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August 3, 2018

**VIA ELECTRONIC FILING**

Hon. David Jones, Chairman  
c/o Sharla Dillon  
Tennessee Public Utilities Commission  
502 Deaderick Street, 4<sup>th</sup> 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***

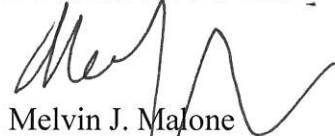
Dear Chairman Jones:

Attached for filing please find *Tennessee-American Water Company's Rebuttal Testimony of Linda C. Bridwell and John R. Wilde* 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)

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**TENNESSEE-AMERICAN WATER COMPANY, INC.**

**DOCKET NO. 18-00022**

**REBUTTAL TESTIMONY**

**OF**

**LINDA C. BRIDWELL**

**ON**

**CHANGES TO THE QUALIFIED INFRASTRUCTURE INVESTMENT PROGRAM  
RIDER, THE ECONOMIC DEVELOPMENT INVESTMENT RIDER, AND THE  
SAFETY AND ENVIRONMENTAL COMPLIANCE RIDER**

1 **Q. PLEASE STATE YOUR NAME.**

2 A. My name is Linda C. Bridwell.

3 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

4 A. I am employed by American Water Works Service Company (“AWW”) as Senior Manager  
5 of Rates and Regulation for Tennessee and Kentucky.

6 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS DOCKET?**

7 A. Yes. I submitted Pre-filed Direct Testimony in this case on March 1, 2018, on behalf  
8 Tennessee-American Water Company (“Tennessee American,” “TAWC” or “Company”).

9 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

10 A. The purpose of my Rebuttal Testimony is to respond to the Pre-filed Testimony of David  
11 N. Dittmore, witnesses for the Consumer Protection and Advocate Division of the  
12 Tennessee Attorney General’s Office (“CPAD”), filed with the Tennessee Public Utility  
13 Commission (“TPUC” or “Commission”) on July 6, 2018.

14 **OVERVIEW**

15 **Q. WHAT ARE THE RECOMMENDATIONS MADE BY MR. DITTEMORE IN HIS**  
16 **TESTIMONY?**

17 Mr. Dittmore makes two recommendations in his testimony, which together would  
18 substantially reduce the Company’s Capital Rider reconciliation recovery for 2017. These  
19 include:

20 1) An \$8,314,833 adjustments to the balance of Accumulated Deferred Income Taxes  
21 (“ADIT”), related to the inclusion of Bonus and Repairs deductions without any offset

1 for Net Operating Loss (“NOL”).<sup>1</sup> This reduces his proposed calculation of the  
2 reconciliation by \$812,028.

- 3 2) Reductions to actual 2017 attained earnings as part of a revision to the Earnings Test  
4 of \$650,869, including a \$389,651 imputation for annual performance pay and a  
5 \$261,218 imputation for long-term performance pay (see Exhibit DND-5).

6 I will briefly discuss TAWC’s position on Mr. Dittemore’s recommendation to include  
7 Bonus and Repairs deductions in the ADIT calculation with regard to the development of  
8 the calculations, and will also rebut Mr. Dittemore’s proposed revision to the Earnings Test  
9 adjustment. American Water Works Service Company, Inc. Vice President, Tax Strategy  
10 and Compliance, John Wilde, will further address the Company’s concerns regarding the  
11 ADIT issues.

12 **Q. DO YOU AGREE WITH MR. DITTEMORE’S RECOMMENDATIONS?**

13 A. No, I do not agree with either recommendation. Furthermore, TAWC believes that Mr.  
14 Dittemore has greatly overstated the dollar values in his recommendations to the TPUC.  
15 Before considering whether or not the TPUC should adopt Mr. Dittemore’s  
16 recommendations – which it should not, I have described the appropriate correction to Mr.  
17 Dittemore’s inappropriate revision to actual attained earnings below in my testimony,  
18 and John Wilde has described the appropriate correction to Mr. Dittemore’s  
19 recommendation for the ADIT calculation in his testimony.

