

August 3, 2018

VIA ELECTRONIC FILING

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

RE: *Petition of Tennessee-American Water Company in Support of the Calculation of the 2018 Capital Recovery Riders Reconciliation, Docket No. 18-00022*

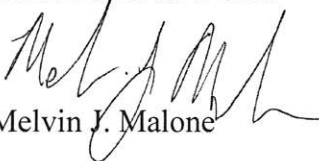
Dear Chairman Jones:

Attached for filing please find *Tennessee-American Water Company's Supplemental Response to Fourth Set of 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

Attachments

cc: Linda Bridwell, Tennessee-American Water Company (via e-mail)
Daniel Whitaker, Assistant Attorney General, Consumer Protection and Advocate Division (via email)
Karen H. Stachowski, Assistant Attorney General, Consumer Protection and Advocate Division (via email)

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 18-00022
FOURTH DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE AND PROTECTION DIVISION**

Responsible Witness: **Linda C. Bridwell**

Question:

1. Refer to the file included as Attachment 1, which compares the approved rate base in the most recent TAWC rate case proceeding and the requested rate base associated with the current Capital Rider Reconciliation Docket. The total of these two items appears to be approximately \$184.6 million. This figure compares with a rate base contained within the Earnings Test file of \$162.1 million. Of the approximately \$22 million difference, about \$15.5 million is attributable to the growth in ADIT. Provide the following, along with all supporting workpapers or other relevant documents:
 - a) If it is the Company's position that the calculations in Attachment 1 are incorrect, provide the Company's corrected calculations and figures, along with a detailed narrative explaining the changes;
 - b) If it is the Company's position that this information is not appropriate for consideration in this Docket, provide a detailed narrative explaining the reason for this position.

Response:

- a) Please refer to TAW attachment 1. In the course of responding to the discovery request, TAWC reviewed each of the line items on the rate base calculations from the previous case as it was reported in the Earnings Test Adjustment. TAWC made two corrections from the information provided from the CPAD, related to Cost of Removal. The underlying basis of both corrections stem from the CPAD's recognition that the rate base calculated by the Earnings Test Adjustment of \$162.1 million. The first correction was to move Cost of Removal from UPIS to Accumulated Depreciation as it is part of the depreciation reserve (NARUC Account 108). The second is to correct the TAWC Earnings Test Adjustment amount for accumulated depreciation to include the cost of removal account on the company's ledger. The previous Earnings Test Adjustment did not include account 18680000 and 25700000 which is part of the reserve and NARUC account 108.1. The consequence of this second omission was a calculation of less ratebase on the Earnings Test Adjustment of \$2.9 million. The result of the corrections, of \$2.9 million in rate base, results in a rate of return for 2017 that is below the authorized amount. The remaining differences in rate base in Attachment 1 are accounted for in additions, retirements and accumulated deferred taxes on non-capital recovery rider capital expenditures. An update of the monthly report, and Earnings Test Adjustment file is attached as Attachment 2 to this response.

- b) It is the Company's belief that the corrections outlined in subpart a above and attachment 2 are appropriate in this docket. On the other hand, it is not appropriate to attempt to adjust rate base changes in a reconciliation of the capital recovery riders and is already considered in the Earnings Test.

Based on the revised Earnings Test, which now includes the cost of removal, the Company earned a rate of return of 7.21% in 2017, which is below the authorized rate of return of 7.23%. This is reflected in the attachment to part a. The earnings test exists to ensure the company earns only up to authorized Rate of Return and is protection for ratepayers. It takes into account all financial activity since the last case which includes the additional revenues billed for the capital riders as well as all non-rider activity such as the sale of the Walden Ridge and Lone Oak assets since Docket No. 12-00049, Tennessee American's last general rate base.

For specific details on the company's position on including certain items in ADIT for the capital riders, please refer to the response to Item 10 of the CPAD's third data request.

