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Corrected Version Of Tennessee-American Water's March 12, 2019 Filing.  
March 13, 2019

## VIA ELECTRONIC FILING

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Hon. David Jones, Chairman  
c/o Tory Lawless  
Tennessee Public Utilities Commission  
502 Deaderick Street, 4<sup>th</sup> Floor  
Nashville, TN 37243

**RE: Tennessee-American Water Company's Response to Commission's  
Investigation of Impacts of Federal Tax Reform on the Public Utility  
Revenue Requirements, TPUC Docket No. 18-00039**

Dear Chairman Jones:

As a supplement to TAWC's Responses to the Consumer Advocate's First Discovery Requests in the above-captioned matter submitted on March 12, 2019, please find enclosed for filing a PDF version of the responses that were timely submitted yesterday. 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

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Attachments

cc: Elaine Chambers, Tennessee-American Water Company  
Daniel Whitaker, Assistant Attorney General, Consumer Advocate Unit (via email)  
Karen H. Stachowski, Assistant Attorney General, Consumer Advocate Unit (via email)

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BUTLER SNOW LLP

**TENNESSEE AMERICAN WATER COMPANY  
DOCKET NO. 18-00039  
FIRST DISCOVERY REQUEST OF THE  
CONSUMER ADVOCATE DIVISION**

**Responsible Witness: Elaine Chambers**

**Question:**

**1-1** Refer to page 4, lines 15-16, of Ms. Bridwell's Direct Testimony. Ms. Bridwell's states, in part, that she relied upon: "...the officers and associates of Tennessee American with knowledge of the facts based on their job responsibilities and activities, . . ." Identify the names and titles of the officers and associates referred to in this section of testimony and describe in detail how each officer and associate contributed to the discussions. Further, describe in detail the "other internal sources" Ms. Bridwell refers to in lines 16-17 of page 4 and to the extent these sources are documents and/or communications, produce them.

**Response:**

Ms. Bridwell is no longer employed by American Water. Individuals relied upon for the development of the exhibit include: Melissa Schwarzell, Sr. Dir Regulatory Services and Kathy Bernhardt, Supvr Income Tax Reporting & Compliance.

Please see the attached document TAWC\_CADDR1\_NUM001\_Attachment, which was used to develop the exhibit.

**Tennessee American Water**

**Docket No. 18-00001 - Operating Income Statement Per Docket No. 18-00001 at 35% Federal Tax with Adjustment for Estimated TCJA Change to Tax Expense**

	A	B	C = A + B
	Per Docket No. 18-00001 Rate Case Update as of 11-30-2013 at 35% Federal Tax	Estimated TCJA Change For 21% Tax Expense	Adjusted
Revenues	\$ 48,890,079	\$ (2,035,031)	\$ 46,855,048
O&M	\$ 23,696,337	\$ (3,886)	\$ 23,692,451
General Tax	\$ 4,510,468		\$ 4,510,468
Depreciation and Amortization	\$ 6,120,168		\$ 6,120,168
State Income Tax Expense	\$ 645,214	\$ (132,024)	\$ 513,190
Federal Income Tax Expense	\$ 4,367,246	\$ (1,899,121)	\$ 2,468,125
Operating Income	<u>\$ 9,550,647</u>		<u>\$ 9,550,647</u>

**Tennessee American**

**Docket No. 18-00001 - Calculation of Tax Expense Change and Gross Up**

		Amount
A	Authorized Federal Income Tax (less FAS 109 and ITC)	\$ 3,750,766
B	A x 21/35	2,250,459
C	Difference	\$ (1,500,306)
D	Gross Up	1.35641
E = C x D	Grossed Up Difference = C x D	\$ (2,035,031)
F = E - C	Gross Up Amount	\$ (534,725)

		% of Gross Up	Amount of Gross Up (F x Item %)	Financial Statement Grouping
G	Forfeited Discounts	-3.2962%	\$ 17,625	O&M Expense
H	Uncollectible Expense	4.0230%	(21,512)	O&M Expense
I	State Income Tax	24.6901%	(132,024)	State Income Tax
J	Federal Income Tax	74.5831%	(398,814)	Federal Income Tax
K = Sum G through J	Total Gross Up (ties to F)		\$ (534,725)	

No.		<u>Rates</u> A/	<u>Increase</u> B/	<u>Rates</u>
	<b>Operating Revenues:</b>			
1	Water Sales Revenues	\$ 41,873,724	\$ 5,200,000	\$ 47,073,724
2	Other Revenues	1,771,318	45,037	1,816,355
3	<b>Total Water Revenue</b>	<u>\$ 43,645,042</u>	<u>\$ 5,245,037</u>	<u>\$ 48,890,079</u>
	<b>Operating &amp; Maintenance Expenses:</b>			
4	Salaries And Wages	\$ 5,188,473	\$ 0	\$ 5,188,473
5	Purchased Water	51,331	0	51,331
6	Purchased Power	2,678,772	0	2,678,772
7	Chemicals	986,930	0	986,930
8	Waste Disposal	213,308	0	213,308
9	Support Services	5,430,920	0	5,430,920
10	Group Insurance	1,778,902	0	1,778,902
11	Pensions	1,317,144	0	1,317,144
12	Regulatory Expense	650,315	0	650,315
13	Insurance Other Than Group	365,057	0	365,057
14	Customer Accounting	1,290,266	54,968	1,345,234
15	Rents	8,720	0	8,720
16	General Office Expense	281,218	0	281,218
17	Miscellaneous	2,115,085	0	2,115,085
18	Maintenance Expense	1,284,928	0	1,284,928
19	<b>Total Operating &amp; Maintenance Expenses</b>	<u>\$ 23,641,369</u>	<u>\$ 54,968</u>	<u>\$ 23,696,337</u>
20	Depreciation Expense	\$ 6,090,861	\$ 0	\$ 6,090,861
21	Amortization Expense	29,307	0	29,307
22	General Taxes	4,510,468	0	4,510,468
23	State Excise Taxes	307,859	337,354	645,214
24	Federal Income Taxes	2,668,795	1,698,450	4,367,246
25	<b>Total Operating Expenses</b>	<u>\$ 37,248,660</u>	<u>\$ 2,090,773</u>	<u>\$ 39,339,432</u>
26	<b>Utility Operating Income</b>	<u>\$ 6,396,382</u>	<u>\$ 3,154,264</u>	<u>\$ 9,550,647</u>

A/ TRA Exhibit, Schedule 7.

B/ TRA Exhibit, Schedule 1.

Line No.		SETTLEMENT A/
1	<b>Operating Revenues</b>	<b>\$ 43,645,042</b>
	<b>Operating Expenses:</b>	
2	Salaries And Wages	\$ 5,188,473
3	Purchased Water	51,331
4	Purchased Power	2,678,772
5	Chemicals	986,930
6	Waste Disposal	213,308
7	Support Services	5,430,920
8	Group Insurance	1,778,902
9	Pensions	1,317,144
10	Regulatory Expense	650,315
11	Insurance Other Than Group	365,057
12	Customer Accounting	1,290,266
13	Rents	8,720
14	General Office Expense	281,218
15	Miscellaneous	2,115,085
16	Maintenance Expense	1,284,928
17	Depreciation Expense	6,090,861
18	Amortization Expense	29,307
19	General Taxes	4,510,468
20	<b>Total Operating Expenses</b>	<b>\$ 34,272,005</b>
21	<b>NOI Before Excise and Income Taxes</b>	<b>\$ 9,373,037</b>
22	AFUDC	-156,984 B/
23	Interest Expense	4,793,726 C/
24	<b>Pre-tax Book Income</b>	<b>\$ 4,736,295</b>
25	Schedule M Adjustments	3,300,973 D/
26	<b>Excise Taxable Income</b>	<b>\$ 1,435,322</b>
27	Excise Tax Rate	6.50%
28	<b>Excise Tax Payable</b>	<b>\$ 93,296</b>
29	Excise Tax - Deferred	214,563
30	<b>State Excise Tax Expense</b>	<b>\$ 307,859</b>
	<b>Pre-tax Book Income</b>	<b>\$ 4,736,295</b>
31	State Excise Tax Expense	307,859
32	Schedule M Adjustments	3,300,973 D/
33	<b>FIT Taxable Income</b>	<b>\$ 1,127,463</b>
34	FIT Rate	35.00%
35	<b>Federal Income Tax Payable</b>	<b>\$ 394,612</b>
36	ITC Amortization	76,368 E/
37	FIT - Deferred	1,657,703
38	FAS 109 Regulatory Asset/Liability Amortization	540,112 F/
39	<b>Federal Income Tax Expense</b>	<b>\$ 2,668,795</b>

A/ CAPD Exhibit, Schedule 7.

B/ CAPD Expense Workpaper E-REC-1.

C/ CAPD Exhibit, Schedule 13.

D/ Company Workpaper Exp 19.1.

E/ CAPD Rate Base Workpaper RB-19-1.00.

F/ Company Workpaper Exp 20.1.