20 **BONUS AND REPAIRS**

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<sup>1</sup> Exhibit DND-2, line 4 and Exhibit DND-3

1   **Q.     CAN YOU EXPLAIN WHY YOU DO NOT AGREE WITH MR. DITTEMORE’S**  
2       **RECOMMENDATION TO INCLUDE BONUS AND REPAIRS DEDUCTIONS IN**  
3       **THE ADIT CALCULATION?**

4   A.   Yes. As explained in the Company’s response to CPAD Request 3-10, the purpose of a  
5       capital rider is to create a streamlined adjustment mechanisms that allows for recovery of  
6       critical infrastructure investment without the complexity and customer cost of a rate case.  
7       Under state law, more specifically Tenn. Code Ann. §§ 65-5-103(d) *et. seq.*, the purpose  
8       of alternative rate methods or mechanisms, such as a capital rider, is to streamline the  
9       regulatory process and reduce the cost and time associated with ratemaking processes in a  
10      manner that is consistent with the public interests. As such, capital riders allow for  
11      recovery of critical infrastructure investment without the complexity, cost and delay of a  
12      full-blown rate case. The current surcharge calculation for ADIT (Accumulated Deferred  
13      Income Taxes) examines book depreciation compared to MACRS (Modified Accelerated  
14      Cost Recovery System) depreciation. This is a reasonable and regulatorily sound approach,  
15      which is why TAWC proposed to include the difference between MACRS and book  
16      depreciation in the Capital Recovery Riders calculations back in 2013. MACRS has been  
17      in place since 1986, creating stability and predictability in the figures for the last thirty  
18      years. Bonus depreciation and repairs deductions are additional components of ADIT. In  
19      contrast to the MACRS ADIT, as described in the testimony of John Wilde, bonus and  
20      repairs deductions are far more complex. Additionally, book vs. MACRS differences are  
21      not generally large enough to trigger a Net Operating Loss (NOL), whereas the inclusion  
22      of bonus and repairs can trigger an NOL as demonstrated by the TAWC calculations.  
23      NOLs complicate the tax calculation and risk normalization violations, per the testimony

1 of Mr. Wilde. Please see the testimony of John Wilde for the impact of including Bonus  
2 and Repairs in the calculation.

3 **Q. IN PROPOSING THAT TAWC INCLUDE BONUS DEPRECIATION IN THE**  
4 **CAPITAL RECOVERY RIDERS CALCULATION, DOES MR. DITTEMORE**  
5 **INCLUDE A NET OPERATING LOSS (NOL) CALCULATION?**

6 A. No, he does not. Mr. Dittemore argues that TAWC has had some taxable income in net for  
7 the last four years, and therefore should not include a calculation of NOL on the Capital  
8 Recovery Riders. However, as Mr. Wilde explains, this is not a regulatorily sound  
9 approach and risk a normalization violation. As Mr. Wilde further explains, a  
10 normalization violation could have significant financial consequences for TAWC and its  
11 customers, and can include the loss of accelerated depreciation in its entirety. Potential  
12 normalization violations are serious matters and any consideration should be approached  
13 with caution.

14 **Q. WHAT IS TAWC'S RECOMMENDATION?**

15 A. TAWC recommends that the TPUC reject Mr. Dittemore's recommendation to include  
16 Bonus Depreciation and Repairs deductions in the Capital Recovery Riders calculations.

17 **Q. WHAT IS TAWC'S RECOMMENDATION IF THE TPUC WERE TO ORDER**  
18 **TAWC TO INCLUDE BONUS DEPRECIATION AND REPAIRS DEDUCTIONS**  
19 **IN THE CAPITAL RECOVERY RIDERS CALCULATIONS?**

20 A. Then TAWC would recommend that a calculation of the NOL also be included in the  
21 Capital Recovery Riders calculations.

