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July 17, 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 Responses to Third 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

MJM:bh
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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**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE**

**PETITION OF TENNESSEE-
AMERICAN WATER COMPANY
REGARDING CHANGES TO THE
QUALIFIED INFRASTRUCTURE
INVESTMENT PROGRAM RIDER,
THE ECONOMIC DEVELOPMENT
INVESTMENT RIDER, AND THE
SAFETY AND ENVIRONMENTAL
COMPLIANCE RIDER AND IN
SUPPORT OF THE CALCULATION
OF THE 2017 CAPITAL RECOVERY
RIDERS RECONCILIATION**

DOCKET NO. 17-00020

**TENNESSEE-AMERICAN WATER COMPANY'S SUPPLEMENTAL RESPONSES
TO THIRD DISCOVERY REQUESTS OF
THE CONSUMER PROTECTION AND ADVOCATE DIVISION**

Tennessee-American Water Company ("TAWC"), by and through counsel, hereby submits its Supplemental Responses to the Third Discovery Requests propounded by the Consumer Protection and Advocate Division ("CPAD").

GENERAL OBJECTIONS

1. TAWC objects to all requests that seek information protected by the attorney-client privilege, the work-product doctrine and/or any other applicable privilege or restriction on disclosure.

2. TAWC objects to the definitions and instructions accompanying the requests to the extent the definitions and instructions contradict, are inconsistent with, or impose any obligations beyond those required by applicable provisions of the Tennessee Rules of Civil Procedure or the rules, regulations, or orders of the Tennessee Public Utility Commission ("TPUC" or "Authority").

3. The specific responses set forth below are based on information now available to TAWC, and TAWC reserves the right at any time to revise, correct, add to or clarify the objections or responses and supplement the information produced.

4. TAWC objects to each request to the extent that it is unreasonably cumulative or duplicative, or seeks information obtainable from some other source that is more convenient, less burdensome or less expensive.

5. TAWC objects to each request to the extent it seeks information outside TAWC's custody or control.

6. TAWC's decision, now or in the future, to provide information or documents notwithstanding the objectionable nature of any of the definitions or instructions, or the requests themselves, should not be construed as: (a) a stipulation that the material is relevant or admissible, (b) a waiver of TAWC's General Objections or the objections asserted in response to specific discovery requests, or (c) an agreement that requests for similar information will be treated in a similar manner.

7. TAWC objects to those requests that seek the identification of "any" or "all" documents or witnesses (or similar language) related to a particular subject matter on the grounds that they are overbroad and unduly burdensome, and exceed the scope of permissible discovery.

8. TAWC objects to those requests that constitute a "fishing expedition," seeking information that is not relevant or reasonably calculated to lead to the discovery of admissible evidence and is not limited to this matter.

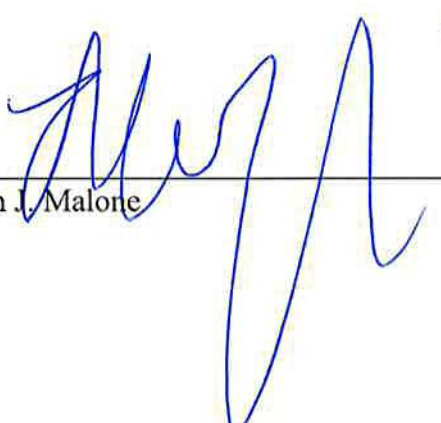
9. TAWC does not waive any previously submitted objections to the CPAD's supplemental discovery requests.

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 17th day of July, 2017.



Melvin J. Malone

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

Responsible Person: Linda C. Bridwell

Question:

3. Refer to the Company's response to CPAD 2-5 regarding support for the financials included in the calculation of the Earnings Test.
 - A. Provide the monthly copies of the supporting general ledger queries of the Balance Sheet, Income Statement; Trial Balance and Analysis of Income that were previously provided to the TPUC and CPAD to ensure all requested documentation is self-contained in this docket.
 - B. Also, provide supporting general ledger documentation from SAP for the monthly income statements and balance sheets (i.e. direct SAP ledger support, not summary queries).
 - C. Provide the source and support for the itemization of the Accumulated Deferred Income Taxes provided in the response to part B of CPAD 2-5.
 - D. Refer to the spreadsheet titled "12- TAW_TRA_2016_ Workpaper_Earnings Test" and specifically, to the "Workpaper Earnings Test" tab. Provide supporting calculations that tie to the amounts detailed on line 57 ("Taxes on CIAC-DEF. FIT & SIT").
 - E. Refer to the Company's response to CPAD 2-5D, part iv. Does the Company pay tax on funds it receives as CIAC? If so, provide the citation in the tax code where this tax is still required for water utilities. If not, explain why the Company is calculating deferred taxes on CIAC.