**TENNESSEE-AMERICAN WATER COMPANY**  
Revenue Conversion Factor  
For the 12 Months Ending November 30, 2013

Line				
No.		Amount	Balance	Portion of Gross Up
1	Operating Revenues		1.000000	
2	Add: Forfeited Discounts	0.008661 A/	0.008661	-3.30%
3	Balance		1.008661	
4	Uncollectible Ratio	0.010480 A/	0.010571	4.02%
5	Balance		0.998090	
6	State Excise Tax	0.065000 B/	0.064876	24.69%
7	Balance		0.933214	
8	Federal Income Tax	0.210000 B/	0.195975	74.58%
9	Balance		0.737239	
10	Revenue Conversion Factor (Line 1 / Line 9)		1.356411	

A/ CAPD Revenue Workpaper R-OTHER-2.00.  
B/ Statutory Rates.

**TENNESSEE AMERICAN WATER COMPANY**  
**DOCKET NO. 18-00039**  
**FIRST DISCOVERY REQUEST OF THE**  
**CONSUMER ADVOCATE DIVISION**

**Responsible Witness: Elaine Chambers**

**Question:**

**1-3** Refer to page 9, lines 1-17, of Ms. Bridwell's Direct Testimony. Ms. Bridwell recommends that the benefits of the reduced tax rate, as well as the excess Accumulated Deferred Income Tax (ADIT), be used to offset the Capital Recovery Riders (CRR) until such time as TAWC has its next base rate case. Provide the date the Company intends to file its next general rate case proceeding or to the extent an exact date is unknown, provide the Company's best estimate for when such a proceeding will occur.

**Response:**

The exact date is unknown and even a generalized timeframe is unknown. The need to file general rate relief is regularly evaluated and is dependent on many factors, including the outcome of current regulatory proceedings.



**TENNESSEE AMERICAN WATER COMPANY  
DOCKET NO. 1800039  
FIRST DISCOVERY REQUEST OF THE  
CONSUMER ADVOCATE DIVISION**

**Responsible Witness: Elaine Chambers**

**Question:**

**1-4** Refer to page 9, line 18 through page 10, line14, of Ms. Bridwell's Direct Testimony. On page 9 of Ms. Bridwell's testimony, she refers to the tax expense reduction of \$2,035,031. Confirm that this figure is the tax savings associated with TAWC's existing base rates and not the tax savings associated with its CRR.

**Response:**

Confirmed.

**TENNESSEE AMERICAN WATER COMPANY**  
**DOCKET NO. 1800039**  
**FIRST DISCOVERY REQUEST OF THE**  
**CONSUMER ADVOCATE DIVISION**

**Responsible Witness: Elaine Chambers**

**Question:**

**1-5** Refer to page 10, lines 9-14, of Ms. Bridwell's Direct Testimony. Ms. Bridwell states that the Company's proposal will allow it to continue to support essential infrastructure improvements, economic development, job creation, as well as operating a safe and reliable system. Provide all available evidence indicating, and discuss in detail, how these objectives would not be achievable if TPUC required an immediate rate reduction to reflect the reduced tax savings associated with base rates.

**Response:**

Please refer to the detail in Ms. Bridwell's Direct Testimony on page 7, lines 7 – 10:

“However, an immediate pass-through would reduce Tennessee-American's cash flow, decrease internally-generated funds available for new investments, and stress various financial metrics that directly bear on credit ratings (and interest rates) for new and refunding debt issuances.”

As discussed on page 8 of Ms. Bridwell's Direct Testimony, lines 4 – 10, TAWC proposed in supplemental testimony to Docket No. 17-000124 to adjust the Capital Recovery Rider rates to give an immediate rate reduction via the riders to reflect the reduced tax savings. Although this is not a rate reduction to base rates, it accomplishes the intended result by passing the tax savings directly on to the customers.

Per Mr. Wilde's direct testimony on page 2, lines 29 – 31:

“The [Commission's] Order further directed TAWC and other utilities to submit these calculations together with proposals to reduce rates or make other ratemaking adjustments to account for the tax benefits resulting from the TCJA.”

Proposing the rate reductions through the Capital Rider rates comports with that Commission direction.

**TENNESSEE AMERICAN WATER COMPANY  
DOCKET NO. 1800039  
FIRST DISCOVERY REQUEST OF THE  
CONSUMER ADVOCATE DIVISION**

**Responsible Witness: Elaine Chambers**

**Question:**

**1-6** Provide a copy of TAWC's capital budget for the period 2019 – 2021.

**Response:**

Please see attached a copy of the TAWC's capital plan for the period of 2019-2021.

**STRATEGIC CAPITAL EXPENDITURE PLAN  
PROGRAM**

Business Unit Tennessee  
Revision Date October 17, 2018  
Description TN BP 2019 - 2021 SCEP

Business Unit	Rider	Business Unit No.	Project Title	2019		2020	2021
				Total	2019	Total 2020	Total 2021
RECURRING PROJECTS							
Tennessee	None	DV	Projects Funded by Others		\$1,000,000.00	\$1,000,000.00	\$1,000,000.00
Tennessee	EDI	A	Mains - New		\$1,000,000.00	\$1,622,000.00	\$1,400,000.00
Tennessee	QIIP	B	Mains - Replaced / Restored		\$1,875,000.00	\$2,000,000.00	\$2,000,000.00
Tennessee	QIIP	C	Mains - Unscheduled		\$1,755,000.00	\$1,255,000.00	\$1,255,000.00
Tennessee	QIIP	D	Mains - Relocated		\$275,000.00	\$200,000.00	\$200,000.00
Tennessee	EDI	E	Hydrants, Valves, and Manholes - New		\$144,000.00	\$94,000.00	\$94,000.00
Tennessee	QIIP	F	Hydrants, Valves, and Manholes - Replaced		\$442,000.00	\$398,500.00	\$421,000.00
Tennessee	None	G	Services and Laterals - New		\$1,133,000.00	\$1,133,000.00	\$1,148,800.00
Tennessee	QIIP	H	Services and Laterals - Replaced		\$697,000.00	\$657,000.00	\$663,250.00
Tennessee	None	I	Meters - New		\$269,000.00	\$270,000.00	\$273,800.00
Tennessee	QIIP	J	Meters - Replaced		\$4,255,000.04	\$1,471,110.00	\$1,332,205.00
Tennessee	None	K	ITS Equipment and Systems		\$156,828.00	\$224,377.00	\$238,237.00
Tennessee	SEC	L	SCADA Equipment and Systems		\$142,000.00	\$161,000.00	\$147,500.00
Tennessee	SEC	M	Security Equipment and Systems		\$135,000.00	\$150,000.00	\$100,000.00
Tennessee	None	N	Offices and Operations Centers		\$15,000.00	\$15,000.00	\$15,000.00
Tennessee	None	O	Vehicles		\$615,000.00	\$827,000.00	\$721,000.00
Tennessee	None	P	Tools and Equipment		\$135,000.00	\$135,000.00	\$85,000.00
Tennessee	SEC	Q	Process Plant Facilities and Equipment		\$1,765,000.00	\$1,465,000.00	\$1,644,998.00
Tennessee	QIIP	R	Capitalized Tank Rehabilitation/Painting		\$1,125,000.00	\$1,300,000.00	\$1,600,000.00
Tennessee	None	S	Engineering Studies		\$50,000.00	\$50,000.00	\$50,000.00
Corporate	None	K3	Corporate ITS		\$2,268,000.00	\$1,814,400.00	\$1,795,500.00
RPs					\$15,983,828.04	\$13,427,987.00	\$13,389,790.00
RPs + K3					\$18,251,828.04	\$15,242,387.00	\$15,185,290.00
DV + RP + K3 ITS					\$19,251,828.04	\$16,242,387.00	\$16,185,290.00

					Total 2019	Total 2020	Total 2021
<b>INVESTMENT PROJECTS</b>							
				<b>In Service Date</b>			
Tennessee	QIIP	I26-020027	Construct 1.0MG Tank & 2500-16" ER	9/1/2023	-	-	-
Tennessee	QIIP	I26-020038	Retire Basin 2	11/30/2019	-	-	-
Tennessee	QIIP	I26-020039	Repl Basin 1 & Plate Settlers	10/31/2019	\$2,301,250.00	-	-
Tennessee	SEC	I26-020040	Chlorine Gas Conversion	12/15/2019	\$3,374,646.03	-	-
Tennessee	QIIP	I26-020043	Energy Reduction and Efficiency	7/31/2023	-	-	-
Tennessee	QIIP	I26-020044	New Raw Water Intake Citico	10/1/2021	-	\$250,396.78	\$3,536,621.01
Tennessee	None	I26-020046	New Field Services Facility - Chattanooga	12/31/2020	\$1,276,268.43	\$4,981,483.27	-
Tennessee	SEC	I26-020051	Replace Switch Gear - Citico	12/1/2022	-	-	\$400,000.49
Tennessee	QIIP	I26-050001	Raw Water Intake Improvements - Whitwell	7/1/2024	-	-	-
Tennessee	QIIP	I26-050003	Replace 0.5MG Storage Tanks @ Whitwell	9/15/2021	-	-	\$450,011.20
Tennessee	None	I26-000002	Post Acquisition BD Capex		-	-	-
Tennessee	None	I26-05000x	New Operations Center - Whitwell	7/31/2019	\$256,685.59	-	-
<b>Total Investment Projects</b>					<b>\$7,208,850.05</b>	<b>\$5,231,880.05</b>	<b>\$4,386,632.69</b>