22 **Q. WHAT WOULD THE REVENUE REQUIREMENT IMPACT BE IF THE TPUC**  
23 **ADOPTED MR. DITTEMORE'S RECOMMENDATION TO INCLUDE BONUS**

**AND REPAIRS DEDUCTIONS IN THE ADIT CALCULATION, BUT ALSO INCLUDED NOL, TO AVOID A NORMALIZATION VIOLATION?**

A. As explained in Mr. Wilde’s testimony, adopting Bonus and Repairs deductions, while also including NOL, would move the ADIT balance to \$1,254,176 (see Table JRW-1 in Mr. Wilde’s testimony), compared to \$616,849 in the original filing. Contrary to Mr. Dittemore’s adjustment in excess of \$800,000, the revenue requirement change of this adjustment would be only \$62,178, as shown in the table below.

Table LCB-1:

Row Label	Item	Original Filing	With Bonus, Repairs and NOL per John Wilde Testimony	Variance
A	Accumulated Deferred Income Taxes Deduction	\$ 616,849	\$ 1,254,176	\$637,327
B	Pre Tax Rate of Return	9.4544%	9.4544%	
C = A x B	Pre Tax Return Impact	\$ (58,319)	\$ (118,575)	\$ (60,255)
D = C x .03191	Revenue Taxes at 3.191%	\$ (1,861)	\$ (3,784)	\$ (1,923)
E = C + D	Total Revenue Requirement Effect	\$ (60,180)	\$ (122,359)	\$ (62,178)

**Q. DO YOU AGREE WITH MR. DITTEMORE’S TESTIMONY THAT TAWC IMPLIED “THAT TPUC SHOULD NOT BE CONCERNED WITH THE ACCURACY OF TAX DEDUCTIONS SINCE ANY OVER-EARNINGS WOULD BE RETURNED BY RATEPAYERS THROUGH THE EARNINGS TEST MECHANISM”?**<sup>2</sup>

A. No, I do not. TAWC’s did not state that in its testimony and written data responses, and I certainly did not intend to imply the TPUC should not be concerned. As discussed above, TAWC believes it has appropriately not included Bonus Depreciation and Repairs

<sup>2</sup> Dittemore Testimony, p.11, lines 15-18.

1 deductions in the Capital Recovery Riders calculations in order to provide a streamlined  
2 regulatory mechanism.

3 **EARNINGS TEST ADJUSTMENT**

4 **Q. CAN YOU EXPLAIN WHY YOU DO NOT AGREE WITH MR. DITTEMORE’S**  
5 **EARNINGS TEST ADJUSTMENT?**

6 A. Certainly. Mr. Dittemore is recommending making full-blown rate case adjustments in a  
7 Capital Rider case. The purpose of the Capital Riders is to encourage infrastructure  
8 investment in Chattanooga and the surrounding communities, with incremental bill impacts  
9 and a streamlined regulatory process. The Earnings Test Adjustment is a straightforward  
10 component to the rider to protect customers. The Earnings Test Adjustment is not designed  
11 to trigger a miniature rate case. Rather, the Earnings Test Adjustment was designed as a  
12 protection to customers for prudent investment, continued reliable and safe operations, and  
13 to allow the customers to share in sustained efficiencies resulting in actual successful  
14 financial performance.

15 As agreed to by the Company and the CPAD and as approved by the TPUC, the Capital  
16 Recovery Riders tariffs instruct that the Earnings Test computation examine the “earnings  
17 attained by the Company”, as shown in the tariff snapshot below.<sup>3</sup> It does not instruct that  
18 the actual earnings reported by the Company to be revised as Mr. Dittemore is suggesting.  
19 Therefore, the Company recommends that the plain language of the tariff should be  
20 followed and as it has been applied since 2013.

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<sup>3</sup> The snapshot is from section 5 E of the QIIP tariff, and similar language is found in section 5 E of the EDI and SEC tariffs as well.