Supplemental Response filed August 2, 2018:

In the course of preparing rebuttal testimony, TAWC discovered it had made an error in the revised Earning Test Adjustment calculation. The error was a result of December 2016 numbers inadvertently being carried into subsequent months and not a change to methodology. A revision to Attachment 1 and Attachment 2 have been included in the supplemental response.

The result of these corrections is an actual rate of return 7.25%, which is above the authorized rate of return of 7.23%.

Tennessee American Water Company
Comparison of Rate Base Supported to TPUC vs. Actual Rate Base

CPAD Attachment

Rate Base Item	Settlement 12-00049	TAWC Proposed Cap Rider Rate Base	Total Compensated Rate Base	Rate Base TAWC Supplied Earnings Test
Utility Plant in Service	\$ 250,455,533	\$ 56,205,021	\$ 306,660,554	\$ 303,408,084
Accumulated Depreciation	(81,011,226)	(1,786,282)	(82,797,508)	(88,039,865)
Accumulated Deferred Income Taxes	(26,733,940)	(616,849)	(27,350,789)	(42,904,951)
Other Rate Base Components	<u>(10,694,895)</u>	<u>(1,173,628)</u>	<u>(11,868,523)</u>	<u>(10,349,740)</u>
Total	\$ 132,015,472	\$ 52,628,262	\$ 184,643,734	\$ 162,113,528

Adjusted Per TAWC

Rate Base Item	Settlement 12-00049	TAWC Proposed Cap Rider Rate Base	Total Compensated Rate Base	Rate Base TAWC Supplied Earnings Test	Notes
Utility Plant in Service	\$ 250,455,533	\$ 50,561,748	\$ 301,017,281	\$ 303,408,084	Moved Cost of removal less salvage from UPIS to A/D in TAWC Proposed Cap Rider Rate Base as it is part of TAWC's depreciation reserve.
Accumulated Depreciation	(81,011,226)	3,856,991	(77,154,235)	(85,095,925)	TAWC's accounts 18680000 and 25700000 (Cost of Removal) was not added into the TAWC Supplied Earnings Test which was based on compliance filings. TAWC's accounts 18680000 and 25700000 are part of the NARUC account 108.1
Accumulated Deferred Income Taxes	(26,733,940)	(616,849)	(27,350,789)	(43,608,095)	per revised earnings test
Other Rate Base Components	<u>(10,694,895)</u>	<u>(1,173,628)</u>	<u>(11,868,523)</u>	<u>(10,270,557)</u>	per revised earnings test
Total	<u>\$ 132,015,472</u>	<u>\$ 52,628,262</u>	<u>\$ 184,643,734</u>	<u>\$ 164,433,507</u>	