Contributions		(\$240,000.00)	(\$240,000.00)	(\$240,000.00)
Advances		(\$700,000.00)	(\$700,000.00)	(\$700,000.00)
Total Refunds		\$350,000.00	\$350,000.00	\$350,000.00

Gross		\$26,460,678.09	\$21,474,267.05	\$20,571,922.69
Net		\$25,870,678.09	\$20,884,267.05	\$19,981,922.69

Gross minus K3		\$24,192,678.09	\$19,659,867.05	\$18,776,422.69
Net minus K3		\$23,602,678.09	\$19,069,867.05	\$18,186,422.69

**TENNESSEE AMERICAN WATER COMPANY  
DOCKET NO. 1800039  
FIRST DISCOVERY REQUEST OF THE  
CONSUMER ADVOCATE DIVISION**

**Responsible Witness: Elaine Chambers**

**Question:**

**1-7** Does TAWC intend to cut its capital budget if TPUC were to require the immediate flow-back of income tax expense savings to TAWC customers?

**Response:**

No. TAWC does not currently plan to make adjustments in its capital budget if TPUC were to require the flow-back of income tax expenses.

**TENNESSEE AMERICAN WATER COMPANY**  
**DOCKET NO. 1800039**  
**FIRST DISCOVERY REQUEST OF THE**  
**CONSUMER ADVOCATE DIVISION**

**Responsible Witness: Elaine Chambers**

**Question:**

- 1-8** Refer to Ms. Bridwell's testimony on page 11, lines 1 – 11. Has TAWC implemented the Customer Advance Contribution (CAC)/Contributions In Aid of Construction (CIAC) gross-up referenced in this section of testimony? If so, respond to the following:
- a. Has TPUC authorized this increased cost to developers;
  - b. If TPUC has provided such authorization, provide evidence of such authorization;
  - c. If TPUC has not provide such authorization, provide a comprehensive explanation supporting the TAWC conclusion that such authorization is not required to pass this 'tax obligation' to developers;
  - d. Identify the effective date of the change; and
  - e. For each entity so charged, identify the name of the developer and the amount charged related to the CIAC gross-up.

**Response:**

- a. To TAWC's best knowledge, TPUC has not expressly authorized the increased cost to the developer.
- b. Not applicable.
- c. The Company is unaware of a requirement for commission authorization prior to collecting contributions and advances from developers which are adequate to cover the tax costs associated with them. The Company's tariff for main extensions does specify that the collections will be cost based, and the Company believes the collections inclusive to gross up can be reasonably considered to be cost based.
- d. TAWC implemented CIAC gross-up following March 2, 2018.
- e. Please see the table below for the projects that included a CIAC gross-up since March 2, 2018.

Work Order	Project Description	Date Deposit Received	Developer Portion of Project	TCJA Gross-up	Deposit Amount	Deposit Paid By
D26-0201-P-0550	Williams St Relocation	11/1/2018	\$61,974	\$21,928	\$83,902	DPRI, LLC
D26-0201-P-0551	Mackey Avenue	11/1/2018	\$107,502	\$38,036	\$145,538	DreamTech Homes LLC



**TENNESSEE AMERICAN WATER COMPANY  
DOCKET NO. 18-00039  
FIRST DISCOVERY REQUEST OF THE  
CONSUMER ADVOCATE DIVISION**

**Responsible Witness: John R. Wilde**

**Question:**

**1-9** Regarding Ms. Bridwell's testimony on page 11, lines 1 – 11, provide the following:

- a. Identify the accounting entries used to record a situation where the Company passes along the tax costs associated with CAC/CIAC to developers as explained in this section of testimony; and
- b. Identify the accounting entries which would occur in the event TAWC did not pass along such tax obligations to the developer.

**Response:**

See attachment.





**TENNESSEE AMERICAN WATER COMPANY  
DOCKET NO. 18-00039  
FIRST DISCOVERY REQUEST OF THE  
CONSUMER ADVOCATE DIVISION**

**Responsible Witness: Elaine Chambers**

**Question:**

**1-10** Refer to Ms. Bridwell's testimony on page 9, lines 1-17. Concerning the implications of TAWC's Income Tax Expense reduction, discuss in detail whether TAWC is limited to applying the Income Tax Expense savings within infrastructure true-up filings, or is it the position of TAWC that such savings should also apply to the infrastructure rates resulting from its infrastructure budget filing? Provide the theoretical support for the Company's position concerning which dockets in which it would be appropriate to recognize Income Tax Expense savings.

**Response:**

TAWC believes the Commission has provided discretion to utilities to submit proposals to reduce rates to account for the tax benefits resulting from the TCJA. As discussed in John Wilde's direct testimony on page 2, lines 29-31:

"The [Commission] Order further directed TAWC and other utilities to submit these calculations together with proposals to reduce rates or make other ratemaking adjustments to account for the tax benefits resulting from the TCJA."

TAWC has proposed to reduce the Capital Rider rates in both the true-up and infrastructure budget filings to reflect the tax benefits resulting from the TCJA, until such time there is a general rate case or the TCJA refund amount is extinguished. TAWC

believes reducing the Capital Rider rates to reflect the tax benefits is the most immediate way to reflect the tax benefits.

**TENNESSEE AMERICAN WATER COMPANY**  
**DOCKET NO. 18-00039**  
**FIRST DISCOVERY REQUEST OF THE**  
**CONSUMER ADVOCATE DIVISION**

**Responsible Witness: Elaine Chambers**

**Question:**

**1-11** Refer to Ms. Bridwell's testimony on page 9, lines 1-17. Concerning the implications of TAWC Income Tax Expense reduction, in light of the passage of time, provide an update of the Company's position regarding when ongoing Income Tax Expense savings should be implemented.

**Response:**

A. TAWC maintains the position explained in this section of testimony, that the benefits of income tax expense savings can be passed back to customers through the 2018 Capital Recovery Rider reconciliation amounts and Capital Recovery Rider charges for 2019.

Indeed, the Company has requested this treatment in Docket No. 18-00120, the 2019 Capital Rider, as described in detail in the direct testimony of Melissa Schwarzell, as adopted by Elaine Chambers, on page 27, line 5 through page 30, line 2. This treatment request was affirmed in the supplemental testimony of Elaine Chambers, page 8, line 11, through page 9, line 1. She stated "the Company still proposes that the savings from the TCJA be used to prevent any increases in customers' bills. In order to offset the 3.95% combined impact of the 2019 riders, the Company is proposing a TCJA credit of -3.95%. Consequently, the Company is still proposing a 0% rate increase as a result of the 2019 Capital Rider infrastructure investment." This treatment was also requested in Docket No. 19-00031, the 2019 Capital Rider Reconciliation of Calendar Year 2018, as described in Ms. Chambers' testimony, page 35, line 17 through page 36, line 5. She stated "the Company still proposes that the savings from the TCJA be used to prevent any increases in customers' bills. In order to offset the 2.253% combined impact of the 2019 Rider Reconciliation, the Company is proposing an increase to the proposed TCJA credit,

from Docket 18-00120, of -2.253%. The total proposed TCJA credit for the nine months of 2019 would be -6.203%. Consequently, the Company is still proposing a 0% rate increase as a result of the 2019 Capital Rider Recovery and the 2019 Rider Reconciliation of calendar year 2018.”

Regarding Excess Accumulated Deferred Income Tax (“EADIT”), the Company believes it will have a system in place to make accurate EADIT amortization calculations in the second quarter of 2019. The Company would plan to implement those calculations in the next Capital Rider budget filing.

**TENNESSEE AMERICAN WATER COMPANY  
DOCKET NO. 18-00039  
FIRST DISCOVERY REQUEST OF THE  
CONSUMER ADVOCATE DIVISION**

**Responsible Witness: Elaine Chambers**

**Question:**

**1-12** If TAWC does not believe it would be appropriate to reduce rates in Docket 18-00120 to reflect the assignment of Income Tax Expense savings associated with TAWC base rates effective January 1, 2018, provide a comprehensive explanation supporting this position, including how such a position properly balances the interests of TAWC and its ratepayers.

**Response:**

Docket 18-00120 is for the adjustment to the Capital Riders for calendar year 2019. TAWC did propose to reduce the Capital Rider rates reflecting the TCJA savings in this proceeding. The request is described in detail in the direct testimony of Melissa Schwarzell, as adopted by Elaine Chambers, on page 27, line 5 through page 30, line 2. This treatment request was affirmed in the supplemental testimony of Elaine Chambers, page 8, line 11, through page 9, line 1.



