

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

IN RE:

**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 2018 CAPITAL RECOVERY
RIDERS RECONCILIATION**

Docket No. 18-00022

DIRECT TESTIMONY

OF

DAVID DITTEMORE

July 6, 2018

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:

PETITION OF TENNESSEE AMERICAN
WATER COMPANY REGARDING
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AFFIDAVIT

I, David N. Dittemore, Financial Analyst, on behalf of the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Protection and Advocate Division.



David N. Dittemore
DAVID N. DITTEMORE

Sworn to and subscribed before me this 16th day of July, 2018.

Emily Knight
NOTARY PUBLIC

My commission expires: May 6, 2019

1 **Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION**
2 **FOR THE RECORD.**

3 **A1.** My name is David N. Dittmore. My business address is Office of the Tennessee
4 Attorney General, UBS Tower, 315 Deaderick Street, Nashville, TN 37243. I am a
5 Financial Analyst employed by the Consumer Protection and Advocate Division
6 within the Office of the Tennessee Attorney General (Consumer Advocate).

7 **Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND**
8 **PROFESSIONAL EXPERIENCE.**

9 **A2.** I received a Bachelor of Science Degree in Business Administration from the
10 University of Central Missouri in 1982. I am a Certified Public Accountant licensed
11 in the state of Oklahoma (#7562). I was previously employed by the Kansas
12 Corporation Commission (KCC) in various capacities, including Managing Auditor,
13 Chief Auditor, and Director of the Utilities Division. For approximately four years,
14 I was self-employed as a Utility Regulatory Consultant representing primarily the
15 KCC Staff in regulatory issues. I also participated in proceedings in Georgia and
16 Vermont, evaluating issues involving electricity and telecommunications regulatory
17 issues. Additionally, I performed a consulting engagement for Kansas Gas Service
18 (KGS), my subsequent employer, during this time frame. For eleven years, I served
19 as Manager and subsequently Director of Regulatory Affairs for KGS, the largest
20 natural gas utility in Kansas, serving approximately 625,000 customers. KGS is a
21 division of One Gas, a natural gas utility serving approximately two million
22 customers in Kansas, Oklahoma, and Texas. I joined the Office of the Tennessee
23 Attorney General in September 2017 as a Financial Analyst. In total, I have over
24 thirty years of experience in the field of public utility regulation. I have presented
25 testimony as an expert witness on numerous occasions. My curriculum vita is
26 attached as Exhibit DND-1 and provides a detailed professional background.

1 **Q3. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE**
2 **TENNESSEE PUBLIC UTILITY COMMISSION (TPUC)?**

3 A3. Yes. I have submitted testimony in TPUC Docket Nos. 17-00014, 17-00020, 17-
4 00108, 17-00138, 17-00143, and 18-00017.

5 **Q4. ON WHOSE BEHALF ARE YOU TESTIFYING?**

6 A4. I am testifying on behalf of the Consumer Protection and Advocate Division within
7 the Tennessee Attorney General's Office (Consumer Advocate).

8 **Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 A5. The purpose of my testimony is to provide a recommendation concerning the request
10 of Tennessee American Water Company (TAWC or the Company) to increase its
11 Qualified Infrastructure Investment Program Rider, its Economic Development
12 Investment Rider, and its Safety and Environmental Compliance Rider (collectively
13 referred to as the Capital Riders).¹ In its Petition, the Company requests an increase
14 to the Capital Riders of \$837,231, which translates to a surcharge increase totaling
15 2.372%.²

16 **Q6. PLEASE SUMMARIZE YOUR FINDINGS IN THIS DOCKET.**

17 A6. After my review of the Company's Petition, supporting workpapers, and discovery
18 in this Docket, as well as the prior Capital Riders dockets, I identified two issues in
19 the Company's Capital Riders Reconciliation for the 2017 calendar year and am
20 proposing adjustments in the following areas: 1) the calculation of Accumulated
21 Deferred Income Taxes, and 2) the results of the Earnings Test.

¹ For the purpose of testimony, there is no need to distinguish between the individual riders.

² The Company includes this reference in the original filing, in which TAWC reduced its request by nearly \$186k. However, in response to Consumer Advocate Request 4-1, TAWC has indicated it has corrected the initial earnings test analysis and they did not over-earn in 2017. TAWC has not modified its original filing.

1 **Q7. CAN YOU SUMMARIZE YOUR PROPOSALS RELATED TO THE**
2 **BALANCE OF ACCUMULATED DEFERRED INCOME TAXES WITHIN**
3 **THE CAPITAL RIDERS CALCULATION?**

4 A7. TAWC has greatly understated the balance of Accumulated Deferred Income Taxes
5 (ADIT) associated with its Capital Riders investment, resulting in an overstated Rate
6 Base and producing an excessive revenue requirement. The error results from
7 TAWC's failure to rely upon the actual methodologies used within its tax return in
8 computing tax depreciation and instead utilizing a hypothetical calculation that
9 understates the tax benefits resulting from its Capital Riders investment. This
10 inconsistency works to the detriment of TAWC ratepayers and results in excessive
11 Capital Riders recoveries for TAWC shareholders.

12 This issue can be viewed on both a micro and a macro level. On a micro level, I
13 will discuss the impact this issue has on the specific ADIT balance that should be
14 incorporated into the Capital Riders, including how TAWC has been inconsistent in
15 how it has defined tax depreciation in its tax return compared with this Capital
16 Riders request. Later in my testimony, I will explain how this miscalculation of
17 ADIT associated with the Capital Riders has led to excessive rates on a macro level.
18 I will compare TAWC's current Rate Base with the sum of its Rate Base approved
19 by TPUC in the last rate case and the TAWC-proposed Capital Riders Rate Base.
20 There is a significant difference between the two amounts, clearly illustrating that
21 TAWC is seeking to recover excessive levels of Rate Base through its Capital
22 Riders.

23 **Q8. NOW PROVIDE A BRIEF OVERVIEW OF THE ADJUSTMENT YOU ARE**
24 **MAKING TO THE EARNINGS TEST CALCULATION.**

25 A8. I have modified the TAWC Earnings Test calculation to reflect the TPUC
26 methodology for recognition of Incentive Compensation in accordance with the last
27 TAWC rate case. TAWC has modified its results for certain TPUC-approved

methodologies, but they did not adjust their financial results to reflect incentive compensation.

Q9. WHAT IS YOUR RECOMMENDATION REGARDING THE NECESSARY TAWC CAPITAL RIDERS RECONCILIATION?

