192,632.00)	7,854,581.00
2008	4,764.00	(88,380.00)	68,508.00	(990,149.00)	9,114,920.00	(311,129.00)	8,803,791.00	(1,116,264.00)	7,687,527.00
2009	4,764.00	(83,616.00)	68,508.00	(921,641.00)	8,545,268.00	(277,314.00)	8,267,954.00	(1,039,896.00)	7,228,058.00
2010	4,764.00	(78,852.00)	68,508.00	(853,133.00)	7,944,488.00	(243,499.00)	7,700,989.00	(963,528.00)	6,737,461.00
2011	4,764.00	(74,088.00)	68,508.00	(784,625.00)	7,318,292.00	(209,684.00)	7,108,608.00	(887,160.00)	6,221,448.00
2012	4,764.00	(69,324.00)	68,508.00	(716,117.00)	6,673,400.00	(175,869.00)	6,497,531.00	(810,792.00)	5,686,739.00
2013	4,764.00	(64,560.00)	68,508.00	(647,609.00)	6,009,164.00	(142,054.00)	5,867,110.00	(734,424.00)	5,132,686.00
2014	4,764.00	(59,796.00)	68,508.00	(579,101.00)	5,311,892.00	(108,239.00)	5,203,653.00	(658,056.00)	4,545,597.00
2015	4,764.00	(55,032.00)	68,508.00	(510,593.00)	4,576,280.00	(74,424.00)	4,501,856.00	(581,688.00)	3,920,168.00
2016	4,764.00	(50,268.00)	68,508.00	(442,085.00)	3,818,120.00	(40,609.00)	3,777,511.00	(505,320.00)	3,272,191.00
2017	4,764.00	(45,504.00)	68,508.00	(373,577.00)	3,695,787.00	(6,794.00)	3,688,993.00	(428,952.00)	3,260,041.00
2018	4,764.00	(40,740.00)	68,508.00	(305,069.00)	3,649,191.00	27,021.00	3,676,212.00	(352,584.00)	3,323,628.00
2019	4,764.00	(35,976.00)	68,508.00	(236,561.00)	447,800.00	60,836.00	508,636.00	(276,216.00)	232,420.00
2020	4,764.00	(31,212.00)	68,508.00	(168,053.00)	356,972.00	94,651.00	451,623.00	(199,848.00)	251,775.00
2021	4,764.00	(26,448.00)	68,508.00	(99,545.00)	266,144.00	126,606.00	392,750.00	(125,993.00)	266,757.00
2022	4,764.00	(21,684.00)	68,508.00	(31,037.00)	175,316.00	158,441.00	333,757.00	(52,721.00)	281,036.00
2023	4,764.00	(16,920.00)	31,037.00	-	84,488.00	168,487.00	252,975.00	(16,920.00)	236,055.00
2024	4,764.00	(12,156.00)			-	160,710.00	160,710.00	(12,156.00)	148,554.00
2025	4,764.00	(7,392.00)			-	152,933.00	152,933.00	(7,392.00)	145,541.00
2026	4,764.00	(2,628.00)			-	145,156.00	145,156.00	(2,628.00)	142,528.00
2027	2,628.00	-			-	135,974.00	135,974.00	-	135,974.00
2028					-	125,149.00	125,149.00	-	125,149.00
2029					-	114,324.00	114,324.00	-	114,324.00
2030					-	103,499.00	103,499.00	-	103,499.00
2031					-	92,674.00	92,674.00	-	92,674.00
2032					-	81,849.00	81,849.00	-	81,849.00
2033					-	71,024.00	71,024.00	-	71,024.00
2034					-	60,199.00	60,199.00	-	60,199.00
2035					-	49,374.00	49,374.00	-	49,374.00
2036					-	38,549.00	38,549.00	-	38,549.00
2037					-	27,724.00	27,724.00	-	27,724.00
2038					-	16,899.00	16,899.00	-	16,899.00
2039					-	6,074.00	6,074.00	-	6,074.00
2040					-	(72.00)	(72.00)	-	(72.00)
2041					-	-	-	-	-
2042					-	-	-	-	-
2043					-	-	-	-	-
2044					-	-	-	-	-

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 12-00049
SECOND DISCOVERY REQUEST OF THE
CITY OF CHATTANOOGA**

Responsible Witness: Gary M. VerDouw

Other Participating Employees: None

Question:

3. Please refer to Petitioner's Exhibit BT-1-Business Transformation Summary Costs-GMV, Schedule BT-1.1, pages 1-4, and the implementation dates on page 34 of the direct testimony of TAWC witness Gary M. VerDouw.
 - a. Provide any available updates of the amounts shown on each page of the Exhibit and an explanation for the change.
 - b. Provide TAWC's most current expected implementation date for each system.

Response:

- a. There are no updates for the budgeted amounts shown on each page of the Exhibit.
- b. The most current expected TAWC implementation dates for each system is as follows:
 - a. ERP – August 1, 2012 (go live occurred as planned)
 - b. EAM – May, 2013
 - c. CIS – May, 2013
 - d. Kronos Time management (October, 2013).