**TENNESSEE AMERICAN WATER COMPANY  
DOCKET NO. 18-00039  
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**Responsible Witness: Elaine Chambers**

**Question:**

**1-14** Regarding Ms. Bridwell's testimony on page 5, lines 16-18 (in which the Company identifies tax savings of \$2,035,031), confirm that the appropriate rate reduction that should flow to TAWC ratepayers associated with the reduction in Income Tax Expense incorporated into base rates would need to be grossed-up for Income Tax Savings calculated upon the rate reduction. If not, provide a comprehensive explanation indicating why the application of a tax gross-up factor to the nominal tax savings is not appropriate.

**Response:**

The tax saving figure of \$2,035,031 is inclusive of gross up. The pre-gross up savings amount is \$1,500,306. Please see item 16a from this same set of discovery, for a more detailed discussion of the \$2,035,031 was calculated.

**TENNESSEE AMERICAN WATER COMPANY**  
**DOCKET NO. 1800039**  
**FIRST DISCOVERY REQUEST OF THE**  
**CONSUMER ADVOCATE DIVISION**

**Responsible Witness: Elaine Chambers**

**Question:**

**1-15** Regarding Ms. Bridwell's testimony on page 5, lines 5 – 13, identify the most recent balance and effective date of the regulatory liability amount referenced in this section of testimony, and separate this figure between the individual components of the liability balance.

**Response:**

In February 2019, the balance of deferred revenue was \$2,228,568. This includes \$185,714 presumed to be a long term liability and \$2,042,854 presumed to be a current liability.

**TENNESSEE AMERICAN WATER COMPANY**  
**DOCKET NO. 18-00039**  
**FIRST DISCOVERY REQUEST OF THE**  
**CONSUMER ADVOCATE DIVISION**

**Responsible Witness: Elaine Chambers**

**Question:**

**1-16** Regarding the portion of the liability balance related to Income Tax Expense savings, provide the following:

- a. A comprehensive explanation supporting the methodology used to identify the accrued tax savings;
- b. The monthly balance of the Income Tax Expense savings for the period January 2018 through the most recently monthly balance available; and
- c. Supporting documentation in summary form which supports each monthly balance for the periods referenced in 9(b).

**Response:**

- a) To identify the accrued tax savings, the Company first developed a revenue deferral percentage of base rates. The percent was developed by: 1) evaluating the authorized federal income tax expense from Docket No. 12-00049, excluding tax amortizations, ( $\$4,267,246 - \$540,112 - \$76,368 = \$3,750,766$ ); 2) modifying the authorized amount to reflect a 21% rate instead of a 35% rate, ( $\$3,750,766 \times 21/35 = \$2,250,459$ ); 3) subtracting the modified amount from the authorized amount to find the difference ( $\$3,750,766 - \$2,250,459 = \$1,500,306$ ); 4) grossing up the difference by a gross up factor that considers the lower federal tax rate to find the total tax savings ( $\$1,500,306 \times 1.35641 = \$2,035,031$ ). The total tax savings was then divided by authorized Water Sales Revenue to derive a revenue deferral percentage ( $\$2,035,031 / \$47,073,724 = 4.32\%$ ). For the Excel version of this calculation, please see attachment TAWC\_CADDR1\_NUM001\_Attachment, included in this same discovery set.


The revenue deferral percent was multiplied by the actual water sales each month to identify the appropriate amount of accrued tax savings.

- b) Please see attachment 1.
- c) Please see attachment 2.

TCJA Deferred Revenue Balances for Tennessee American Water  
TAWC\_CADDR1\_NUM016\_Attachment 1

Jan-18	<b>-97,003</b>
Feb-18	<b>-181,502</b>
Mar-18	<b>-483,977</b>
Apr-18	<b>-540,185</b>
May-18	<b>-707,062</b>
Jun-18	<b>-885,987</b>
Jul-18	<b>-1,068,026</b>
Aug-18	<b>-1,241,445</b>
Sep-18	<b>-1,411,450</b>
Oct-18	<b>-1,599,454</b>
Nov-18	<b>-1,764,429</b>
Dec-18	<b>-1,907,336</b>
Jan-19	<b>-2,075,175</b>
Feb-19	<b>-2,228,568</b>

1/1/18-4/30-18					
TENNESSEE 1026	Billed Revenue (incl surchg)	Revenue Estimate	Total Revenue	Rev Reserve % Calc	Monthly Reserve
Residential	5,431,783	33,605	5,465,387	-4.32%	(234,653)
Commercial	4,156,492	56,078	4,212,570	-4.32%	(179,560)
OPA	818,850	29,527	848,377	-4.32%	(35,374)
Industrial	1,019,346	60,616	1,079,962	-4.32%	(44,036)
SFR	274,259	-	274,259	-4.32%	(11,848)
Private Fire	803,563	-	803,563	-4.32%	(34,714)
Total Reserve					(540,185)

Data Entry View							
Document Number	100071886	Company Code	1026	Fiscal Year	2018		
Document Date	05/01/2018	Posting Date	05/01/2018	Period	S		
Reference		Cross-Comp.No.	0100106050101218				
Currency	USD	Test's exist	<input type="checkbox"/>	Ledger Group			
<div></div>							
Co	Item	PK	S	Account	Description	Amount	Text
1026	1	40		40189900	Other Water Revenue	540,185.00	Revenue Reserve for TCJA
	2	50		25632300	RL-TaxCutJobAct - LT	540,165.00	LT Portion of TCJA Revenue Reserve

(540,185) Jan to Apr 2018

(97,003) Jan

(181,502) Feb

(205,472.00) March

(56,208) April

1/1/18 - 1/31/18			
TENNESSEE	Billed Revenue (incl surchg)	Rev Reserve % Calc	Monthly Reserve
Residential	886,000	-4.91%	(43,503)
Commercial	623,000	-4.91%	(30,589)
OPA	145,000	-4.91%	(7,120)
Industrial	132,000	-4.91%	(6,481)
SFR	100,000	-4.91%	(4,910)
Riders	100,000	-4.40%	(4,400)
Total Reserve			(97,003)

January (97,003)

2/1/18 - 2/28/18			
TENNESSEE	Billed Revenue (incl surchg)	Rev Reserve % Calc	Monthly Reserve
Total Base	3,309,143	-4.91%	(162,479)
Riders	432,349	-4.40%	(19,023)
Total Reserve			(181,502)

February (181,502)

3/1/18 - 3/31/18					
TENNESSEE 1026	Billed Revenue (incl surchg)	Unbilled Revenue Estimate	Total Revenue	Rev Reserve % Calc	Monthly Reserve
Residential	3,916,833	99,000	4,015,833	-4.32%	(169,207)
Commercial	2,944,761	94,000	3,038,761	-4.92%	(127,214)
OPA	581,674	28,000	609,674	-4.92%	(25,128)
Industrial	711,230	68,000	779,230	-4.32%	(30,725)
SFR	207,153	-	207,153	-4.92%	(8,949)
Private Fire	589,090	-	589,090	-4.92%	(25,878)
Riders	1,094,644	-	-	-8.85%	(96,876)
Total Reserve					(483,977)

(483,977) Jan to March

(97,003) Jan

(181,502) Feb

(205,472) March

5/1/2018-5/31/18					
TENNESSEE 1026	Billed Revenue (incl surchg)	Unbilled Revenue Estimate	Total Revenue	Rev Reserve % Calc	Monthly Reserve
Residential	1,681,096	233,352	1,914,448	-4.32%	(72,623)
Commercial	1,281,140	(31,407)	1,249,732	-4.32%	(55,345)
OPA	292,219	(94,288)	197,931	-4.32%	(12,624)
Industrial	329,295	(37,149)	292,147	-4.32%	(14,226)
SFR	73,911	-	73,911	-4.32%	(3,193)
Private Fire	205,234	-	205,234	-4.32%	(8,866)
		-	-		
Total Reserve (166,877)					

Data Entry View					
Document Number	100072480	Company Code	1026	Fiscal Year	2018
Document Date	05/31/2018	Posting Date	05/31/2018	Period	5
Reference		Cross-Comp.No.	0100107224101218		
Currency	USD	Texts exist	<input type="checkbox"/>	Ledger Group	

Co...	Itm	PK	S	Account	Description	Amount	Text
1026	1	40		40189900	Other Water Revenue	166,877.09	Revenue Reserve for TCJA
	2	50		25632300	RL-TaxCutJobAct - LT	166,877.09-	LT Portion of TCJA Revenue Reserve



Jun 2018					
TENNESSEE 1026	Billed Revenue (incl surchg)	Unbilled Revenue Estimate	Total Revenue	Rev Reserve % Calc	Monthly Reserve
Residential	1,959,980		1,959,980	-4.32%	(84,671)
Commercial	1,281,140		1,281,140	-4.32%	(55,345)
OPA	292,219		292,219	-4.32%	(12,624)
Industrial	329,295		329,295	-4.32%	(14,226)
SFR	73,911		73,911	-4.32%	(3,193)
Private Fire	205,234		205,234	-4.32%	(8,866)
Total Reserve (178,925)					