Adjusted Net Operating Income Supplied in Earnings Test

\$ 11,928,271

Rate of Return

7.25%

Authorized Rate of Return

7.23%

2017 Reconciliation of Capital Riders
Tennessee American Water Company
Earnings Test

Line #		2016 Dec	Jan	Feb	Mar	Apr	May	Jun
1	Additions:							
2	Plant in Service	\$297,481,240	\$298,156,791	\$299,124,508	\$300,317,922	\$300,844,246	\$301,313,826	\$302,844,365
3	Plant Under Construction	\$2,247,280	2,445,478	2,038,157	2,176,106	2,632,379	3,201,969	3,423,807
4	Property Held For Future Use	\$0	-	-	-	-	-	-
5	Materials and Supplies	\$799,279	800,213	825,042	837,593	859,669	1,033,384	961,038
6	Other Additions:	\$0						
7	Leased Utility Plant	\$0	-	-	-	-	-	-
8	Unamortized Painting - net	\$0	-	-	-	-	-	-
9	Working Capital C/	\$3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884
10								
11	Total Additions	\$303,937,683	304,812,366	305,397,591	306,741,505	307,746,178	308,959,063	310,639,094
12								
13								
14	Deductions:							
15	Accumulated Depreciaton and Amortization	\$83,819,830	84,368,586	85,023,893	83,769,099	84,348,632	84,829,323	85,352,097
16	Accumulated Deferred Income Taxes	\$42,037,767	42,130,535	42,260,378	42,331,681	42,551,379	42,796,954	42,959,811
17	Unamortized Investment Credit - Pre 1971	\$9,871	9,613	9,355	9,097	8,839	8,581	8,323
18	Customer Deposits	\$0	-	-	-	-	-	-
19	Other Deductions:							
20	Contributions in Aid of Construction	\$15,011,694	14,991,867	14,970,650	14,955,764	14,933,007	14,963,063	14,970,186
21	Customer Advances for Construction	\$3,786,559	3,889,077	3,838,214	3,923,713	3,932,713	4,010,628	4,049,569
22	All Other A/	(\$1,046,726)	(1,299,482)	(1,303,580)	(1,263,266)	(1,292,535)	(1,302,310)	(1,327,916)
23								
24								
25								
26	Total Deductions	\$143,618,995	\$144,090,196	\$144,798,910	\$143,726,088	\$144,482,035	\$145,306,239	\$146,012,070
27								
28	Rate Base	\$160,318,688	\$160,722,170	\$160,598,681	\$163,015,417	\$163,264,143	\$163,652,824	\$164,627,024
29								
30	Net Operating Income	(\$44,182)	\$510,313	\$675,716	\$670,143	\$1,227,918	\$1,008,214	\$1,135,179
31	Adjustments to NOI	\$0	-	-	-	-	-	-
32	Allowance for funds used during construction	\$5,083	8,031	9,738	9,189	10,098	14,277	17,384
33	Adjustment to reflect effective federal	\$0	-	-	-	-	-	-
34	Income tax rate (debt assigned to parent)	\$18,342	18,388	18,373	18,650	18,679	18,723	18,834
35	Interest on customer deposits	\$0	-	-	-	-	-	-
36								
37								
38								
39	Adjusted Net Operating Income	(\$20,758)	\$536,732	\$703,828	\$697,982	\$1,256,695	\$1,041,214	\$1,171,397
40								

2017 Reconciliation of Capital Riders
Tennessee American Water Company
Earnings Test

Line #			2016 Dec	Jan	Feb	Mar	Apr	May	Jun
41									
42	Rate of return	B/	<u>-0.16%</u>	<u>4.01%</u>	<u>5.26%</u>	<u>5.14%</u>	<u>9.24%</u>	<u>7.63%</u>	<u>8.54%</u>
A/ All Other									
	Acquisition adjustment		\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Accounts payable applicable to CWIP		\$268,625	-	16,625	25,024	28,900	10,575	3,658
	Unpaid for materials and supplies		\$38,256	66,200	42,800	72,819	37,813	44,500	41,302
	Taxes on CIAC-DEF. FIT & SIT		(\$1,353,607)	(1,365,682)	(1,363,005)	(1,361,109)	(1,359,248)	(1,357,385)	(1,372,876)
			<u>(\$1,046,726)</u>	<u>(\$1,299,482)</u>	<u>(\$1,303,580)</u>	<u>(\$1,263,266)</u>	<u>(\$1,292,535)</u>	<u>(\$1,302,310)</u>	<u>(\$1,327,916)</u>
C/ Per order									
	Cash working capital Lead Lag Study		\$591,674	\$591,674	\$591,674	\$591,674	\$591,674	\$591,674	\$591,674
	Incidental collection		(116,192)	(116,192)	(116,192)	(116,192)	(116,192)	(116,192)	(116,192)
	Average cash		-	-	-	-	-	-	-
	Other components		<u>2,934,402</u>	<u>2,934,402</u>	<u>2,934,402</u>	<u>2,934,402</u>	<u>2,934,402</u>	<u>2,934,402</u>	<u>2,934,402</u>
	Working cash		\$3,409,884	\$3,409,884	\$3,409,884	\$3,409,884	\$3,409,884	\$3,409,884	\$3,409,884
	Rate of Return - 2017		7.25%						
	Authorized Rate of Return		7.23%	(Schedule 1 Exhibit to Settlement Agreement Docket No. 12-00049)					
	Authorized Adjusted Net Operating Income	\$	11,888,543						
	Actual 2017 Adjusted Net Operating Income	\$	11,928,271						
	Over-earnings	\$	39,728						