(E) Computation of the Earnings Test Adjustment.

If the earnings attained by the Company for the Annual Review Period exceed the earnings allowed for the Annual Review Period by applying the overall rate of return authorized in the Relevant Rate Order, then any such earnings difference shall constitute the Earnings Test Adjustment. If the earnings attained by the Company for the Annual Review Period are less than the earnings allowed for the Annual Review Period by applying the overall rate of return authorized in the Relevant Rate Order, then no Earnings Test Adjustment shall be recognized.

Any Earnings Test Adjustment shall be allocated among the Qualified Infrastructure Improvement Program Rider, the Economic Development Investment Rider, and the Safety and Environmental Compliance Rider based on the pro-rata revenues collected under these riders for the Annual Review Period for purposes of computing new rate adjustments.

**Q. CAN YOU EXPLAIN WHY MR. DITTEMORE'S REVISION TO THE ACTUAL ATTAINED EARNINGS ARE OVERSTATED AND REQUIRE CORRECTION?**

A. Yes. Mr. Dittemore is recommending a revision to the actual attained earnings in the earnings test adjustment. These revisions, if made, greatly overstate the Earnings Test Adjustment for two reasons:

- 1) There is no evidence in Docket No. 12-00049 that the majority of the earnings revision proposed by Mr. Dittemore (\$440,000 of the \$650,869) represents excluded costs (by excluded costs I mean expenses that were specifically removed from the calculation of the revenue requirement in setting base rates) per the most recent general rate case, Docket No.12-00049.
- 2) The revisions made by Mr. Dittemore, to be correct, should be to earnings, not expense, and therefore would need to be after-tax amounts. The amounts used by Mr. Dittemore are pre-tax.

**Q. PLEASE EXPLAIN WHY THERE IS NO EVIDENCE TO SUGGEST THAT THE MAJORITY OF MR. DITTEMORE'S REVISION REPRESENT EXCLUDED COST.**

1 A. Only a small portion of the cost Mr. Dittmore suggests were excluded can be verified.  
2 The Company agrees that in Docket No. 12-00049, the Settlement value for Salaries and  
3 Wages expense of \$5,188,473 does tie to the expense level proposed by CAPD, which did  
4 include an “Incentive Pay Plan” exclusion of \$115,793.<sup>4</sup> The CAPD exclusion was based  
5 on 50% of TAWC’s annual local labor performance plan and 100% exclusion of TAWC’s  
6 annual local long-term performance plan<sup>5</sup>. However, in the schedules attached to the  
7 Settlement Agreement in Docket No. 12-00049, the amount for Support Services of  
8 \$5,430,920<sup>6</sup> does not tie to the level of expense proposed by CAPD of \$4,825,406<sup>7</sup>,  
9 indicating that the CAPD’s Support Services position was not agreed to by all parties and  
10 adopted by the TPUC. Additionally, while the CAPD testimony did propose an exclusion  
11 of 50% of annual performance pay from Support Services<sup>8</sup>, it makes no mention of a  
12 proposed exclusion of long-term performance pay from Support Services. There is simply  
13 no evidence in Docket No. 12-00049 that either annual or long-term performance pay was  
14 excluded from Support Services recovery in the most recent rate case.

15 Mr. Dittmore’s revision to actual earnings on DND-5, however, proposes exclusion of  
16 both annual and long term performance pay for both TAWC and Support Services (or  
17 “AWWSC”), based on the Company’s Response to Item 2 of the CAPD’s Fourth  
18 Discovery Request, which is shown below.

19  
20 CAPD 4-2

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<sup>4</sup> Docket # 12-00049, CAPD Schedule E-REC-1, line 1.

<sup>5</sup> Confidential Direct Testimony of Witness Buckner, page 10, lines 8-13.