Document Number	100074204	Company Code	1026	Fiscal Year	2018
Document Date	06/30/2018	Posting Date	06/30/2018	Period	6
Reference		Cross-Comp.No.	0100109417101218		
Currency	USD	Texts exist	<input type="checkbox"/>	Ledger Group	

Co...	Item	PK	S	Account	Description	Amount	Text
1026	1	40		40189900	Other Water Revenue	178,924.86	Revenue Reserve for TCJA
	2	50		24199500	RL-TaxCutJobAct-Curr	221,496.74	Current Portion of TCJA Revenue Reserve
	3	40		25632300	RL-TaxCutJobAct - LT	42,571.88	LT Portion of TCJA Revenue Reserve



Jul 2018					
TENNESSEE 1026	Billed Revenue (incl surchg)	Unbilled Revenue Estimate	Total Revenue	Rev Reserve % Calc	Monthly Reserve
Residential	1,889,376		1,889,376	-4.32%	(81,621)
Commercial	1,355,444		1,355,444	-4.32%	(58,555)
OPA	294,509		294,509	-4.32%	(12,723)
Industrial	350,731		350,731	-4.32%	(15,152)
SFR	120,296		120,296	-4.32%	(5,197)
Private Fire	203,506		203,506	-4.32%	(8,791)
Total Reserve (182,039)					

Document Number	100075673	Company Code	1026	Fiscal Year	2018
Document Date	07/31/2018	Posting Date	07/31/2018	Period	7
Reference		Cross-Comp.No.	0100111542101218		
Currency	USD	Texts exist	<input type="checkbox"/>	Ledger Group	



Co...	Itm	PK	S	Account	Description	Amount	Text
1026	1	40		40189900	Other Water Revenue	182,038.80	Revenue Reserve for TCJA
	2	50		24199500	RL-TaxCutJobAct-Curr	134,511.84-	Current Portion of TCJA Revenue Reserve
	3	50		25632300	RL-TaxCutJobAct - LT	47,526.96-	LT Portion of TCJA Revenue Reserve

8/1/2018					
TENNESSEE 1026	Billed Revenue (incl surchg)	Unbilled Revenue Estimate	Total Revenue	Rev Reserve % Calc	Monthly Reserve
Residential	1,745,644		1,745,644	-4.32%	(75,412)
Commercial	1,314,991		1,314,991	-4.32%	(56,808)
OPA	297,984		297,984	-4.32%	(12,873)
Industrial	339,733		339,733	-4.32%	(14,676)
SFR	112,011		112,011	-4.32%	(4,839)
Private Fire	203,976		203,976	-4.32%	(8,812)
Total Reserve (173,419)					

#### Data Entry View

Document Number	100077815	Company Code	1026	Fiscal Year	2018
Document Date	08/31/2018	Posting Date	08/31/2018	Period	8
Reference		Cross-Comp.No.			
Currency	USD	Texts exist	<input type="checkbox"/>	Ledger Group	



Co...	Itm	PK	S	Account	Description	Amount	Text
1026	1	40		40189900	Other Water Revenue	173,419.44	Revenue Reserve for TCJA
	2	50		24199500	RL-TaxCutJobAct-Curr	161,260.25-	Current Portion of TCJA Revenue Reserve
	3	50		25632300	RL-TaxCutJobAct - LT	12,159.19-	LT Portion of TCJA Revenue Reserve

9/1/2018					
TENNESSEE 1026	Billed Revenue (incl surchg)	Unbilled Revenue Estimate	Total Revenue	Rev Reserve % Calc	Monthly Reserve
Residential	1,676,195		1,676,195	-4.32%	(72,412)
Commercial	1,278,704		1,278,704	-4.32%	(55,240)
OPA	286,702		286,702	-4.32%	(12,386)
Industrial	360,608		360,608	-4.32%	(15,578)
SFR	129,097		129,097	-4.32%	(5,577)
Private Fire	203,995		203,995	-4.32%	(8,813)
			-		
Total Reserve					(170,005)

#### Data Entry View

Document Number  Company Code  Fiscal Year   
 Document Date  Posting Date  Period   
 Reference  Cross-Comp.No.   
 Currency  Texts exist ☐ Ledger Group



Co...	Itm	PK	S	Account	Description	Amount	Text
1026	1	40		40189900	Other Water Revenue	170,005.03	Revenue Reserve for TCJA
	2	50		24199500	RL-TaxCutJobAct-Curr	188,456.28-	Current Portion of TCJA Revenue Reserve
	3	40		25632300	RL-TaxCutJobAct - LT	18,451.25	LT Portion of TCJA Revenue Reserve



10/1/2018					
TENNESSEE 1026	Billed Revenue	Unbilled Revenue Estimate	Total Revenue	Rev Reserve % Calc	Monthly Reserve
Residential	1,936,323		1,936,323	-4.32%	(83,649)
Commercial	1,446,728		1,446,728	-4.32%	(62,499)
OPA	318,763		318,763	-4.32%	(13,771)
Industrial	353,611		353,611	-4.32%	(15,276)
SFR	93,920		93,920	-4.32%	(4,057)
Private Fire	202,603		202,603	-4.32%	(8,752)
			-		
			Total Reserve		(188,004)

Data Entry View					
Document Number	100080575	Company Code	1026	Fiscal Year	2018
Document Date	10/31/2018	Posting Date	10/31/2018	Period	10
Reference		Cross-Comp.No.			
Currency	USD	Texts exist	<input type="checkbox"/>	Ledger Group	



Co...	Itm	PK	S	Account	Description	Amount	Text
1026	1	40		40189900	Other Water Revenue	188,004.12	Revenue Reserve for TCJA
	2	50		24199500	RL-TaxCutJobAct-Curr	227,289.92-	Current Portion of TCJA Revenue Reserve
	3	40		25632300	RL-TaxCutJobAct - LT	39,285.80	LT Portion of TCJA Revenue Reserve

11/1/2018					
TENNESSEE 1026	Billed Revenue	Unbilled Revenue Estimate	Total Revenue	Rev Reserve % Calc	Monthly Reserve
Residential	1,641,596		1,641,596	-4.32%	(70,917)
Commercial	1,301,891		1,301,891	-4.32%	(56,242)
OPA	272,045		272,045	-4.32%	(11,752)
Industrial	328,623		328,623	-4.32%	(14,197)
SFR	66,814		66,814	-4.32%	(2,886)
Private Fire	207,891		207,891	-4.32%	(8,981)
			-		
			Total Reserve		(164,975)

#### Data Entry View

Document Number	100081857	Company Code	1026	Fiscal Year	2018
Document Date	11/30/2018	Posting Date	11/30/2018	Period	11
Reference		Cross-Comp.No.			
Currency	USD	Texts exist	<input type="checkbox"/>	Ledger Group	



Co...	Itm	PK	S	Account	Description	Amount	Text
1026	1	40		40189900	Other Water Revenue	164,974.75	Revenue Reserve for TCJA
	2	50		24199500	RL-TaxCutJobAct-Curr	243,271.03	Current Portion of TCJA Revenue Reserve
	3	40		25632300	RL-TaxCutJobAct - LT	78,296.28	LT Portion of TCJA Revenue Reserve

12/1/2018					
TENNESSEE 1026					
	Billed Revenue	Unbilled Revenue Estimate	Total Revenue	Rev Reserve % Calc	Monthly Reserve
Residential	1,468,535		1,468,535	-4.32%	(63,441)
Commercial	1,089,584		1,089,584	-4.32%	(47,070)
OPA	225,003		225,003	-4.32%	(9,720)
Industrial	253,150		253,150	-4.32%	(10,936)
SFR	67,169		67,169	-4.32%	(2,902)
Private Fire	204,598		204,598	-4.32%	(8,839)
			-		
			Total Reserve		(142,907)

Document Number	100082945	Company Code	1026	Fiscal Year	2018
Document Date	12/31/2018	Posting Date	12/31/2018	Period	12
Reference		Cross-Comp.No.			
Currency	USD	Texts exist	<input type="checkbox"/>	Ledger Group	

Co...	Item	PK	S	Account	Description	Amount	Text
1026	1	40		40189900	Other Water Revenue	142,907.30	Revenue Reserve for TCJA
	2	50		24199500	RL-TaxCutJobAct-Curr	254,216.23	Current Portion of TCJA Revenue Reserve
	3	40		25632300	RL-TaxCutJobAct - LT	111,308.93	LT Portion of TCJA Revenue Reserve



1/31/2019					
TENNESSEE 1026	Billed Revenue	Unbilled Revenue Estimate	Total Revenue	Rev Reserve % Calc	Monthly Reserve
Residential	1,739,459		1,739,459	-4.32%	(75,145)
Commercial	1,280,047		1,280,047	-4.32%	(55,298)
OPA	246,445		246,445	-4.32%	(10,646)
Industrial	338,040		338,040	-4.32%	(14,603)
SFR	75,394		75,394	-4.32%	(3,257)
Private Fire	205,776		205,776	-4.32%	(8,890)
			-		
			Total Reserve		(167,839)

