



July 13, 2015

VIA ELECTRONIC FILING

Hon. Herbert H. Hilliard, Chairman
c/o Sharla Dillon
Tennessee Regulatory Authority
502 Deaderick Street, 4th Floor
Nashville, TN 37243

RE: *Petition of Tennessee American Water Company Regarding the Production Costs and Other Pass Through Rider, TRA Docket No. 15-00001*

Dear Chairman Hilliard:

Attached for filing please find *Tennessee American Water Company's Response to Third Set of Request for Information of the TRA* in the above-captioned matter.

As required, an original of this filing, along with four (4) hard copies, will follow. Should you have any questions concerning this filing, or require additional information, please do not hesitate to contact me.

Very truly yours,

BUTLER SNOW LLP

A handwritten signature in dark ink, appearing to read "Melvin J. Malone".

Melvin J. Malone

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Attachments

cc: Deron Allen, President, Tennessee-American Water Company
Wayne Irvin, Assistant Attorney General, Consumer Advocate and Protection Division
Vance Broemel, Assistant Attorney General, Consumer Advocate and Protection Division

*The Pinnacle at Symphony Place
150 3rd Avenue South, Suite 1600
Nashville, TN 37201*

MELVIN J. MALONE
615.651.6705
melvin.malone@butlersnow.com

T 615.651.6700
F 615.651.6701
www.butlersnow.com

**TENNESSEE AMERICAN WATER COMPANY
DOCKET 15-00001
RESPONSE TO THIRD SET OF REQUEST FOR INFORMATION
OF THE
TENNESSEE REGULATORY AUTHORITY**

Responsible Witnesses: Linda C. Bridwell

Question:

1. Please explain the rationale for the Company adding sales tax to Chemical Costs purchased from ADC even though sales tax was not included on the invoice.

Response:

To support accurate tax accruals and payments, the Company's invoice processing software is designed to accrue use tax on invoices that are determined to be taxable, but did not have the tax billed on the invoice. These invoices had tax accrued and paid directly to the taxing agency until July 2014.

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2. Staff notes that chemical costs from ADC invoices were not included in chemical inventory but were directly included in PCOP costs. Staff also opines that the Company made errors when it totaled up each individual expense. Please verify the following discrepancies and provide a response as to whether the Company agrees.

	Staff	TAWC
Fluosilicic Acid(1200648)	3,421.55	3,590.97
Sodium Hypochlorite(1200942)	16,762.50	16,822.51
Sodium Hydroxide(1201423)	31,777.57	30,584.63
Phosphate, Ortho-Poly Carus (121451)	14,497.25	14,634.42
Polymer(1201701)	1,140.00	2,900.02
	<u>67,598.87</u>	<u>68,532.55</u>

Response:

Tennessee American does not agree. Generally, the same methodology was used for each vendor and chemical type. This process was the same as was used in Docket No. 13-00130. Tennessee American pays the invoices for chemicals purchased from an inventory account 24163000. These transactions are shown on the workpaper tab "GL Trans". However, Tennessee American expenses chemicals based on the amount used each month. The accounting software expenses the chemicals based on an average inventory cost. This is shown in general ledger 51800000 that is reflected on the tab titled "51800000 GL". The amount of chemicals used each month is input from a chemical inventory sheet that is developed at each month end, and entered into the accounting software, SAP. The variance between the inventory level at the beginning and end of the month is the chemicals used. This usage is then multiplied by the cost per pound for chemical. This amount is posted in a journal entry as a debit to chemical expense and a credit to the chemical inventory account. The invoice amounts listed in the

reconciliation are not necessarily what are expensed during the general ledger month. Sometimes less chemicals are used during the month than what was purchased. At other times, more chemicals are used than what was purchased during the general ledger month.

During 2014, Tennessee American began operations at the Whitwell water treatment plant. From January through October, the Whitwell chemicals were not issued from the inventory account, but the chemical invoices were posted directly to the expense account.

Further complicating the calculation, ADC was not charging sales tax on the chemicals provided for the Whitwell operations, however, sales tax was accrued on each invoice until July 2014, and was paid to directly to the taxing agency.

For Fluoride, the difference represents sales tax on the February, March, April, May and June invoices. Additionally, the final invoice posted on 11/5/14 was charged to the inventory account. It also appears that the staff reduced the amount by \$239.97.

For Sodium Hydroxide, the difference is the sales tax amount for March, April, May, and June, and an \$11.44 difference between the general ledger and the invoice payments in April that could not be reconciled. Additionally, the final two invoices posted 11/5/14 and 11/19/14 were charged to the inventory account.

For Sodium Hypochlorite, the difference is the sales tax for January, February, March, April, May and June. Additionally, the final two invoices posted 11/5/14 and 11/19/14 were charged to the inventory account as all other chemicals.

The difference in the Phosphate appears to be sales tax and the final invoice dated 11/5/14 posted to the inventory account.

Finally, the Potassium Permanganate (listed as Polymer on the Monthly Reconciliation tab) difference is sales tax in March, plus an inventory issued amount that did show up otherwise on an invoice specifically from ADC. Although not used frequently, Tennessee American retains a quantity of Potassium Permanganate at the Citico plant.

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3. It appears the Company changed its methodology for Chemical cost calculation for Suck Creek. Staff recalculated Chemical costs for Suck Creek using same methodology from Docket No. 13-00130. Please verify the following discrepancies and provide a response as to whether the Company agrees.

	TAWC	Staff
Month	Suck Creek	Suck Creek
Dec-13	\$ -	
Jan-14	-	479.03
Feb-14	32.88	
Mar-14	233.90	
Apr-14	74.53	349.76
May-14	211.64	
Jun-14	92.20	317.96
Jul-14	43.31	
Aug-14	302.73	
Sep-14	-	668.07
Oct-14	337.97	
Nov-14	144.84	
Total	\$ 1,474.00	\$ 1,814.82

Response:

Company has provided the correct amount based on the methodology as discussed in response Question 2 of this same Data Request. The chemicals for Suck Creek were purchased as shown on the tab "ADC", but the amount of chemicals issued from inventory are reflected on the tab "Monthly Totals" under the Suck Creek column and tie to the usage amounts from the "usage pivot" tab. The amount of \$1,474.00 provided by TAWC tie to the chemicals expensed in 2014, or actual chemical usage. Staff numbers represent invoices paid in 2014.

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4. Staff notes the Company included different amounts of chemical costs in its PCOP calculation than the invoiced amount on Chemical Bill Nos. 113, 114, 115 and 116. Please explain why these amounts are different.

Response:

The amounts paid on Chemical Bills Numbers 113, 114, 115, and 116 reflects the correct amounts to be paid. The chemical provider, Carus, changed the unit price at the beginning of 2014 and did not invoice using the correct price per pound until later in the year. The correct contracted price per pound for 2014 was \$0.37. This correct price per pound was reflected on later invoices.