Response:

TAWC objects to this Request to the extent it purports to place obligations on TAWC that are broader than the scope contemplated by the Tennessee Rules of Civil Procedure and other applicable law. Subject to and without waiving the foregoing objection, TAWC states as follows

- A. While filing duplicates of information previously submitted to both the TPUC and the CPAD is contrary to both TPUC requirements and to the streamlined and

efficient review process contemplated under the alternative regulatory methods statute, in the spirit of cooperation TAWC has provided the requested files electronically.

- B. Please refer to the attachment, which is the transactional detail for the General Ledger for 2016 for TAWC. Due to the voluminous nature of providing this response, TAWC has provided the information only in electronic format.
- C. The source of the detailed information is the G/L of TAWC. Please refer to part A of the monthly report filings. Under the TRA Dec2016 Statements file, please refer to the tab labelled "Balance Sheet". Row 58 reflects the entire "Deferred Income Taxes" amount of \$45,757,761.68 that was provided in response to Part B of CPAD 2-5. In order to provide the breakdown, TAWC queried the G/L for the sub-account totals. Below is a screen shot of the information from the query.

AMERICAN WATER COMPARATIVE BALANCE SHEET HIERARCHY NON LEADING LEDGER

070 Company Code 1026
 1Data Column 1 Fiscal Year Period 012/2016
 1DATA COLUMN 1 ACT (0) OR PLAN (1) 0
 2Data Column 2 Fiscal Year Period 012/2015
 2DATA COLUMN 2 ACT (0) OR PLAN (1) 0
 G/L Hierarchy Standard GAAP (AW01)

		DEC 2016 in 1,000s A	DEC 2015 in 1,000s B	Variance in 1,000s	% Var
G/L Account		\$	\$	\$	%
Def FIT LiabNormProp	AWTR/25310000	-17,668.00	0.00	-17,668.00	0.00
Def FIT Liab-Other	AWTR/25311000	-38,935,585.74	-35,947,448.74	-2,988,137.00	-8.31
[-] Federal Deferred inc	AW0187	-38,953,253.74	-35,947,448.74	-3,005,805.00	-8.36
Def SIT Liab-Other	AWTR/25321000	-6,804,507.94	-6,610,264.94	-194,243.00	-2.94
[-] State Deferred incom	AW0188	-6,804,507.94	-6,610,264.94	-194,243.00	-2.94
[-] Deferred income tax	AW0161	-45,757,761.68	-42,557,713.68	-3,200,048.00	-7.52

- D. The calculation for CIAC-Def FIT at December 2016 consists of \$284,421 plus the difference between the December 2015 balance of \$165,312 and December 2016 \$112,623 or (\$52,689). This amount is then reduced by the State tax 6%. This is a reduction of (\$3,161) = (\$52,689 x 6%). The amount of (\$49,528), which is (\$52,689-\$3,161) is used for federal tax purposes. The amount is then multiplied by the federal tax rate of 35%. (\$49,528) x 35% = (17,335). This is then added to the total - \$284,421 + (\$17,335) = \$267,086.

The calculation for CIAC-Def SIT at December 2016 consists of \$51,886 plus the difference between the December 2015 balance of \$165,312 and December 2016 \$112,623 or (\$52,689) times the State tax 6% deduction of (\$3,161). (\$52,689 x 6%) = (\$49,528). This is then added to the total \$51,886 + (\$49,528) = \$2,358.

The \$284,421 (federal) and \$51,886 (state) are standard balances we use to for the calculation. This eliminates a cumbersome calculation every month. These balances are consistently used throughout the year.