A9. Exhibit DND-2 contains the summary calculations supporting my recommendation in this Docket. The reconciliation amount I am sponsoring results in a reduction of \$167,330 rather than TAWC's requested increase of \$837,231, representing a difference of \$1,004,561. The correct reconciliation percentage resulting from this adjustment totals -.474% for the three Capital Riders, compared with the requested 2.372%.

I. ADIT ISSUE

Q10. PLEASE TURN TO THE ADIT ISSUE AND EXPLAIN THE NATURE OF YOUR MODIFICATION TO THE ADIT BALANCE.

A10. I have adjusted the ADIT balance to properly reflect the fact that TAWC has taken Bonus Depreciation and the Repair Allowance deduction on their tax returns. This adjustment is necessary to match the tax depreciation methodology in the TAWC return with that used in the TAWC Capital Riders calculation. I have applied the same tax depreciation methodology used in their tax return to the calculation of tax depreciation associated with Capital Riders investment.

Q11. WHAT IS THE RESULTING ADIT BALANCE YOU ARE SUPPORTING COMPARED WITH THE TAWC ADIT BALANCE?

A11. As illustrated in Exhibit DND-3, the corrected ADIT balance is \$8,931,682. The underlying data used within this calculation was provided by TAWC in its response to Consumer Advocate Request 1-3.³ The Consumer Advocate's supported balance

³ A Net Operating Loss (NOL) is a tax asset that results when a company has negative taxable income. TAWC argues that an NOL must be recognized exclusive of Capital Rider activity, which would offset this balance in its response to Consumer Advocate Request 1-3 (Amended).

1 of \$8,931,682 compares with an ADIT balance of \$616,849 contained in TAWC's
2 filing.

3 **Q12. WHAT IS ADIT AND WHY IS IT RELEVANT TO THIS PROCEEDING?**

4 A12. ADIT reflects the difference between accrued taxes (provided by TAWC ratepayers)
5 and taxes paid, with the resulting balance reflecting cost-free capital that may be
6 used by TAWC to finance infrastructure. ADIT is an offset to Rate Base within the
7 ratemaking calculation. Unlike a base rate case where the entire ADIT balance is
8 identified for purposes of setting rates, the ADIT balance in a Capital Riders case
9 must reflect that portion of the total ADIT attributed to the capital investment.

10 **Q13. PROVIDE BACKGROUND INFORMATION ON THE NATURE OF TAX**
11 **DEPRECIATION THAT TAWC CLAIMS ON ITS TAX RETURN.**

12 A13. The response to Consumer Advocate Discovery Request 1-3 indicates (as expected)
13 that TAWC utilizes Bonus Depreciation as well as the Repair Allowance deductions
14 in submitting its annual federal income tax return. This is logical as both deductions
15 are significant and drive down the amount of taxable income and hence federal taxes
16 payable, improving the cash flow of TAWC. Utilities, like all businesses, have the
17 incentive to maximize their legitimate tax deductions, and the reliance on Bonus
18 Depreciation and the Repair Allowance are two significant deductions that have
19 historically been available to utilities. The Bonus Depreciation deduction has been
20 in effect for a number of years, including the entire period under review within the
21 Capital Riders reconciliation. Bonus Depreciation permits a fifty percent deduction
22 of the costs of capital expenditures in the year the expenditure is incurred, thereby
23 providing a significant tax benefit for corporate taxpayers. The Repair Allowance is
24 available for certain qualifying expenditures that permits a deduction equal to one-
25 hundred percent of the cost of the asset.

26 **Q14. EXPLAIN THE TYPE OF TAX DEPRECIATION TAWC HAS**
27 **REFLECTED WITHIN ITS CAPITAL RIDERS RECONCILIATION.**

1 A14. In its reconciliation filing, TAWC has reflected tax depreciation rates within its
2 Capital Riders calculation as if Bonus Depreciation and the Repair Allowance were
3 not available. Within the Capital Riders calculation, TAWC has ignored the fact that
4 it has claimed both Bonus Depreciation and the Repair Allowance deductions for
5 tax purposes.⁴ However, for purposes of the Capital Riders TAWC applies a
6 hypothetical methodology ignoring these deductions which results in excessive
7 Capital Riders rates for TAWC ratepayers.

8 **Q15. IS THERE ANY JUSTIFICATION FOR USING A TAX DEPRECIATION**
9 **CALCULATION FOR PURPOSES OF COMPUTING THE CAPITAL**
10 **RIDERS THAT DIFFERS FROM THAT USED WITHIN ITS TAX**
11 **RETURN?**

12 A15. No, there is not.

13 **Q16. IS THE METHOD YOU ARE PROPOSING CONSISTENT WITH THE**
14 **CAPITAL RIDERS TARIFF?**

15 A16. Yes. And not only is my proposal in line with the tariff, it is the appropriate way to
16 treat this methodology pursuant to standard ratemaking principles.

17 **Q17. DO YOU BELIEVE THAT THE FACT THAT TAWC HAS IGNORED**
18 **BONUS DEPRECIATION AND THE REPAIR ALLOWANCE IN**
19 **CALCULATING ITS ADIT IN PAST RECONCILIATION CASES**
20 **REQUIRES CONTINUED ADOPTION OF THIS HISTORIC METHOD IN**
21 **THIS DOCKET?**

22 A17. No. The method used historically by TAWC to estimate its ADIT balance has
23 resulted in an excessive Capital Riders Rate Base. TPUC should reject any
24 suggestions that this historic method should continue to be used simply because this
25 is the way TAWC has defined tax depreciation in the past. My proposal accurately

⁴ See TAWC Response to Consumer Advocate Request 1-16, TPUC Docket No. 17-00124 (December 28, 2017);
TAWC Attachment to Consumer Advocate Request 1-3, TPUC Docket No. 18-00022 (April 27, 2018).

1 reflects the ADIT balance generated by the Capital Riders expenditures and thus
2 provides an appropriate match between the level of investment and ADIT.

3 **Q18. DO YOU BELIEVE THE METHOD USED BY TAWC TO CALCULATE ITS**
4 **CAPITAL RIDERS ADIT IS CONSISTENT WITH THE PROVISIONS OF**
5 **THE TARIFF?**

6 A18. No, I do not. I believe the tariff requires an accurate measurement of Capital Riders
7 ADIT, especially considering that this is a reconciliation docket.⁵ The method used
8 by TAWC does not achieve that objective and therefore is not consistent with the
9 provisions of the tariff.