**Data Entry View**

Document Number: 100084338      Company Code: 1026      Fiscal Year: 2019

Document Date: 01/31/2019      Posting Date: 01/31/2019      Period: 1

Reference:      Cross-Comp.No.:     

Currency: USD      Texts exist: ☐      Ledger Group:     

Co...	Item	PK	S	Account	Description	Amount	Text
1026	1	40		40189900	Other Water Revenue	167,838.96	Revenue Reserve for TCJA
	2	50		24199500	RL-TaxCutJobAct-Curr	298,810.50-	Current Portion of TCJA Revenue Reserve
	3	40		25632300	RL-TaxCutJobAct - LT	130,971.54	LT Portion of TCJA Revenue Reserve

2/1/2019					
TENNESSEE 1026	Billed Revenue	Unbilled Revenue Estimate	Total Revenue	Rev Reserve % Calc	Monthly Reserve
Residential	1,508,129		1,508,129	-4.32%	(65,151)
Commercial	1,179,678		1,179,678	-4.32%	(50,962)
OPA	249,247		249,247	-4.32%	(10,767)
Industrial	331,656		331,656	-4.32%	(14,328)
SFR	76,822		76,822	-4.32%	(3,319)
Private Fire	205,227		205,227	-4.32%	(8,866)
Total Reserve					(153,393)

**Data Entry View**

Document Number: 100085571      Company Code: 1026      Fiscal Year: 2019

Document Date: 02/28/2019      Posting Date: 02/28/2019      Period: 2

Reference:      Cross-Comp.No.:      Texts exist: ☐      Ledger Group:

Currency: USD

---

Co...    Itm    PK    S    Account    Description    Amount    Text

1026	1	40		40189900	Other Water Revenue	153,392.79	Revenue Reserve for TCJA
	2	50		24199500	RL-TaxCutJobAct-Curr	313,541.34	Current Portion of TCJA Revenue Reserve
	3	40		25632300	RL-TaxCutJobAct - LT	160,148.55	LT Portion of TCJA Revenue Reserve



**TENNESSEE AMERICAN WATER COMPANY**  
**DOCKET NO. 18-00039**  
**FIRST DISCOVERY REQUEST OF THE**  
**CONSUMER ADVOCATE DIVISION**

**Responsible Witness: Elaine Chambers and John R. Wilde**

**Question:**

**1-17A** Produce and identify all journal entries reflecting the implementation of the TCJA, list the date the journal entry was created, and provide a detailed description of each entry, including all source and support.

**Response:**

There are multiple parts to the implementation of the TCJA.

The first part relates to the monthly deferral of revenue since January 1, 2018. Please see TAWC\_CADDR1\_NUM016\_Attachment2 for the journal entry information related to revenue deferral these entries.

The second part relates to the accumulated deferred income taxes (ADIT) measured at 35% that due to the TCJA and Generally Accepted Accounting Principles, needs to be restated to 21% at the time of enactment. Over time the Company has collected from customers deferred taxes at 35%, but now when they turn around, the Company will only be paying at 21%. This excess ADIT needs to be returned to customers. After determining the excess ADIT, it is grossed up to its pretax equivalent and booked to a regulated liability account. No amortization has started at this time.

See "TAWC\_CADDR1\_NUM017A\_Attachment2". Starting in December 2017, the initial estimate of this regulated liability was booked. Below is the journal entry:

**Display Document: Data Entry View**

Display Currency General Ledger View

Data Entry View

Document Number 100066162 Company Code 1026 Fiscal Year 2017  
 Document Date 12/31/2017 Posting Date 12/31/2017 Period 12  
 Reference  Cross-Comp.No. 0100198128101017  
 Currency USD Texts exist ☐ Ledger Group

Co...	Item	PK	S	Account	Description	Amount	Curr.	Tx	Assignment	Text
1026	1	40		18505100	RA-ITRtR-St TaxChge	16,390.00	USD			2017 Fed Reg Asset
	2	50		25621000	RL-ITRR-ExcDef FIT	23,731,618.00-	USD			2017 Fed Reg Asset
	3	40		25311000	Def FIT Liab-Other	22,148,400.00	USD			2017 Fed Reg Asset
	4	40		25321000	Def SIT Liab-Other	1,566,828.00	USD			2017 Fed Reg Asset

At December 2018, this amount was trued up mainly for the effects of the difference between the 2017 yearend provision estimate and the 2017 tax return filed in October 2018. See below:

**Display Document: Data Entry View**

Display Currency General Ledger View

Data Entry View

Document Number 100083652 Company Code 1026 Fiscal Year 2018  
 Document Date 12/31/2018 Posting Date 12/31/2018 Period 12  
 Reference  Cross-Comp.No. 0100252163101018  
 Currency USD Texts exist ☐ Ledger Group

Co...	Item	PK	S	Account	Description	Amount	Curr.	Tx	Assignment	Text
1026	1	40		25311000	Def FIT Liab-Other	10,580.00	USD			2018 Fed Reg Liab true up
	2	40		25321000	Def SIT Liab-Other	45.00	USD			2018 Fed Reg Liab true up
	3	50		25621000	RL-ITRR-ExcDef FIT	11,523.00-	USD			2018 Fed Reg Liab true up
	4	40		18505100	RA-ITRtR-St TaxChge	898.00	USD			2018 Fed Reg Liab true up

Tennessee-American Water  
TAWC\_CADDR1\_NUM017A

Appt State	6.658%
Federal	21%
Blended rate	26.260%

2017		
<u>Excess ADIT</u>	<u>Excess w Gross Up</u>	<u>Gross UP</u>
(17,499,774)	(23,731,618)	6,231,844
12,086	16,390	(4,304)
(17,487,688)	(23,715,228)	6,227,540

Appt State	6.658%
Federal	21%
Blended rate	26.260%

2018		
<u>Excess ADIT</u>	<u>Excess w Gross Up</u>	<u>Gross UP</u>
(17,508,271)	(23,743,140)	6,234,869
12,748	17,288	(4,540)
(17,495,523)	(23,725,853)	6,230,330

	2018 true up
	(11,523)
	898
2018 true up	(10,625)

**TENNESSEE AMERICAN WATER COMPANY**  
**DOCKET NO. 18-00039**  
**FIRST DISCOVERY REQUEST OF THE**  
**CONSUMER ADVOCATE DIVISION**

**Responsible Witness: John R. Wilde**

**Question:**

**1-17B** Refer to page 5, lines 21-23, of Mr. Wilde's Direct Testimony. Mr. Wilde states that great care must be taken because errors could result in violations of normalization rules. Is it the Company's position that inadvertent errors can result in the loss of the benefits of accelerated tax depreciation? If so, identify and provide all documentation supporting this conclusion.

**Response:**

The Internal Revenue Service issued Rev Proc 2017-47 (see attached file - TAWC\_CADDR1\_NUM017B\_Attachment) regarding inadvertent errors related to Section 168(i)(9) (normalization rules) of the Internal Revenue Code. It applies when a taxpayer has unintentionally failed to follow a practice or procedure that is consistent with the normalization rules in one or more years. The inadvertent error can be fixed in the next available opportunity. This does not mean though that a decision can be made today to intentionally disregard the rules and fix it later. This is basically stated on page 8 as follows:

*...a taxpayer's Inconsistent Practice or Procedure is neither inadvertent nor unintentional if the Taxpayer's Regulator specifically considered and specially addressed the application of the Normalization Rules to the Inconsistent Practice or Procedure in establishing or approving the taxpayer's rates even if at the time of such consideration the Taxpayer's Regulator did not believe the practice or procedure was inconsistent with the Normalization Rules.*

Mr. Wilde states that great care must be taken because if, after reviewing and discussing the rules and considering the facts in the proceeding by the Company and the Regulator,

the decision is not in line with the rules and facts, it will most likely not be considered inadvertent.

It is the Company's position that inadvertent errors will most likely not result in the loss of benefits of accelerated tax depreciation, but taking any position in this current proceeding that does not attempt to follow the normalization rules after careful consideration and discussion of the facts, will most likely result in a loss of the benefit.

# Safe Harbor for Inadvertent Normalization Violations

Rev. Proc. 2017-47

## SECTION 1. PURPOSE

This revenue procedure provides a safe harbor concerning inadvertent or unintentional uses of a practice or procedure that is inconsistent with §§ 50(d)(2) and 168(i)(9) of the Internal Revenue Code of 1986, as amended (Code), which require the use of the Normalization Rules (as defined in section 4.04 of this revenue procedure). If the safe harbor under section 5 of this revenue procedure applies, the Internal Revenue Service (Service) will not assert that a taxpayer's inadvertent or unintentional use of a practice or procedure that is inconsistent with §§ 50(d)(2) and 168(i)(9) of the Code constitutes a violation of the Normalization Rules. This revenue procedure does not limit or change the process by which a taxpayer may request a letter ruling or a referral for a technical advice memorandum that the taxpayer's proposed practice or procedure is consistent or inconsistent with the Normalization Rules.