- E. Tennessee American will supplement this answer as the information becomes available.

Supplemental Response Date July 17, 2017:

- E. Yes, the Company is required to pay tax on funds it receives as CIAC related to services. The Company calculates the deferred taxes on only that portion of taxable CIAC. Please refer to the attached copy of Internal Revenue Code 118.

Checkpoint Contents

Federal Library

Federal Source Materials

Code, Regulations, Committee Reports & Tax Treaties

Internal Revenue Code

Current Code

Subtitle A Income Taxes §§1-1564

Chapter 1 NORMAL TAXES AND SURTAXES §§1-1400T

Subchapter B Computation of Taxable Income §§61-291

Part III ITEMS SPECIFICALLY EXCLUDED FROM GROSS INCOME §§101-140

§118 Contributions to the capital of a corporation.

Internal Revenue Code

§ 118 Contributions to the capital of a corporation.

(a) General rule.

In the case of a corporation, gross income does not include any contribution to the capital of the taxpayer.

(b) Contributions in aid of construction, etc.

For purposes of subsection (a) , except as provided in subsection (c) , the term "contribution to the capital of the taxpayer" does not include any contribution in aid of construction or any other contribution as a customer or potential customer.

(c) Special rules for water and sewerage disposal utilities.

(1) General rule.

For purposes of this section , the term "contribution to the capital of the taxpayer" includes any amount of money or other property received from any person (whether or not a shareholder) by a regulated public utility which provides water or sewerage disposal services if—

(A) such amount is a contribution in aid of construction,

(B) in the case of contribution of property other than water or sewerage disposal facilities, such amount meets the requirements of the expenditure rule of paragraph (2) , and

(C) such amount (or any property acquired or constructed with such amount) is not included in the taxpayer's rate base for rate-making purposes.

(2) Expenditure rule.

An amount meets the requirements of this paragraph if—

(A) an amount equal to such amount is expended for the acquisition or construction of tangible property described in section 1231(b) —

(i) which is the property for which the contribution was made or is of the same type as such property, and

(ii) which is used predominantly in the trade or business of furnishing water or sewerage disposal services,

(B) the expenditure referred to in subparagraph (A) occurs before the end of the second taxable year after the year in which such amount was received, and

(C) accurate records are kept of the amounts contributed and expenditures made, the expenditures to which contributions are allocated, and the year in which the contributions and expenditures are received and made.

(3) Definitions.

For purposes of this subsection —

(A) Contribution in aid of construction. The term "contribution in aid of construction" shall be defined by regulations prescribed by the Secretary, except that such term shall not include amounts paid as service charges for starting or stopping services.

(B) Predominantly. The term "predominantly" means 80 percent or more.

(C) Regulated public utility. The term "regulated public utility" has the meaning given such term by section 7701(a)(33), except that such term shall not include any utility which is not required to provide water or sewerage disposal services to members of the general public in its service area.

(4) Disallowance of deductions and credits; adjusted basis.

Notwithstanding any other provision of this subtitle, no deduction or credit shall be allowed for, or by reason of, any expenditure which constitutes a contribution in aid of construction to which this subsection applies. The adjusted basis of any property acquired with contributions in aid of construction to which this subsection applies shall be zero.

(d) Statute of limitations.

If the taxpayer for any taxable year treats an amount as a contribution to the capital of the taxpayer described in subsection (c), then—

(1) the statutory period for the assessment of any deficiency attributable to any part of such amount shall not expire before the expiration of 3 years from the date the Secretary is notified by the taxpayer (in such manner as the Secretary may prescribe) of—

(A) the amount of the expenditure referred to in subparagraph (A) of subsection (c)(2),

(B) the taxpayer's intention not to make the expenditures referred to in such subparagraph, or

(C) a failure to make such expenditure within the period described in subparagraph (B) of subsection (c)(2) , and

(2) such deficiency may be assessed before the expiration of such 3-year period notwithstanding the provisions of any other law or rule of law which would otherwise prevent such assessment.

(e) Cross references.

(1) For basis of property acquired by a corporation through a contribution to its capital, see section 362 .

(2) For special rules in the case of contributions of indebtedness, see section 108(e)(6) .