10 **Q19. DO YOU HAVE ANY COMMENTS CONCERNING THE STATEMENT**
11 **CONTAINED IN MS. BRIDWELL'S TESTIMONY⁶ THAT ACCOUNTING**
12 **DATA CONTAINED IN THIS FILING IS REFLECTED IN THE GENERAL**
13 **LEDGER OR MAY BE RECONCILED WITH TAWC'S GENERAL**
14 **LEDGER?**

15 A19. This statement is not accurate as it relates to the TAWC calculation of ADIT
16 associated with the Capital Riders. TAWC does not maintain a specific general
17 ledger account that identifies its ADIT or its accumulated depreciation reserve as
18 they relate to the Capital Riders.

19 **Q20. WHAT WAS TAWC'S RESPONSE WHEN THE CONSUMER ADVOCATE**
20 **RAISED ITS CONCERN WITH THE USE OF A HYPOTHETICAL TAX**
21 **CALCULATION WITHIN THE CAPITAL RIDERS BUDGET FILING?**

⁵ The calculation of each of the Capital Riders includes a requirement to reflect a reduction to Rate Base for ADIT. See e.g., Petitioner's Exhibit – Current Tariff Sheet No. 12 – Capital Riders – LCB, page 6 of 31.

⁶ Bridwell Pre-filed Direct Testimony, p. 5, lines 12 – 14, TPUC Docket No. 18-00022, (March 2, 2018).

1 A20. Ms. Bridwell indicated that TAWC has been incurring an NOL⁷ since 2008 and
2 asserted that my approach is retroactive in her rebuttal testimony in Docket No. 17-
3 00124.⁸

4 **Q21. DO YOU AGREE WITH THE IMPLICATION OF EITHER OF THESE**
5 **POINTS?**

6 A21. Absolutely not. As I will discuss later in my testimony, there was no incremental
7 NOL generated during the reconciliation period.⁹ Therefore, to attribute NOL to
8 this reconciliation calculation when no NOL was generated is simply inaccurate.
9 Further, the fact that TAWC had incurred an NOL prior to the reconciliation is not
10 relevant to consider the appropriate level of tax depreciation that should be
11 incorporated into this Capital Riders reconciliation filing.

12 Secondly the use of the term “retroactive” suggests that my recommendation is an
13 example of retroactive ratemaking. This implication is also incorrect. My
14 adjustment simply incorporates an updated balance of ADIT, as TAWC has done in
15 updating its balance of Accumulated Depreciation through the end of December 31,
16 2017. My proposal updates ADIT to an accurate balance for December 31, 2017.

17 **Q22. WHAT IS THE PRACTICAL EFFECT OF TAWC’S USE OF**
18 **HYPOTHETICAL TAX DEPRECIATION IN THE COMPUTATION OF**
19 **ITS CAPITAL RIDERS REVENUE REQUIREMENT?**

20 A22. The practical effect of TAWC’s calculation, which does not reflect Bonus
21 Depreciation and the Repair Allowance, results in an overstated Rate Base. The
22 ADIT balance reflected in this filing understates the zero-cost financing provided
23 by ratepayers.

⁷ This negative taxable income has value as an NOL may be attributed to other tax periods to reduce the utilities’ tax obligations.

⁸ See Bridwell Pre-Filed Rebuttal Testimony, p. 11, TPUC Docket No. 17-00124, (March 1, 2018).

⁹ See TAWC Response to Consumer Advocate Discovery Request 3-17 (June 1, 2018).

1 **Q23. WHAT IS TAWC'S POSITION WITH RESPECT TO MATCHING THE**
2 **TAX DEPRECIATION TAKEN WITHIN ITS TAX RETURN TO THAT**
3 **CONTAINED IN THE CALCULATION OF ADIT WITHIN THE CAPITAL**
4 **RIDERS CALCULATION?**

5 A23. TAWC's response to Consumer Advocate Request 3-10 argues against matching the
6 tax depreciation methodology used in its tax filing with that used in the Capital
7 Riders. I will summarize¹⁰ their points as follows:

8 1. The MACRS¹¹ approach is simpler, and therefore provides stability in
9 determining the ADIT balance, and Bonus Depreciation is no longer permitted
10 for projects begun after September 27, 2017.

11 2. The Capital Riders have a provision for an Earnings Test Adjustment,
12 and such a mechanism will make ratepayers whole by assuring shareholders will
13 not earn excessive returns.

14 3. TAWC seems to imply that a hypothetical NOL calculation should be
15 considered based upon results exclusive to the Capital Riders during this period
16 that would offset the impact of Bonus Depreciation and the Repair Allowance.

17 4. TAWC points to 'two of many' Private Letter Rulings which the
18 Company claims support its position that an NOL should be incorporated into
19 the ADIT calculation.

20 **Q24. DO YOU AGREE WITH ANY OF THESE POINTS?**

21 A24. No. Each of these points contains flaws and does not justify the continued use of
22 TAWC's hypothetical tax depreciation methodology.

¹⁰ This listing represents my summary of TAWC's response to Consumer Advocate Request No. 3-10

¹¹ The Modified Accelerated Cost Recovery System (MACRS) is an IRS adopted system for determining tax depreciation that has historically been used in conjunction with such other deductions such as Bonus Depreciation and the Repair Allowance. Under MACRS assets are depreciated over lives specified by the IRS using either the straight line or declining balance method.

1 **Q25. WHY DO YOU DISAGREE WITH THE TAWC'S FIRST POINT IN WHICH**
2 **TAWC ARGUES THAT TPUC SHOULD CONTINUE WITH A SIMPLER**
3 **APPROACH AND THAT BONUS DEPRECIATION HAS BEEN**
4 **UNPREDICTABLE OVER THE YEARS?**

5 A25. First, I disagree with the implication by TAWC that whether to incorporate Bonus
6 Depreciation and the Repair Allowance within the Capital Riders calculation is a
7 case of the MACRS approach versus the Bonus Depreciation method. In reality,
8 Bonus Depreciation is more in line with a deduction rather than a tax method and
9 permits a fifty-percent write-off for the cost of an asset. The Bonus Depreciation
10 deduction is used in conjunction with the MACRS approach, not in lieu of the
11 MACRS approach. The MACRS method is actually more complex than the simple
12 calculation of Bonus Depreciation, as the applicable tax rate for each vintage asset
13 changes annually. Further, TAWC did not provide any justification in its response
14 for ignoring the Repair Allowance deduction for purposes of calculating ADIT. The
15 Repair Allowance deduction permits a one-hundred percent write-off of qualifying
16 assets in the year the asset is installed.