## SECTION 2. BACKGROUND

In general, normalization is a system of accounting used by regulated public utilities to reconcile the tax treatment of the Investment Tax Credit (ITC) or accelerated depreciation of public utility assets with their regulatory treatment. Under normalization, a utility receives the tax benefit of the ITC or accelerated depreciation in the early years

of an asset's regulatory useful life and passes that benefit on to ratepayers ratably over the regulatory useful life in the form of reduced rates. The remainder of this section 2 describes the intent of Congress in adopting the Normalization Rules and their operation under the Code and Income Tax Regulations.

.01 Congressional Intent. Congress had two principal objectives in adopting the Normalization Rules. The first objective was to preserve the utility's incentive to invest. Congress enacted the ITC and accelerated depreciation to stimulate investment. These incentives were not intended to subsidize the consumption of any products or services, including utility products or services. Recognizing that public utility rates are set based on the utility's costs incurred to provide the utility service, including federal income tax expense, Congress enacted a set of rules to assure that some or all of the value of the incentives it provided for utility capital investment would not be diverted from investment by utilities to lower prices for consumption by customers of utilities.

The second objective was to protect the government's tax revenue. Congress reasoned that when a utility elected accelerated depreciation and its regulator lowered rates to reflect the resulting tax benefit, the federal government would experience a reduction in tax revenue twice: once from the added accelerated depreciation deductions taken by the utility, and again from the decline in the revenue received by the utility as a result of its lower rates. See S. Rep. No. 91-552, at 17 (1969). The same impact results if a utility is permitted to flow through the benefit of its ITC to customers.

.02 Depreciation. Section 168 of the Code provides taxpayers generally with the

benefits of the accelerated cost recovery system in the computation of their depreciation deduction for federal income tax purposes. Section 168(f) provides the description of certain property for which the benefits of § 168 do not apply. Section 168(f)(2) provides that § 168 does not apply to any public utility property, as defined in § 168(i)(10), if the taxpayer does not use a normalization method of accounting. In general, § 168(i)(10) defines “public utility property” as property used predominantly in the trade or business of furnishing or selling (A) electrical energy, water, or sewage disposal services, (B) gas or steam through a local distribution system, (C) certain communications services, or (D) the transportation of gas or steam by pipeline, if rates for such furnishing or sale are established or approved by a State (including the District of Columbia) or political subdivision thereof, any agency or instrumentality of the United States, or a public service or public utility commission or other body of any State or political subdivision thereof.

Section 168(i)(9) describes what constitutes a “normalization method of accounting.” The rules provided in § 168(i)(9) recognize that the rates a regulated public utility is permitted to charge its customers are established or approved by regulators based on the utility’s cost of service taking into account the depreciation of assets and federal income tax expense. The Normalization Rules under § 168(i)(9)(A)(i) require the taxpayer to compute the federal income tax expense taken into account in setting its rates using a depreciation method that is the same as, and a depreciation period that is no shorter than, the method and period used to compute the depreciation expense for purposes of computing rates. Under § 168(i)(9)(A)(ii), a taxpayer must account for any



difference between its federal income tax expense taken into account in computing its rates and the actual federal income tax it pays as a reserve for deferred taxes. If the taxpayer uses estimates or projections in determining for rate-making purposes its tax expense, depreciation expense, or reserve for deferred taxes, the Normalization Rules under § 168(i)(9)(B) require the use of consistent estimates or projections with respect to the other two items and rate base.

Section 1.167(l)-1(a)(1) of the Income Tax Regulations provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under § 167 of the Code and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account.

.03 Investment Tax Credit. Section 46 of the Code sets forth certain investment credits against income tax. Section 50(d) provides special rules for certain taxpayers to qualify for those credits, including § 50(d)(2), which provides that rules similar to the limitations provided under former § 46(f) applicable to public utility property prior to the enactment of the Revenue Reconciliation Act of 1990, Pub. L. No. 101-508, Title XI, 104 Stat. 1388, shall apply to certain regulated companies. The Tax Reform Act of 1986, Pub. L. No. 99-514, 100 Stat. 2085, repealed the ITC generally with respect to public utility property placed in service after 1985; however, due to the long useful life of much public utility property, these provisions retain their vitality.

Under the general rule of former § 46(f), those regulated companies are not entitled to the ITC if either the taxpayer's cost of service or rate base for ratemaking purposes is reduced by any portion of the credit. However, the statute provides important exceptions. Former § 46(f)(1) provides that the ITC may not be used to reduce the taxpayer's cost of service, but may be used to reduce rate base, if such reduction is restored not less rapidly than ratably. Former § 46(f)(2) provides an election under which a taxpayer is permitted to take into account a ratable portion of the ITC for purposes of determining cost of service, but is not permitted to reduce the base to which the taxpayer's rate of return for ratemaking purposes is applied by any portion of the credit. A utility taxpayer elects either former § 46(f)(1) or former § 46(f)(2) and that choice applies to all public utility property of the taxpayer. A taxpayer that does not specifically elect former § 46(f)(2) is subject to the general rule of former § 46(f)(1).

Former § 46(f)(6) provides that for purposes of determining ratable portions, the period of time used in computing depreciation expense for purposes of reflecting operating results in the taxpayer's regulated books of account is to be used. Under § 1.46-6(g)(2) of the Income Tax Regulations, "ratable" is determined by considering the period of time actually used in computing the taxpayer's regulated depreciation expense for the property for which a credit is allowed. "Regulated depreciation expense" is the depreciation expense for the property used by a regulatory body for purposes of establishing the taxpayer's cost of service for ratemaking purposes.

.04 Application of Sanctions for Failure to Use a Normalization Method of Accounting. Former § 46(f)(4)(A) provides that there is no disallowance of a credit

before the first final inconsistent determination is put into effect for the taxpayer's former § 46(f) property. Section 1.46-6(f)(4) provides that the ITC is disallowed for any former § 46(f) property placed in service by a taxpayer (a) before the date a final inconsistent determination by a regulatory body is put into effect, and (b) on or after such date and before the date a subsequent consistent determination is put into effect.

Section 1.46-6(f)(7) provides that the term "determination" refers to a determination made with respect to former § 46(f) property (other than property to which an election under former § 46(f)(3) applies) by a regulatory body described in former § 46(c)(3)(B) that determines the effect of the credit (a) for purposes of former § 46(f)(1), on the taxpayer's cost of service or rate base for ratemaking purposes, or (b) for a taxpayer that made an election under former § 46(f)(2), on the taxpayer's cost of service, for ratemaking purposes or in its regulated books of account, or on the taxpayer's rate base for ratemaking purposes.

Section 1.46-6(f)(8)(i) provides that "inconsistent" refers to a determination that is inconsistent with former § 46(f)(1) or former § 46(f)(2). For example, a determination to reduce the taxpayer's cost of service by more than a ratable portion of the ITC would be a determination that is inconsistent with former § 46(f)(2). Section 1.46-6(f)(8)(ii) provides that the term "consistent" refers to a determination that is consistent with former § 46(f)(1) or former § 46(f)(2). Section 1.46-6(f)(8)(iii) provides that the term "final determination" means a determination by a regulatory body with respect to which all rights of appeal or to request a review, a rehearing, or a redetermination have been exhausted or have lapsed.

The Senate Finance Committee Report to the Tax Reduction Act of 1975 addressed the importance of the final determination by stating that “if a regulatory agency requires the flowing through of a company’s additional investment credit at a rate faster than permitted, or insists upon a greater rate base adjustment than is permitted, the additional investment credit is to be disallowed, but only after a final determination . . . is put into effect.” S. Rep. No. 94-36, at 44-45 (1975).

Unlike most tax provisions the sanctions imposed under the Normalization Rules were not intended to directly increase or decrease federal tax revenues. They were intended to discourage the flow through of tax benefits to customers in order to allow utilities to benefit from the underlying depreciation and ITC provisions and prevent the loss of revenue the federal government would suffer if the benefits were flowed through to customers.

In addition, in discussing the limitations on the ratemaking treatment of the ITC under § 46(e)(1) and (e)(2), the Senate Finance Committee Report concerning the Revenue Act of 1971, P.L. 92-178, 85 Stat. 497, indicates that the Committee hoped that the sanctions of disallowance of the ITC would not have to be imposed. S. Rep. No. 92-437, at 41 (1971).

### SECTION 3. SCOPE

.01 This revenue procedure applies to a taxpayer that:

(1) owns Public Utility Property (as defined in section 4.03 of this revenue procedure);

(2) has inadvertently or unintentionally failed to follow a practice or procedure that

is consistent with the Normalization Rules (as defined in section 4.04 of this revenue procedure) in one or more years;

(3) upon recognizing its failure to comply with the Normalization Rules, the taxpayer changes its Inconsistent Practice or Procedure (as defined in section 4.06 of this revenue procedure) to a Consistent Practice or Procedure (as defined in section 4.05 of this revenue procedure) at the Next Available Opportunity (as defined in section 4.07 of this revenue procedure) in a manner that totally reverses the effect of the Inconsistent Practice or Procedure, provided the Taxpayer's Regulator (as defined in section 4.01 of this revenue procedure) adopts or approves the change; and

(4) retains contemporaneous documentation that clearly demonstrates the effects of the Inconsistent Practice or Procedure and the change to a Consistent Practice or Procedure adopted or approved by the Taxpayer's Regulator.