<sup>6</sup> Docket #12-00049, Settlement Schedule 8, line 9

<sup>7</sup> Docket # 12-00049, CAPD Schedule E-REC-1, line 6

<sup>8</sup> Docket # 12-00049, Confidential Direct Testimony of Witness Buckner, page 16, line 16

Please see below for the amount of incentive compensation expense embedded within the Earnings Test Adjustment, including the portion allocated from American Water Works Service Company (AWWSC).

Account	Account Description	TAWC	AWWSC Alloc to TAWC	Total
50171000	Annual Performance Plan	\$369,360	\$456,709	\$826,069
50171100	Annual Performance Plan Cap Credits	(46,767)	0	(46,767)
50171600	Long Term Performance Plan - Options	6,477	27,133	33,610
50171800	Long Term Performance Plan - RSU's	42,803	184,805	227,608
		<u>\$371,873</u>	<u>\$668,646</u>	<u>\$1,040,520</u>

**Q. PLEASE SHOW WHAT MR. DITTEMORE'S REVISION WOULD BE IF ONLY THE RATEMAKING EXCLUSIONS FROM DOCKET NO. 12-00049 WERE USED AND IF THE APPROPRIATE AFTER-TAX TREATMENT WERE APPLIED.**

A. While the Company does not believe that the tariff indicates any revision to actual earnings should be made, Table LCB-2 below shows what Mr. Dittemore's revision would be if it reflected only the exclusions in Docket No. 12-0049 and if the appropriate after-tax treatment were applied. The amended adjustment would only be \$127,978, as shown on line K.

**Table LCB-2:**

2017 Actual Ledger Amounts per CAPD Response 4-2

Line	Item	TAWC Salaries and Wages	Service Company / Support Services
A	Annual Performance Plan, net of cap credits	\$ 322,593	\$ 456,709
B	Long Term Performance Plan Options	\$ 6,477	\$ 27,133
C	Long Term Performance Plan RSUs	\$ 42,803	\$ 184,805
	Total	\$ 371,873	\$ 668,647

CAPD Adjustment Per DND-5

Line	Item	TAWC Salaries and Wages	Service Company / Support Services	Total
D = A X 50%	50% All Annual Performance Pay	\$ 161,297	\$ 228,355	\$ 389,651
E = B + C	100% Long Term Performance Plan	\$ 49,280	\$ 211,938	\$ 261,218
F = D + E	Pre-Tax Total, Used as Adjustment to Earnings	\$ 210,577	\$ 440,293	\$ 650,869

Amended Adjustment if CAPD Concept Adopted by the TPUC

Line	Item	TAWC Salaries and Wages	Service Company / Support Services	Total
G = A x 50%	50% Annual Performance Plan for TAWC	\$ 161,297		\$ 161,297
H = B + C	100% Long Term Performance Plan for TAWC	\$ 49,280		\$ 49,280
I = G + H	Pre-Tax Total	\$ 210,577	\$ -	\$ 210,577
J	2017 Effective Tax Rate	39.23%	39.23%	39.23%
K = I x (1-J)	After Tax Effect on Earnings	\$ 127,978	\$ -	\$ 127,978

**Q. DO YOU SUPPORT A REVISION TO THE 2017 EARNINGS THAT WOULD RESULT IN AN ADDITIONAL \$127,917 TO BE ADDED TO THE EARNINGS TEST ADJUSTMENT IN THIS DOCKET?**

**A.** No. I do not. I recommend that the plain language of the tariff be followed as it has been applied since 2013.

**Q. IF THE COMPANY EARNS ABOVE ITS AUTHORIZED RATE OF RETURN, DOES THAT MEAN THAT THE TRUE-UP SET FORTH IN THE CAPITAL**