17 I generally agree with TAWC that if TAWC had generated an NOL during this
18 period, it would add a small layer of complexity to the process. However, this is a
19 moot point since it has not incurred a cumulative NOL over the course of this
20 reconciliation period. More importantly, given the magnitude of the Bonus
21 Depreciation and Repair Allowance impact on the revenue requirement, any
22 additional complexity in determining the appropriate amount of ADIT is justified.

23 **Q26. IS YOUR RECOMMENDATION TO MODIFY THE TAWC ADIT**
24 **BALANCE WITHIN THE CAPITAL RIDERS REVENUE REQUIREMENT**
25 **AN EXAMPLE OF RETROACTIVE RATEMAKING?**

26 A26. No, not at all. My recommendation relates to the reconciliation of 2017 results as
27 provided for within the TAWC Capital Riders tariff. I am not proposing to go back
28 and change the 2015 and 2016 reconciliations based upon this corrected ADIT

1 calculation. Although such ADIT amounts were understated in those
2 reconciliations, my recommendation impacts the 2017 reconciliation calculation as
3 well as the methodology that should be used in future Capital Riders calculations.

4 My adjustment reflects the 2017 balance of ADIT associated with the prior years'
5 investment, just as TAWC updates the Accumulated Depreciation reserve
6 associated with the prior years' investment. This updating process is required
7 according to the tariff. Also, TAWC updates its ADIT balances for prior period
8 investments; in this case, however, TAWC does so using an improper hypothetical
9 approach. Therefore, both TAWC's calculations and my calculations incorporate
10 Capital Riders balance updates from prior periods. There is nothing more
11 "retroactive" about my approach than that of the Company's own proposal.

12 **Q27. TURN TO THE SECOND POINT MADE BY TAWC IN RESPONSE TO**
13 **CPAD REQUEST 3-10 THAT THE EARNINGS TEST ENSURES TAWC**
14 **DOES NOT EARN ABOVE ITS AUTHORIZED RETURN ON EQUITY. DO**
15 **YOU AGREE WITH THE IMPLICATION THAT TPUC SHOULD NOT BE**
16 **CONCERNED WITH THE ACCURACY OF TAX DEDUCTIONS SINCE**
17 **ANY OVER-EARNINGS WOULD BE RETURNED BY RATEPAYERS**
18 **THROUGH THE EARNINGS TEST MECHANISM?**

19 A27. No. I have examined the Company's statement, and I disagree with its approach
20 from both a policy perspective as well as from a quantitative perspective. The
21 implication from TAWC's position is that parties to this proceeding should not be
22 concerned with the accuracy of the reconciliation details since there is an earnings
23 test calculation. I believe that position is fundamentally flawed and in order for rates
24 to be just and reasonable, the methodology used to establish the rates must be sound.

25 Secondly, in terms of quantifying the earnings shortfall, it is counterintuitive for
26 TAWC to request a positive reconciliation amount associated with 2017 operations
27 on one hand, and at the same time to also reflect an approximately \$186,000 earnings

1 excess for the same period through the Earnings Test.¹² In other words, even within
2 TAWC's own filing, the Company acknowledges that it earned more than the
3 authorized return for 2017.¹³ This fact alone suggests that TAWC is not entitled to
4 an increase in its current Capital Riders reconciliation, as the Company is already in
5 an excess-earning position.¹⁴

6 **Q28. PLEASE ADDRESS THE THIRD ISSUE RAISED BY TAWC THAT AN**
7 **NOL ASSOCIATED WITH THE CAPITAL RIDERS SHOULD BE**
8 **CALCULATED OVER THE FOUR-YEAR PERIOD THE CAPITAL**
9 **RIDERS HAVE BEEN IN EFFECT.**

10 A28. In response to Consumer Advocate Request 3-10, TAWC amended its earlier
11 response to Consumer Advocate Request 1-3 in which the Company calculated a
12 hypothetical NOL balance associated with its Capital Riders. Under the
13 hypothetical NOL approach, TAWC has implied that its ADIT balance for Capital
14 Riders purposes is understated by \$903,747 for a reduction in the Capital Riders
15 reconciliation of \$62,242 compared with the Company's filed position.

16 **Q29. DO YOU AGREE WITH THIS CALCULATION?**

17 A29. No. TAWC has calculated the amount of NOL it would realize in isolation of all
18 other factors, or in other words, if the Company's entire commercial operations were
19 limited to what was reflected in the Capital Riders. Importantly, over this four-year
20 period, TAWC did not generate an NOL. Therefore, it is inappropriate to calculate
21 a hypothetical NOL where none exists. The table below identifies the taxable
22 income by year during the reconciliation period. As shown, TAWC had a net

¹² See Bridwell Pre-filed Direct Testimony, p. 30, TPUC Docket No. 18-00022 (March 2, 2018).

¹³ Such excess returns are net of items such as incentive compensation that are traditionally removed when computing the revenue requirement. Removal of incentive compensation costs would increase the excess earnings (as discussed later in my testimony).

¹⁴ In its response to Consumer Advocate Request 4-1, TAWC has modified its Earnings Test Calculation and now indicates that it has in fact not over-earned in 2017, and that its earned return is virtually identical to its authorized return. However, TAWC has not modified its overall request. The Company's sudden change to eliminate the return to ratepayers does not change my position. TAWC earned its authorized return, and therefore it is illogical to suggest the Company needs a significant increase in the reconciliation relating to 2017 results.

positive income during this period.¹⁵ This is an example of TAWC ignoring its actual tax return data when calculating its Capital Riders revenue requirement.

The Company has indicated this information is confidential.

Table 1	
TAWC Taxable Income	
For the Year Ending	TAWC Taxable Income
2014	\$ [REDACTED] A/
2015	[REDACTED] B/
2016	[REDACTED] C/
2017	[REDACTED] D/
Net	\$ [REDACTED]
A/ Confidential Attachment to Response to CPAD DR 3-16	
B/ Confidential Attachment 1 to Response to CPAD DR 1-2	
C/ Confidential Attachment 2 to Response to CPAD DR 1-2	
D/ Attachment TAW_R_CPADDR1_NUM002_042718 to Response to CPAD DR 1-2	

Q30. PLEASE ADDRESS TAWC'S FOURTH POINT THAT TWO OF THE SUPPLIED PRIVATE LETTER RULINGS REQUIRE THE RECOGNITION OF AN NOL ASSOCIATED WITH THE CAPITAL RIDERS.

