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June 2, 2017

VIA ELECTRONIC FILING

Hon. David Jones, Chairman
c/o Sharla Dillon
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

RE: Petition of Tennessee-American Water Company in Support of the Calculation of the 2017 Capital Recovery Riders Reconciliation, TPUC Docket No. 17-00020

Dear Chairman Jones:

Attached for filing please find *Tennessee-American Water Company's Supplemental Response to First Discovery Requests of the Consumer Protection and Advocate Division* 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


Melvin J. Malone

clw

Enclosure

cc: Valoria Armstrong, President, Tennessee-American Water Company
Daniel Whitaker III, Assistant Attorney General, Consumer Protection and Advocate Division
Wayne Irvin, Assistant Attorney General, Consumer Protection and Advocate Division
Vance Broemel, Assistant Attorney General, Consumer Protection and Advocate Division

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**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 17-00020
FIRST DISCOVERY REQUEST OF THE
CONSUMER PROTECTION AND ADVOCATE DIVISION**

Responsible Person: Linda C. Bridwell

Question:

5. Describe the Company's policy regarding the capitalization of any executive and employee incentive and bonus payments. Include in your response any incentives and/or bonus compensation included as "Additions" for the projects in the Capital Rider Reconciliation analysis.

Response:

In early 2017, Tennessee American reviewed its capitalization of its Annual Performance Plan ("APP") and Long-Term Performance Plan ("LTPP"). On a going forward basis, Tennessee American will apply a capitalization rate to 50% of its APP expenditures for both Tennessee American employees and Tennessee American's portion of Support Services employees' APP equal to the capitalization of all labor expenses. Tennessee American will not capitalize any of its LTPP expenditures. These capitalized expenditures will be included in an overhead account and applied to all capital expenditures annually on a pro-rated basis.

As part of that review, Tennessee American determined that none of the expenditures for Tennessee American employee APP or LTPP had been capitalized from 2013 through 2016, while a small amount of both APP and LTPP expenditures for Tennessee American's portion of Service Company employees had been capitalized. Tennessee American recognizes that the expenditures for the LTPP were not authorized in Docket No. 2012-00049. However, 50% of the APP expenditures were authorized in that same Docket, with a capitalization equal to all authorized labor expenses. As can be determined from the table below and in conjunction with the TPUC Docket No. 2012-0049, Tennessee American capitalized its overall performance plan at a lower overall rate than authorized; however, an adjustment to prior year expenditures is not warranted. Please note that the amount of the capitalized performance plan expenditures are applied as overhead to all capital expenditures pro-rated by work order to the total capital expenditures on a routine basis. Tennessee American has not been able to determine the portion of overhead that is the capitalized performance plan amount applied to each of the additions in this reconciliation but will supplement the discovery request if the detailed information can be determined.

Year	APP Expenditures	LTPP Expenditures	Total	Amount Capitalized	% Capitalized
2016	\$464,044	\$57,709	\$521,753	\$12,908	2.47%

2015	\$267,852	\$38,811	\$306,663	\$5,235	1.71%
2014	\$147,822	\$30,535	\$178,357	(\$245)	-0.14%
2013	\$143,533	\$34,638	\$178,171	\$5,514	3.09%

Supplemental Response Dated June 2, 2017:

While researching additional information to a response to the CPAD’s Second Discovery Request in this proceeding, Tennessee American discovered that the information above is incorrect. The corrected response is:

In early 2017, Tennessee American reviewed its capitalization of its Annual Performance Plan (“APP”) and Long-Term Performance Plan (“LTPP”). On a going forward basis, Tennessee American will apply a capitalization rate to 50% of its APP expenditures for both Tennessee American employees and Tennessee American’s portion of Support Services employees’ APP equal to the capitalization of all labor expenses. Tennessee American will not capitalize any of its LTPP expenditures. These capitalized expenditures will be included in an overhead account and applied to all capital expenditures annually on a pro-rated basis.

As part of that review, Tennessee American determined that none of the expenditures for Tennessee American employee APP or LTPP had been capitalized from 2013 through 2016, while a portion of both APP and LTPP expenditures for Tennessee American’s portion of Service Company employees had been capitalized. Tennessee American recognizes that the expenditures for the LTPP were not authorized in Docket No. 2012-00049. However, 50% of the APP expenditures were authorized in that same Docket, with a capitalization equal to all authorized labor expenses. Tennessee American has focused more of its efforts on capital investment with the implementation of the Capital Recovery Riders, and therefore Tennessee American has capitalized more of its overall labor and labor related expenditures than included in TPUC Docket No. 2012-0049. Because of the increase in the overall capitalized labor amounts, Tennessee American does not believe an adjustment to prior year expenditures for capitalized APP and LTPPP expenditures is warranted. Please note that the amount of the capitalized performance plan expenditures are applied as overhead to all capital expenditures pro-rated by work order to the total capital expenditures on a routine basis. Tennessee American has not been able to determine the portion of overhead that is the capitalized performance plan amount applied to each of the additions in this reconciliation and does not believe that the detailed information can be determined.

Year	APP Expenditures	LTPP Expenditures	Total	Amount Capitalized	% Capitalized
2016	\$464,044	\$57,709	\$521,753	\$60,844	11.66%
2015	\$267,852	\$38,811	\$306,663	\$46,737	15.24%
2014	\$147,822	\$30,535	\$178,357	\$38,826	21.77%
2013	\$143,533	\$34,638	\$178,171	\$67,630	37.96%

While the amounts are higher than originally reported in May, Tennessee American has focused more of its efforts on capital investment, and therefore capitalized more labor and labor related expenditures. Tennessee American does not believe an adjustment to prior year expenditures is warranted.

STATE OF Kentucky)

COUNTY OF Fayette)

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Linda C. Bridwell, being by me first duly sworn deposed and said that:

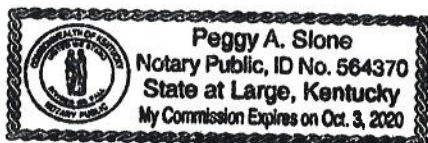
She is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, the data requests responses are accurate to the best of her knowledge.

Linda C. Bridwell
Linda C. Bridwell

Sworn to and subscribed before me
this 2nd day of June, 2017.

Peggy A. Slone
Notary Public

My Commission Expires: 10/3/2020



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:

Daniel Whitaker III, Esq.
Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Protection and Advocate Division
P.O. Box 20207
Nashville, TN 37202-0207

This the 2nd day of June, 2017.



Melvin J. Malone