

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

IN RE:)
)
TENNESSEE AMERICAN WATER)
COMPANY'S RESPONSE TO)
COMMISSION'S INVESTIGATION OF)
IMPACTS OF FEDERAL TAX REFORM)
ON THE PUBLIC UTILITY REVENUE)
REQUIREMENTS)

DOCKET NO. 18-00039

**CONSUMER ADVOCATE'S RESPONSE TO THE TENNESSEE PUBLIC UTILITY
COMMISSION'S FIRST DATA REQUEST**

Comes the Consumer Advocate Unit in the Financial Division of the Office of the Tennessee Attorney General ("Consumer Advocate") and hereby responds to the First Staff Data Requests of the Tennessee Public Utility Commission ("TPUC" or "Commission") to the Consumer Advocate filed on March 10, 2020. Each of the two discovery requests are set out on separate pages for ease of use by TPUC Staff and Tennessee-American Water Company ("TAWC").

Consumer Advocate Unit
TPUC Docket No. 18-00039
TPUC's First Data Request
Date Issued: March 10, 2020

1. **Please update Exhibit DND-1 attached to the Supplemental Testimony of David N. Dittmore to show the Protected EADIT and Unprotected EADIT using 20- year ARAM to amortize both Protected and Unprotected EADIT. Under this assumption, please compute the appropriate credit to the 2020 Capital Riders pending in Docket No. 19-00105.**

RESPONSE:

The Consumer Advocate believes adoption of a 20-year amortization period assigned to Protected Excess Accumulated Deferred Income Taxes ("EADIT") would be inconsistent with the requirements set out by the IRS regarding the use of the Average Rate Assumption Method ("ARAM"), and therefore represents a normalization violation. Specifically, the ARAM requires the evaluation of the average remaining life of the assets related to EADIT associated with Depreciation expense. The resulting amortization percentage will vary each year. The original version of Exhibit DND-1 includes the application of the ARAM rate of 2.689% and 2.886% for the years 2018 and 2019 respectively, both calculated by the Company.

The Consumer Advocate is concerned with the ability of customers to pay their bills in light of the unfolding pandemic. Layoffs and shortened work hours are occurring in various sectors of the economy as retail and commercial businesses suspend operations. Reduced employment levels will undoubtedly impact the affordability of utility bills, including those of the Company. These factors should be strongly considered by the Commission before it deviates from its established policy of amortizing Unprotected EADIT over periods ranging from three to five years. Further, consistent with testimony and discovery responses in this Docket, the Consumer Advocate believes the Repairs Deduction is properly treated as Unprotected EADIT, and this answer treats these funds accordingly.

Notwithstanding the above, please see the attached modifications to Exhibit DND-1 reflecting a 20-year amortization period for both Protected and Unprotected EADIT.

2. **Please update Exhibit DND-1 attached to the Supplemental Testimony of David N. Dittmore to show the Protected EADIT and Unprotected EADIT using 20-year ARAM to amortize Protected EADIT and a 5-year period to amortize Unprotected EADIT. Under this assumption, please compute the appropriate credit to the 2020 Capital Riders pending in Docket No. 19-00105.**

Response:

As noted in detail in Consumer Advocate Response No. 1, the Consumer Advocate believes that adoption of a 20-year amortization period assigned to Protected EADIT would be inconsistent with the requirements set out by the IRS regarding the use of ARAM, and therefore represents a normalization violation. Specifically, the ARAM requires the evaluation of the average remaining life of the assets related to EADIT associated with Depreciation. The resulting amortization percentage will vary each year. The original version of Exhibit DND-1 includes the application of the ARAM rate of 2.689% and 2.886% for the years 2018 and 2019 respectively, both calculated by the Company.

Additionally, in order to ensure the record is clear, the Consumer Advocate continues to believe that a three-year amortization is both appropriate and consistent with other TPUC rulings. And as noted in Consumer Advocate Response No. 1, the Consumer Advocate believes that Repairs-related EADIT should be treated as Unprotected EADIT, again consistent with other tax dockets and reflected here in the Consumer Advocate's Response.

Notwithstanding the above, please see the attached modifications to Exhibit DND-1, reflecting a 20-year amortization period for Protected EADIT and a five-year period for Unprotected ADIT.

RESPECTFULLY SUBMITTED,



DANIEL P. WHITAKER III (BPR No. 035410)

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This the 20th day March, 2020.


DANIEL P. WHITAKER III
Assistant Attorney General

**Determination of Excess ADIT Balances
Protected and Unprotected**

Response to TPUC Data Request No. 1

Total Federal and State Excess ADIT

Item	Protected	Unprotected (2)	Attachment 3-5)
			(1)
Method/Life	\$ 12,869,192		
Cost of Removal	552,564		
Repairs - M/L		\$ 2,457,864	
Repairs Other		2,588,057	
All Other		(49,171)	
Federal NOL	(801,599)		
Plant Customer Advances		(460,203)	
Plant CWIP		11,763	
CIAC WIP		(5,619)	
Plant 481		110,156	
All Other Non Plant (Amortization)		(429,833)	
Totals	12,620,157	4,223,014	16,843,171
Divided by 20 Year Amortization	<u>20</u>	<u>20</u>	<u>20</u>
	\$ 631,008	\$ 211,151	\$ 842,159
Tax Gross-up Factor	1.3538	1.3538	1.3538
Gross of Tax Amortization	\$ 854,272	\$ 285,860	\$ 1,140,132

The Consumer Advocate's Office refers to this information as the first set of discovery in Phase 2 of the Tax Docket. Identified consistent with new information contained in TAWC testimony submitted December 19, 2019. Includes 2018 and 2019

Tax Gross-Up Calculation

State Tax Rate	6.50%
Income Subject to Federal Tax (1-6.5%)	93.50%
Federal Tax Rate	21.00%
Effective Federal Tax Rate	19.64%
(1) Effective Composite Rate (Effective Federal + State)	26.14%
(2) Reciprocal Gross-up Factor (1-Effective Gross-up Rate)	73.87%
(3) Gross-up Factor (1/Reciprocal Gross-up Factor)	1.3538

TAWC Docket 18-00039
Determination of Excess ADIT Balances
Protected and Unprotected

Response to TPUC Data Request No. 2

Total Federal and State Excess ADIT

Item	Protected	Unprotected (2)	Source: TAWC
			Attachment 3-5) (1)
Method/Life	\$ 12,869,192		
Cost of Removal	552,564		
Repairs - M/L		\$ 2,457,864	
Repairs Other		2,588,057	
All Other		(49,171)	
Federal NOL	(801,599)		
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Plant 481		110,156	
All Other Non Plant (Amortization)		(429,833)	
Totals	12,620,157	4,223,014	16,843,171
Divided by 20 Year Amortization	20	5	
	\$ 631,008	\$ 844,603	\$ 1,475,611
Tax Gross-up Factor	1.3538	1.3538	1.3538
Gross of Tax Amortization	\$ 854,272	\$ 1,143,441	\$ 1,997,713

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