A30. Neither of the supplied Private Letter Rulings (PLR) is relevant to the issue identified in this case. The first PLR relates to an electric utility case where the company incurred some post-test-period reliability investment and the issue was whether the ADIT liability should be increased with respect to this investment. The issue in that PLR involved a forecasting situation, whereas the current situation involves a review of historic data and a reconciliation. Further, nothing in those PLRs requires the development and inclusion of an NOL in the revenue requirement where none exists.

The second PLR involves another electric utility which had an NOL asset in both of the two years in question. As I discussed earlier in my testimony, TAWC has a

¹⁵ The positive taxable income would be net of Bonus Depreciation and the Repair Allowance.

1 positive taxable income over the four-year period, and therefore the Company's
2 PLR example is factually distinguishable from the current TAWC situation and does
3 not provide meaningful precedent.

4 **Q31. EARLIER IN YOUR TESTIMONY YOU INDICATED THAT YOU WOULD**
5 **ALSO ADDRESS THE ISSUE OF THE TAWC REQUEST ON A MACRO**
6 **LEVEL. PLEASE PROVIDE AN OVERVIEW OF YOUR CONCERNS.**

7 A31. Based upon my concerns with the understated ADIT balances described above, I
8 believe it is important to compare the approved Rate Base data from the last rate
9 case along with the proposed Capital Riders Rate Base and to compare this total
10 with the actual TAWC Rate Base as of December 31, 2017.

11 **Q32. WHAT IS THE SIGNIFICANCE OF THE TOTAL APPROVED RATE**
12 **BASE?**

13 A32. The sum of the Rate Base in the last general rate case in addition to the Rate Base
14 requested by the Company in this Docket represents the total Rate Base upon which
15 TAWC ratepayers are compensating the Company. The total of these two items
16 may be referred to as the "Compensated Rate Base."

17 **Q33. WHY IS IT RELEVANT TO COMPARE THE COMPENSATED RATE**
18 **BASE WITH TAWC'S ACTUAL RATE BASE?**

19 A33. In light of the artificial ADIT amount included by TAWC in the Capital Riders
20 filing, I contemplated a high-level reasonableness check of the Rate Base levels
21 incurred by ratepayers compared with actual Rate Base funded by TAWC. This
22 comparison provides an indication of the reasonableness of the two TAWC revenue
23 streams in light of the Company's actual investment in utility service.

24 **Q34. WHAT IS THE SOURCE OF THE TAWC ACTUAL RATE BASE?**

25 A34. The source of the initial TAWC Actual Rate Base is balances taken directly from
26 TAWC workpapers supplied in this case and, specifically, the Earnings Test

1 Analysis. The TAWC Actual Rate Base was subsequently amended in the response
2 to Consumer Advocate Request 4-1, provided June 28, 2018.

3 **Q35. HAVE YOU HAD AN OPPORTUNITY TO CONFIRM THE ACCURACY**
4 **OF THE REVISED INFORMATION?**

5 A35. No. I have not had an opportunity to confirm the calculation.¹⁶ In the interest of
6 meeting the pre-filed intervenor filing deadline set out in the procedural schedule, I
7 will not dispute the revised data within this pre-filed direct testimony. However, I
8 would like to reserve the right to file supplemental testimony based on a more
9 thorough review of this data.

10 **Q36. WHAT DOES YOUR ANALYSIS COMPARING TAWC'S ACTUAL RATE**
11 **BASE WITH ITS REQUESTED CAPITAL RIDERS RATE BASE**
12 **INDICATE?**

13 A36. The sum of the Rate Base underlying base rates and the proposed Capital Riders
14 surcharges are significantly higher than the actual TAWC Rate Base, as
15 demonstrated in Exhibit DND-4. As illustrated on line 5 of the Exhibit, TAWC
16 proposed a Capital Riders Rate Base coupled with Rate Base embedded in base rates
17 that is \$18.9 million greater than TAWC's actual Rate Base.

18 I determined that TAWC's regulated revenue stream is predicated on a level of
19 investment that is greatly overstated. If the TAWC reconciliation calculation is
20 adopted as filed, it will produce unjust and unreasonable rates for TAWC ratepayers
21 since it reflects a level of TAWC investment that simply does not exist. The \$18.9
22 million disparity between actual rate base and compensated rate base highlights a
23 substantial problem with the mechanics of the Capital Riders calculation.

¹⁶ The Consumer Advocate issued this request on June 8, 2018. The Company responded to the request on June 29, 2018.

1 **Q37. IS THE RESULT OF YOUR ANALYSIS RELATED TO THE DISCUSSION**
2 **IN YOUR TESTIMONY WHERE YOU FOUND THAT THE ADIT**
3 **COMPONENT OF THE CAPITAL RIDERS WAS UNDERSTATED?**

4 A37. Yes. As shown in line 3 of Exhibit DND-4, the actual ADIT is over \$15.2 million
5 greater than the ADIT contained in the two dockets.¹⁷ In other words, the vast
6 majority of the \$18.9 million overstated rate base arises from the ADIT component.
7 This is consistent with my earlier testimony in which I explained how the Capital
8 Riders ADIT balance was significantly understated. This simple comparison also
9 refutes TAWC's claim that an NOL should be calculated in isolation based upon
10 Capital Riders results.

11 **Q38. HOW DOES YOUR ADJUSTMENT TO INCREASE THE ADIT OFFSET**
12 **TO THE CAPITAL RIDERS RATE BASE RECONCILE TO THE GROWTH**
13 **IN TAWC'S OVERALL ADIT BALANCE SINCE ITS LAST RATE CASE?**

14 A38. My adjustment increases the ADIT offset by approximately \$8.2 million compared
15 with that reflected in TAWC's proposal. This \$8.2 million increase compares with
16 a total book balance increase of approximately \$15.25 million since TAWC's last
17 rate case. In other words, even with my adjustment there is an approximate growth
18 in ADIT of \$7 million that is not attributed to the Capital Riders expenditures.

19 **Q39. DO YOU HAVE OTHER INFORMATION THAT DEMONSTRATES HOW**
20 **TAWC'S CLAIMED ADIT ASSOCIATED WITH ITS CAPITAL RIDERS**
21 **INVESTMENT IS UNDERSTATED?**

22 A39. Yes. Another way to examine the reasonableness of the TAWC Capital Riders
23 ADIT balance is to compare it to the overall TAWC ADIT balance as a percentage
24 of gross investment. The majority of ADIT is plant-related.¹⁸

¹⁷ Comparing TPUC Docket No. 12-00049, the last rate case, and the current matter, Docket No. 18-00022.