2017 Reconciliation of Capital Riders
Tennessee American Water Company
Earnings Test

Line #		Jul	Aug	Sep	Oct	Nov	Dec	13-month Average
1	Additions:							
2	Plant in Service	\$303,239,802	\$306,353,114	\$306,660,625	\$307,447,656	\$308,176,330	\$312,344,667	\$303,408,084
3	Plant Under Construction	5,509,969	4,348,438	5,306,139	6,308,350	5,282,539	4,065,376	3,768,153
4	Property Held For Future Use	-	-	-	-	-	-	-
5	Materials and Supplies	1,004,881	961,249	969,028	870,146	904,810	914,411	903,134
6	Other Additions:							
7	Leased Utility Plant	-	-	-	-	-	-	-
8	Unamortized Painting - net	-	-	-	-	-	-	-
9	Working Capital C/	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884
10								
11	Total Additions	313,164,536	315,072,685	316,345,676	318,036,036	317,773,563	320,734,338	311,489,255
12								
13								
14	Deductions:							
15	Accumulated Depreciaton and Amortization	85,147,577	85,675,376	86,269,446	86,567,884	85,357,005	85,718,280	85,095,925
16	Accumulated Deferred Income Taxes	43,216,799	43,502,200	44,367,695	44,452,856	46,948,052	47,349,123	43,608,095
17	Unamortized Investment Credit - Pre 1971	8,065	7,807	7,549	7,291	7,033	6,775	8,323
18	Customer Deposits	-	-	-	-	-	-	-
19	Other Deductions:							
20	Contributions in Aid of Construction	16,327,812	16,895,518	16,951,687	16,935,125	17,066,597	17,119,159	15,853,241
21	Customer Advances for Construction	3,955,813	3,743,173	3,421,892	3,416,645	3,392,955	3,281,859	3,741,755
22	All Other A/	(1,257,135)	(1,323,780)	(1,164,652)	(1,327,861)	(1,276,892)	(1,084,545)	(1,251,591)
23								
24								
25								
26	Total Deductions	\$147,398,931	\$148,500,294	\$149,853,617	\$150,051,940	\$151,494,750	\$152,390,651	147,055,747
27								
28	Rate Base	<u>\$165,765,605</u>	<u>\$166,572,391</u>	<u>\$166,492,059</u>	<u>\$167,984,096</u>	<u>\$166,278,813</u>	<u>\$168,343,687</u>	<u>\$ 164,433,508</u>
29								
30	Net Operating Income	\$1,210,824	\$1,297,254	\$1,014,200	\$1,263,287	\$1,326,998	\$159,149	\$11,499,195
31	Adjustments to NOI	-	-	-	-	-	-	-
32	Allowance for funds used during construction	17,592	(2,198)	41,412	25,164	27,200	24,973	202,859
33	Adjustment to reflect effective federal	-	-	-	-	-	-	-
34	Income tax rate (debt assigned to parent)	18,965	19,057	19,048	19,218	19,023	19,259	226,217
35	Interest on customer deposits	-	-	-	-	-	-	-
36								
37								
38								
39	Adjusted Net Operating Income	<u>\$1,247,381</u>	<u>\$1,314,113</u>	<u>\$1,074,660</u>	<u>\$1,307,669</u>	<u>\$1,373,221</u>	<u>\$203,381</u>	<u>\$11,928,271</u>
40								

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, her testimony would be as set forth in her pre-filed testimony in this matter.

Linda C. Bridwell
Linda C. Bridwell

Sworn to and subscribed before me
this 3rd day of August, 2018.

Sharon M. Filler
Notary Public

My Commission Expires: 7/25/2020