**RECOVERY RIDERS TARIFFS SHOULD BE DISREGARDED AS MR. DITTEMORE SUGGESTS?<sup>9</sup>**

A. Absolutely not. As I discussed in my direct testimony, there are four components included in the reconciliation, per the tariff. They are: 1) the comparison of actual 2017 plant additions to the amount forecasted; 2) the comparison of revenues authorized in 2017 with the revenues actually collected from customers; 3) an earnings adjustment based on a comparison of 2017 earnings with the authorized earnings from Docket No. 12-00049; and 4) interest on the difference. The earnings test adjustment is only one of those components. The comparison of the actual Capital Riders Revenue Billings for 2017 resulted in positive reconciliation of \$345,763 meaning that water sales were less than the authorized amount. The comparison of actual capital additions to the forecasted capital additions for 2017 resulted in a positive reconciliation of \$480,915. The amount of the 2016 Reconciliation, which should have been collected in the revenues billed, is another positive reconciliation of \$319,890. The Earnings Test Adjustment, which compares earnings to the authorized rate of return, can exist because of a number of reasons unrelated to the Capital Recovery Riders, including operating efficiencies and expense reductions. The Earnings Test Adjustment is a safeguard for the customers, and can be utilized to offset other positive reconciliations. It should not be a threshold for even consideration of a Capital Recovery Riders reconciliation. To suggest that a reconciliation should not even exist because of the Earnings Test Adjustment simply ignores the other components. This approach would not only rewrite the tariff, it would turn the Earnings Test Adjustment from an oversight,

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<sup>9</sup> Dittmore Testimony, p. 11, lines 25-27 and p. 12, lines 1-5

safeguard mechanism to a threshold with potential unintended consequences of undermining the reconciliation process.

**Q. WHAT FIGURE SHOULD BE USED FOR THE EARNINGS TEST ADJUSTMENT?**

A. In the course of developing rebuttal testimony, the Company found an error in its response to Item 1 of the CAPD's Fourth Discovery Request. The Company is providing a supplemental response to this discovery request along with my testimony, and thereby adjusting its revised Earnings Test figure. The Company submits that the Earnings Test now shows that it earned a return of 7.25%, equating to earnings \$39,728 above the authorized return of 7.23%. Please see the attached schedules for the impact on the Reconciliation percent.

## SUMMARY

**Q. DO YOU BELIEVE THE CAPITAL RECOVERY RIDERS ARE STILL IN THE PUBLIC INTEREST?**

A. Yes, I do. I discussed the reasons for this in my Pre-filed Direct Testimony,<sup>10</sup> and I do not believe those have changed.

**Q. WHAT DO YOU RECOMMEND?**

I recommend that the TPUC reject Mr. Dittmore's recommendations. His revision to the earnings to the Earnings Test isn't regulatorily appropriate. Moreover, as noted in my testimony above, including Bonus, Repairs, and NOL in the ADIT balance adds a significant complication for a minimal benefit. However, if the TPUC were to adopt Mr. Dittmore's recommendation to include Bonus and Repairs in the calculation of ADIT, I

<sup>10</sup> *Direct Testimony Bridwell*, p. 30, L. 8 through p. 32, L.23.

would recommend that the TPUC employ the methodology explained in Mr. Wilde's testimony, in order to avoid a normalization violation.

In summary, the Company recommends that the Capital Rider reconciliation should be approved as shown in Exhibit LCB-RT-1, as attached to my testimony. This is the same as originally filed, with an adjustment for a revised Earnings Test figure of \$39,728.

**Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

A. Yes.

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

Line Number	Description	Qualified Infrastructure Investment Program QIIP Average YTD 12/31/2017			Economic Development Investment EDI Average YTD 12/31/2017			Safety and Environmental Compliance SEC Average YTD 12/31/2017			Total Average YTD 12/31/2017		
		Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
1	Additions Subject to Rider:	\$27,352,614	\$26,237,397	\$1,115,217	\$970,392	\$1,317,802	(\$347,411)	\$22,238,742	\$21,310,147	\$928,595	\$50,561,748	\$48,865,346	\$1,696,402
2	Plus: Cost of Removal less Salvage	3,474,587	2,626,547	848,039	933	12,427	(11,494)	2,167,754	2,290,674	(122,920)	5,643,273	4,929,648	713,626
3	Less: Contributions in Aid to Construction (CIAC)	1,165,514	0	1,165,514	8,114	0	8,114	0	0	0	1,173,628	0	1,173,628
4	Less: Deferred Income Taxes	223,094	376,816	(153,722)	15,980	24,268	(8,288)	377,775	413,906	(36,131)	616,849	814,989	(198,141)
5	Less: Accumulated Depreciation	960,760	646,329	314,431	22,703	24,172	(1,469)	802,818	735,691	67,128	1,786,282	1,406,192	380,090
6	Net Investment Supplied Additions:	\$28,477,833	\$27,840,799	\$637,034	\$924,528	\$1,281,790	(\$357,262)	\$23,225,902	\$22,451,224	\$774,679	\$52,628,263	\$51,573,812	\$1,054,450
7													
8	Pre-Tax Authorized Rate of Return:	9.45%	9.45%		9.45%	9.45%		9.45%	9.45%		9.45%	9.45%	
9	Pre-Tax Return on Additions:	\$2,692,402	\$2,632,174	\$60,228	\$87,408	\$121,185	(\$33,777)	\$2,195,865	\$2,122,624	\$73,241	\$4,975,675	\$4,875,983	\$99,692
10													
11	Depreciation Expense on Additions:	676,880	446,932	229,948	13,111	17,207	(4,095)	516,484	378,984	137,500	1,206,475	843,123	363,352
12													
13	Property and Franchise Taxes Associated:	345,680	347,105	(1,424)	13,105	17,744	(4,639)	283,526	274,938	8,588	642,312	639,787	2,525
14													
15	Revenues:	3,714,962	3,426,211	288,751	113,625	156,135	(42,511)	2,995,875	2,776,546	219,329	6,824,462	6,358,893	465,569
16													
17	Revenue Taxes	3.19%	3.19%		3.19%	3.19%		3.19%	3.19%		3.19%	3.19%	
18	Total Capital Riders Revenues with Revenue Taxes	\$3,837,414	\$3,539,145	\$298,269	\$117,370	\$161,282	(\$43,912)	\$3,094,624	\$2,868,066	\$226,558	\$7,049,408	\$6,568,493	\$480,915
19													
20													
21	Actual Capital Riders Revenues Billed		\$3,447,254			\$124,638			\$2,650,838			\$6,222,731	
22													
23	(Over)/Under Capital Riders Revenue Billings		91,891			36,644			217,228			345,763	
24	Budget to Actual Adjustment		298,269			(43,912)			226,558			480,915	
25	2016 Reconciliation Amount		622,513			(10,908)			(291,715)			319,890	
26	Private Fire Rate Adjustment Refund		(52,223)			3,456			(93,272)			(142,039)	
27	Earnings Test Adjustment		(22,008)			(796)			(16,924)			(39,728)	
28	Interest (Prime - 4.50%)		21,115			(349)			942			21,708	
29													
30	Reconciliation Amount		\$959,555			(\$15,865)			\$42,818			\$986,508	
31													
32	Authorized Capital Riders Revenues (9/12th)		\$35,305,293			\$35,305,293			\$35,305,293			\$35,305,293	
33													
34	Current Reconciliation Factor Percentage		2.718%			-0.045%			0.121%			2.794%	
35													

Explanation:

Tennessee American Water has been authorized 3 capital riders based on a 13-month average of in-service capital projects in the forecasted period. The revenue requirement for each rider is calculated similar to how total ratebase is calculated by the Tennessee Regulatory Authority in a rate case. This table shows a comparison of the actual average over the reporting period to the proposed amount of each rider, and the total of the three.

\*Taxes - From Docket #16-00126 which was approved on 6/2/2017.

Private Fire Rate Adjustment Refund - Under-billing for PF rate update from 2015

Earnings Test - Calculation methodology from Docket #17-00020 and amount from Earnings Test workpaper



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