¹⁸ TAWC cannot identify the portion of its total ADIT that is plant-related for purposes of quantifying excess protected/unprotected ADIT. See Pre-filed Direct Testimony of John R. Wilde, p. 7, TPUC Docket No. 18-00039 (April 2, 2018).

Table 2		
Comparison of TAWC Claimed ADIT vs Actual as a % of Plant		
	Per Capital Rider A\	Total @ 12/31/17\B
ADIT	\$ 616,849	\$ 42,904,951
Gross Plant	\$ 50,561,748	\$ 303,408,084
Ratio ADIT to Plant	1.22%	14.14%
A\ TAWC Summary Reconciliation		
B\ TAWC Earnings Test as amended in response to Consumer Advocate Request 1-4		

Table 2 above compares the ADIT balance claimed by TAWC in the Capital Riders Reconciliation (\$616,849) compared to the gross plant in the riders (\$50,561,748), resulting in a ratio of ADIT to gross investment of 1.22%. This figure compares with a total TAWC actual ADIT balance as of December 31, 2017, of \$42,904,951 compared with total Gross Plant of \$303,408,084, resulting in a ratio of ADIT to gross investment of 14.14%.

Q40. WHAT DOES THIS COMPARISON SUGGEST?

A40. This comparison is another indication that the artificial ADIT balance within the Capital Riders calculation is not reasonable. TAWC suggests that TPUC should adopt an ADIT balance for purposes of the Capital Riders that represents an offset of 1.22% of its Capital Riders gross plant. However, the actual ratio of ADIT to total Gross Plant is 14.14% as of December 31, 2017. I would not expect the two ratios to be identical; however, there is no rational explanation why the ratio of total ADIT to Gross Plant would be approximately ten times greater than the ratio of Capital Riders ADIT to Capital Riders investment. This is another indication that the artificial estimate of TAWC's ADIT is not accurate.

1 **Q41. DO YOU HAVE AN ANALYSIS THAT SUGGESTS THE GROWTH IN**
2 **ADIT SINCE THE LAST RATE CASE IS LARGELY ATTRIBUTED TO**
3 **THE CAPITAL RIDERS CAPITAL EXPENDITURES?**

4 A41. Yes. Consumer Advocate Request 3-2 sought to compare the TAWC Capital
5 Riders-qualifying capital expenditures to total capital expenditures. This
6 comparison would provide a high-level overview of the significance of Capital
7 Riders capital expenditures to TAWC. The analysis is shown below:

Table 3					
Percentage of Capital Rider Capital Expenditures					
to total TAWC Expenditures					
Source: Consumer Advocate Request 3-2					
	2014	2015	2016	2017	Total
Non Rider Capital Expenditures	\$ 2,729,991	\$ 3,908,214	\$ 3,190,824	\$ 4,392,495	\$ 14,221,524
Rider Expenditures	16,869,725	17,987,560	12,940,386	13,318,829	61,116,500
Total Capital Expenditures	\$ 19,599,716	\$ 21,895,774	\$ 16,131,210	\$ 17,711,324	\$ 75,338,024
Percent of Non-Rider to Total	13.93%	17.85%	19.78%	24.80%	18.88%
Percent of Rider to Total	86.07%	82.15%	80.22%	75.20%	81.12%

8
9 **Q42. WHAT CONCLUSION MAY BE DRAWN FROM THE INFORMATION**
10 **ABOVE?**

11 A42. It is clear from Table 3 that non-Capital Riders expenditures have not been the
12 driving force behind the growth in ADIT from the last TAWC rate case. As shown
13 on Exhibit DND-4, the actual balance of ADIT has grown on the books of TAWC
14 by approximately \$15.25 million since its last rate case. The primary driver in the
15 ADIT balance is tax depreciation (and the repair allowance) compared with book
16 depreciation. It is clear from the analysis above that Capital Riders investment
17 would have a much more significant impact on the balance of ADIT than that of
18 non-Capital Riders expenditures. This analysis further reinforces the conclusion
19 that the small growth in Capital Riders ADIT according to TAWC is not accurate.

Q43. SHOULD TPUC ADOPT THE TAWC METHOD FOR DETERMINING TAX DEPRECIATION WITHIN THE CAPITAL RIDERS CALCULATION SINCE IT HAS BEEN ACCEPTED IN THE PAST?

A43. No. Based on the information and analysis above, it is clear that ignoring Bonus Depreciation and the Repair Allowance within the determination of the ADIT balances does not produce reasonable results. In fact, TAWC's analysis provides a return on a hypothetical Rate Base that exceeds the actual Rate Base by \$18.9 million, a fact acknowledged by the Company.¹⁹

II. EARNINGS TEST ISSUE

Q44. HAVE YOU EXAMINED THE EARNINGS TESTS RESULTS OF TAWC?

A44. Yes.

Q45. WHAT ARE THE RESULTS OF TAWC'S VERSION OF THE EARNINGS TEST?

A45. In the original filing, TAWC reported over-earnings of \$185,720. In response to Consumer Advocate Request 4-1, TAWC modified its analysis to reflect an under-earning of \$294,720. As mentioned above, I am not taking a position on the modifications made by TAWC in this pre-filed direct testimony. I believe this issue should be researched further. As a result, I reserve the right to address this issue in Supplemental Testimony.

Q46. DO YOU AGREE WITH TAWC'S EARNINGS TEST CALCULATION?

A46. No. TAWC has relied on certain aspects of the prior Stipulation and Agreement (Agreement) in its last rate case, TPUC Docket No. 12-00049, but in doing so has ignored the portion of the Agreement that eliminates incentive compensation costs from the TPUC-approved revenue requirement.

¹⁹ See TAWC Response to Consumer Advocate Request 4-2 (June 29, 2018).

1 **Q47. PLEASE IDENTIFY THE INCONCISTENCY WITHIN THE TAWC**
2 **EARNINGS TEST CALCULATION.**

3 A47. TAWC has made modifications to its book financial results in accordance with terms
4 of the Agreement, specifically in its determination of various rate base
5 components.²⁰ However, TAWC has failed to adjust its Operating Income results
6 to reflect TPUC adopted methodologies related to the treatment of Incentive
7 Compensation.²¹ A footnote from the Agreement in the last case references the
8 treatment of Incentive Compensation in the prior Order, Docket No. 10-00189,
9 which excluded 50% of short-term incentive compensation and 100% of long-term
10 incentive compensation. Further, Consumer Advocate witness Terry Buckner's
11 adjustment in Docket No. 12-00049 eliminating 50% of short-term incentive
12 compensation and 100% of long-term incentive compensation was incorporated into
13 the Agreement that was ultimately adopted by TPUC in that Docket.