.02 For purposes of section 3.01(2) of this revenue procedure, a taxpayer's Inconsistent Practice or Procedure is neither inadvertent nor unintentional if the Taxpayer's Regulator specifically considered and specially addressed the application of the Normalization Rules to the Inconsistent Practice or Procedure in establishing or approving the taxpayer's rates even if at the time of such consideration the Taxpayer's Regulator did not believe the practice or procedure was inconsistent with the Normalization Rules.

## SECTION 4. DEFINITIONS

### .01 Taxpayer's Regulator

Taxpayer's Regulator means a State (including the District of Columbia) or political

subdivision thereof, any agency or instrumentality of the United States, or a public service or public utility commission or other body of any State or political subdivision thereof that establishes or approves the rates of the taxpayer.

.02 Rate Proceeding

Rate Proceeding means a proceeding in which the Taxpayer's Regulator establishes or approves the taxpayer's rates.

.03 Public Utility Property

Public Utility Property has the meaning provided in former § 46(f)(5) or in § 168(i)(10), and the applicable Income Tax Regulations.

.04 Normalization Rules

The Normalization Rules mean, in the case of the ITC, the rules provided by former § 46(f), as in effect on the day before the date of enactment of the Revenue Reconciliation Act of 1990, and the Income Tax Regulations thereunder, and, in the case of the accelerated cost recovery system for depreciation, the rules provided by § 168(i)(9), as in effect on the day before the date of enactment of the Revenue Reconciliation Act of 1990, and the Income Tax Regulations thereunder.

.05 Consistent Practice or Procedure

A Consistent Practice or Procedure means a practice or procedure followed by the taxpayer and the Taxpayer's Regulator that is consistent with the Normalization Rules.

.06 Inconsistent Practice or Procedure

An Inconsistent Practice or Procedure means a practice or procedure followed by the taxpayer and the Taxpayer's Regulator that is inconsistent with the Normalization Rules.

.07 Next Available Opportunity

(1) In the case of a taxpayer without a Rate Proceeding pending before the Taxpayer's Regulator, the Next Available Opportunity means the next Rate Proceeding.

(2) In the case of a taxpayer with a Rate Proceeding currently pending before the Taxpayer's Regulator, the Next Available Opportunity means the currently pending proceeding, unless the rules of the Taxpayer's Regulator or applicable state or federal law (at the time the Inconsistent Practice or Procedure is identified) preclude the taxpayer from initiating a change from an Inconsistent Practice or Procedure to a Consistent Practice or Procedure in the currently pending proceeding, in which case the currently pending proceeding shall not be the Next Available Opportunity, and the Next Available Opportunity means the next Rate Proceeding.

(3) If, at the conclusion of a Rate Proceeding, the taxpayer has a private letter ruling request pending before the Service to address whether or not a practice or procedure addressed in the Rate Proceeding is a Consistent Practice or Procedure, and the Taxpayer's Regulator later establishes or approves rates subject to adjustment from the effective date of the unadjusted rates in order to conform to the Service's ruling, the taxpayer shall have corrected its Inconsistent Practice or Procedure at the Next Available Opportunity.

SECTION 5. APPLICATION

.01 For any taxpayer described in section 3 of this revenue procedure, the Service will not assert that the Inconsistent Practice or Procedure constitutes a violation of the Normalization Rules and will not deny that taxpayer the benefits of the ITC and/or

accelerated depreciation. In any tax year ending after the taxpayer has identified an Inconsistent Practice or Procedure, but in which the taxpayer has not changed to a Consistent Practice or Procedure because the taxpayer has not reached the year that presents the taxpayer with its Next Available Opportunity, the taxpayer must include in its return a statement described in section 5.02 of this revenue procedure. If the taxpayer makes the representation described in section 5.02(3) of this revenue procedure, the Service will not assert that the Inconsistent Practice or Procedure is a violation of the Normalization Rules and will not challenge the taxpayer's use of the identified Inconsistent Practice or Procedure unless the taxpayer does not change to a Consistent Practice or Procedure at the Next Available Opportunity.

.02 A statement is described in this section 5.02 if:

- (1) The top of the statement is marked "FILED PURSUANT TO REV. PROC. 2017-47";
- (2) The statement identifies the taxpayer's Inconsistent Practice or Procedure; and
- (3) The statement includes a representation by the taxpayer of its intention to change to a Consistent Practice or Procedure at the Next Available Opportunity.

## SECTION 6. EFFECTIVE DATE

This revenue procedure is effective for taxable years ending on or after December 31, 2016. However, the Service will not challenge any Inconsistent Practice or Procedure in any earlier taxable year provided that the requirements of sections 3 and 5 of this revenue procedure are satisfied by the taxpayer with respect to the



Inconsistent Practice or Procedure in such taxable year.

## SECTION 7. PAPERWORK REDUCTION ACT

The collections of information contained in this revenue procedure have been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545-2276.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number.

The collections of information are in sections 3 and 5 of this revenue procedure and are required for a taxpayer to apply the safe harbor provided by this revenue procedure. This information is required to be collected and retained to clearly demonstrate the effects of a taxpayer's Inconsistent Practice or Procedure and the taxpayer's change to a Consistent Practice or Procedure adopted or approved by the Taxpayer's Regulator. The taxpayer must also include a statement in its federal income tax return identifying the Inconsistent Practice or Procedure and representing its intention to change to a Consistent Practice or Procedure at the Next Available Opportunity. The likely respondents are corporations or partnerships that are regulated public utilities.

The estimated total annual reporting burden is 1,800 hours.

The estimated annual burden per respondent varies from 10 hours to 14 hours, depending on individual circumstances, with an estimated average burden of 12 hours to collect and retain contemporaneous documentation and to complete the statement required under this revenue procedure. The estimated number of respondents is 150.

The estimated annual frequency of responses is on occasion.

Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally, tax returns and tax return information are confidential, as required by § 6103.

#### SECTION 8. DRAFTING INFORMATION

The principal author of this revenue procedure is Jennifer C. Bernardini of the Office of Associate Chief Counsel (Passthroughs & Special Industries). For further information regarding this revenue procedure contact Ms. Bernardini on (202) 317-6853 (not a toll free call).

**TENNESSEE AMERICAN WATER COMPANY  
DOCKET NO. 18-00039  
FIRST DISCOVERY REQUEST OF THE  
CONSUMER ADVOCATE DIVISION**

**Responsible Witness: John R. Wilde**

**Question:**

**1-18** Provide a comprehensive explanation supporting the reason TAWC will be unable to accurately identify its excess ADIT until 2019.

**Response:**

Prior to the passage of TCJA, Tennessee American's (TAWC) parent company, American Water Works (AWW), and its affiliates, were evaluating improvements to its book and tax depreciation software. It currently uses PowerPlant and PowerTax, but an older version. The passage of TCJA accelerated this process improvement because the Company believes that it needs to amortize the TCJA excess ADIT using the Average Rate Assumption Method (ARAM). So along with the upgrade and improvements to the two depreciation systems, AWW and its affiliates are implementing the PowerTax Deferred Tax module. This module syncs up the two depreciation modules to calculate the plant related deferred taxes. As mentioned in the Direct Testimony of John R. Wilde, the normalization rules in the Internal Revenue Code 168(i)(9) are important and the system will help keep the company compliant. The ARAM calculation is first discussed in the 1986 Tax Act (203(e)) and now also in TCJA (Section 1561(d)). This is the required method by the IRS unless a company does not have the records to do the calculation. The Company believes that it has the records necessary but that it needs to implement the Deferred Tax module in order to accurately and efficiently perform and maintain the calculation going forward. The alternative method is the Reverse South Georgia Method. While the Company used this in the past, the last federal rate change was in 1996 and the Company did not have the records, software, or reasonable means to calculate ARAM at that time nor earlier. Now having better data that can be structured into an ARAM record set, with a little time, it can use a system to calculate ARAM. The

data and software improvements are expected to be completed in the 2<sup>nd</sup> quarter of 2019 for TAWC.

**TENNESSEE AMERICAN WATER COMPANY**  
**DOCKET NO. 18-00039**  
**FIRST DISCOVERY REQUEST OF THE**  
**CONSUMER ADVOCATE DIVISION**

**Responsible Witness: John R. Wilde**

**Question:**

**1-19** Provide projections for TAWC's taxable income for the period 2018 -2022.

**Response:**

Please see below for the taxable income projections for 2018-2022. Please note that these projections are dependent on a multitude of variables which are subject to change.

Additionally, these figures exclude the effects of any future rate increases or acquisitions.

Tax Year	Estimated Taxable Income
2018	11,615,620
2019	8,587,822
2020	9,189,552
2021	8,576,887
2022	7,539,952