14 **Q48. WHAT IS THE RESULT OF THE EARNINGS TEST AFTER THIS**
15 **ADJUSTMENT?**

16 A48. Modifying the Earnings Test calculation to be consistent with the Order in Docket
17 No. 12-00049 results in excess earnings of \$356,149. My analysis of the TAWC
18 Earnings Test is reflected as Exhibit DND-5.

19 **Q49. DO YOU BELIEVE THIS ADJUSTMENT TO THE EARNINGS TEST**
20 **CALCULATION IS APPROPRIATE?**

21 A49. Absolutely. This adjustment is necessary to properly reflect a Commission-
22 approved ratemaking methodology adopted from Docket No. 12-00049. TAWC has
23 accepted such methodologies in defining its Earnings Test Rate Base. This
24 adjustment is required to match the Operating Income results based upon TPUC-

²⁰ TAWC Response to Consumer Advocate Request 4-1, Attachment 2 (June 29, 2018).

²¹ *Ibid.* The last rate case order also adopted a cash methodology approach to defining pension and OPEB costs. The response to Consumer Advocate Request 4-3 indicates that adopting this methodology would slightly increase the over-earnings amount. Due to materiality, this modification was not incorporated into the Consumer Advocate Earnings Test.

1 approved methodologies with TAWC's use of a modified Rate Base with TPUC-
2 approved methodologies.

3 **Q50. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 A50. Yes. As discussed above, I reserve the right to file supplemental testimony
5 concerning the late-filed change to the Earnings Test Adjustment and to any
6 additional information provided by the Company.

David Dittmore

Experience

Areas of Specialization

Approximately thirty-years experience in evaluating and preparing regulatory analysis, including revenue requirements, mergers and acquisitions, utility accounting and finance issues and public policy aspects of utility regulation. Presented testimony on behalf of my employers and clients in natural gas, electric, telecommunication and transportation matters covering a variety of issues.

Tennessee Attorney General's Office; **Financial Analyst September, 2017 – Current**

Responsible for evaluation of utility proposals on behalf of the Attorney General's office including water, wastewater and natural gas utility filings. Prepare analysis and expert witness testimony documenting findings and recommendations.

Kansas Gas Service; **Director Regulatory Affairs 2014 – 2017; Manager Regulatory Affairs, 2007 - 2014**

Responsible for directing the regulatory activity of Kansas Gas Service (KGS), a division of ONE Gas, serving approximately 625,000 customers throughout central and eastern Kansas. In this capacity I have formulated strategic regulatory objectives for KGS, formulated strategic legislative options for KGS and led a Kansas inter-utility task force to discuss those options, participated in ONE Gas financial planning meetings, hired and trained new employees and provided recommendations on operational procedures designed to reduce regulatory risk. Responsible for the overall management and processing of base rate cases (2012 and 2016). I also played an active role, including leading negotiations on behalf of ONE Gas in its Separation application from its former parent, ONEOK, before the Kansas Corporation Commission. I have monitored regulatory earnings, and continually determine potential ratemaking outcomes in the event of a rate case filing. I ensure that all required regulatory filings, including surcharges are submitted on a timely and accurate basis. I also am responsible for monitoring all electric utility rate filings to evaluate competitive impacts from rate design proposals.

Strategic Regulatory Solutions; 2003 -2007

Principal; Serving clients regarding revenue requirement and regulatory policy issues in the natural gas, electric and telecommunication sectors

Williams Energy Marketing and Trading; 2000-2003

Manager Regulatory Affairs; Monitored and researched a variety of state and federal electric regulatory issues. Participated in due diligence efforts in targeting investor owned electric utilities for full requirement power contracts. Researched key state and federal rules to identify potential advantages/disadvantages of entering a given market.

MCI WorldCom; 1999 - 2000

Manager, Wholesale Billing Resolution; Manage a group of professionals responsible for resolving Wholesale Billing Disputes greater than \$50K. During my tenure, completed disputes increased by over 100%, rising to \$150M per year.

Kansas Corporation Commission; 1984- 1999

Utilities Division Director - 1997 - 1999; Responsible for managing employees with the goal of providing timely, quality recommendations to the Commission covering all aspects of natural gas, telecommunications and electric utility regulation; respond to legislative inquiries as requested; sponsor expert witness testimony before the Commission on selected key regulatory issues; provide testimony before the Kansas legislature on behalf of the KCC regarding proposed utility legislation; manage a budget in excess of \$2 Million; recruit professional staff; monitor trends, current issues and new legislation in all three major industries; address personnel issues as necessary to ensure that the goals of the agency are being met; negotiate and reach agreement where possible with utility personnel on major issues pending before the Commission including mergers and acquisitions; consult with attorneys on a daily basis to ensure that Utilities Division objectives are being met.

Asst. Division Director - 1996 - 1997; Perform duties as assigned by Division Director.

Chief of Accounting 1990 - 1995; Responsible for the direct supervision of 9 employees within the accounting section; areas of responsibility included providing expert witness testimony on a variety of revenue requirement topics; hired and provided hands-on training for new employees; coordinated and managed consulting contracts on major staff projects such as merger requests and rate increase proposals;

Managing Regulatory Auditor, Senior Auditor, Regulatory Auditor 1984 - 1990; Performed audits and analysis as directed; provided expert witness testimony on numerous occasions before the KCC; trained and directed less experienced auditors on-site during regulatory reviews.

Amoco Production Company 1982 - 1984

Accountant Responsible for revenue reporting and royalty payments for natural gas liquids at several large processing plants.

Education

- B.S.B.A. (Accounting) Central Missouri State University
- Passed CPA exam; (Oklahoma certificate # 7562) – Not a license to practice

Tennessee American Water Company
 Qualified Infrastructure Improvement Program Rider (QIIP)
 Economic Development Investment Rider (EDI)
 Safety and Environmental Compliance Rider (SEC)
 Reconciliation of the Calculation of Revenue Requirement *
 As of 12/31/2017

Docket No. 18-00022
 Exhibit DND-2

Line Number	Description	Total CPAD Average YTD 12/31/2017	A/ Total As Filed Average YTD 12/31/2017	Difference
		Actual	Actual	
1	Additions Subject to Rider:	\$50,561,748	\$50,561,748	\$0
2	Plus: Cost of Removal less Salvage	5,643,273	5,643,273	\$0
3	Less: Contributions in Aid to Construction (CIAC)	1,173,628	1,173,628	\$0
4	Less: Deferred Income Taxes	8,931,682 B/	616,849	\$8,314,833
5	Less: Accumulated Depreciation	1,786,282	1,786,282	\$0
6	Net Investment Supplied Additions:	\$44,313,430	\$52,628,263	(\$8,314,833)
7				
8	Pre-Tax Authorized Rate of Return:	9.4544%	9.4544%	9.4544%
9	Pre-Tax Return on Additions:	\$4,189,559	\$4,975,675	(\$786,116)
10				
11	Depreciation Expense on Additions:	1,206,475	1,206,475	\$0
12				
13	Property and Franchise Taxes Associated:	642,312	642,312	\$0
14				
15	Revenues:	6,038,346	6,824,462	(\$786,116)
16				
17	Revenue Taxes	3.191%	3.191%	3.191%
18	Total Capital Riders Revenues with Revenue Taxes	\$6,237,381	\$7,049,408	(\$812,028)
19				
20				
21	Actual Capital Riders Revenues Billed	\$6,222,731	\$6,222,731	\$0
22				
23	(Over)/Under Capital Riders Revenue Billings	345,763	345,763	\$0
24	Budget to Actual Adjustment	(331,113)	480,915	(\$812,028)
25	2016 Reconciliation Amount	319,890	319,890	\$0
26	Private Fire Rate Adjustment Refund	(142,039)	(142,039)	\$0
27	Earnings Test Adjustment	(356,149) C/	(185,720)	(\$170,429)
28	Interest (Prime - 4.50%)	(3,682)	18,423	(\$22,105)
29				
30	Reconciliation Amount	(\$167,330)	\$837,231	(\$1,004,561)
31				
32	Authorized Capital Riders Revenues (9/12th)	\$35,305,293	\$35,305,293	\$35,305,293
33				
34	Current Reconciliation Factor Percentage	-0.474%	2.372%	-2.845%
35				

* For purposes of this Exhibit the results from all three Capital Riders have been combined

A/ Petitioner's Exhibit - Capital Riders Reconciliation - LCB p.1 of 1

B/ Exhibit DND-3

C/ Exhibit DND-5

Calculation of CPAD Pro-Forma ADIT
Applicable to TAWC Capital Riders
Based upon Actual Tax Depreciation Deductions

A/

Differences Between Book and Tax - Includes Bonus Depreciation and the Repair Allowance			Differences Between Book and Tax - Includes Bonus Depreciation and the Repair Allowance		
Year	Beginning of the Year Federal	State	Year	End of the Year Federal	State
2014	\$ (4,117,464)	\$ (1,588,066)	2014	\$ (4,117,464)	\$ (1,588,066)
2015	(10,476,054)	(4,640,299)	2015	\$ (10,476,054)	\$ (4,640,299)
2016	(6,416,820)	(5,143,973)	2016	\$ (6,416,820)	\$ (5,143,973)
			2017	\$ (7,229,185)	\$ (4,122,185)
Total Differences	\$ (21,010,338)	\$ (11,372,338)	Total Differences	\$ (28,239,523)	\$ (15,494,523)
Tax Rates	32.725%	6.500%	Tax Rates	32.725%	6.500%
ADIT	\$ (6,875,633)	\$ (739,202)	ADIT	\$ (9,241,384)	\$ (1,007,144)
Total ADIT	\$ (7,614,835)		Total ADIT	\$ (10,248,528)	
Average ADIT 2017	\$ (8,931,682)				

Composite Tax Rate in Effect During Reconciliation	
State	6.50%
Percentage of Income subject to Fed	93.50%
Statutory Federal Tax Rate	35.00%
Effective Federal Rate	32.725%

A/ TAWC Response to Consumer Advocate Request 1-3

Tennessee American Water Company

Comparison of TAWC Compensated Rate Base vs. Actual Rate Base

Dkt No. 18-00022
Exhibit DND-4

Line No.	Rate Base Item	1		2		3		4		5 (Col. 3 - Col 4)	
		A/ Settlement 12-00049		B/ TAWC Proposed Cap Rider Rate Base		Total Compensated Rate Base		Rate Base TAWC Supplied Earnings Test		Excess Ratepayer Funded Rate Base	
1	Utility Plant in Service	\$	250,455,533	\$	50,561,748	\$	301,017,281	\$	303,408,084	\$	(2,390,803)
2	Accumulated Depreciation		(81,011,226)		3,856,991		(77,154,235)		(84,782,762)		7,628,527
3	Accumulated Deferred Income Taxes		(26,733,940)		(616,849)		(27,350,789)		(42,616,105)		15,265,316
4	Other Rate Base Components		(10,694,895)		(1,173,628)		(11,868,523)		(10,296,003)		(1,572,520)
5	Total	\$	132,015,472	\$	52,628,262	\$	184,643,734	\$	165,713,214	\$	18,930,520

A/ Schedule 3 of Settlement Exhibits in Docket 12-00049

B/ TAW 2017_Capital_Rider_Recon.xlsx

C/ TAWC Response to Consumer Advocate Response 4-2.

Tennessee American Water Company
Analysis of Earnings Test

Dkt No. 18-00022
Exhibit DND-5

Earnings Test Adjustment -Original Filing -
Excess Earnings \$ (185,720) A/

Earnings Test Adjustment - Amended -
Underearnings \$ 294,720 B/

Less Exclusions Adopted in Docket Nos 12-
0049 and 10-00189.

Short Term Incentive Compensation

Annual Performance Plan	\$ 826,069	C/	
Less: Annual Plan Credits	(46,767)	C/	
Net Short Term Incentive Compensation	\$ 779,302		
50% of STI Compensation			\$ 389,651

Long Term Incentive Compensation

Performance Plan Options	\$ 33,610	C/	
Performance Plan Restricted Units	\$ 227,608	C/	
100% of LTI Compensation			\$ 261,218

Consumer Advocate Adjusted Excess Earnings

	\$ (356,149)
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A/ TAWC Earnings Test Exhibit

B/ TAWC Response to Consumer Advocate Request 4-1

C/ TAWC Response to Consumer Advocate Request 4-2