

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:)	
)	
PETITION OF TENNESSEE)	
AMERICAN WATER COMPANY)	
REGARDING THE 2019 INVESTMENT)	DOCKET NO. 18-00120
AND RELATED EXPENSES UNDER)	
THE QUALIFIED INFRASTRUCTURE)	
INVESTMENT PROGRAM RIDER, THE)	
ECONOMIC DEVELOPMENT)	
INVESTMENT RIDER, AND THE)	
SAFETY AND ENVIRONMENTAL)	
COMPLIANCE RIDER)	

SUPPLEMENTAL TESTIMONY

OF

DAVID N. DITTEMORE

June 14, 2019

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:

PETITION OF TENNESSEE
AMERICAN WATER COMPANY
REGARDING THE 2019 INVESTMENT
AND RELATED EXPENSES UNDER
THE QUALIFIED INFRASTRUCTURE
INVESTMENT PROGRAM RIDER,
THE ECONOMIC DEVELOPMENT
INVESTMENT RIDER, AND THE
SAFETY AND ENVIRONMENTAL
COMPLIANCE RIDER

DOCKET NO. 18-00120

AFFIDAVIT

I, David Dittamore on behalf of the Consumer Advocate Unit of the Attorney General's Office, hereby certify that the attached Supplemental Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Unit.



David N. Dittamore
DAVID N. DITTEMORE

Sworn to and subscribed before me
this 14th day of June, 2019.

Terra Allen
NOTARY PUBLIC

My commission expires: September 28, 2022

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

3 A1. My name is David N. Dittmore. My business address is Office of the Tennessee Attorney
4 General, War Memorial Building, 301 6th Ave. North, Nashville, TN 37243. I am a
5 Financial Analyst employed by the Consumer Advocate Unit in the Financial Division of
6 the Tennessee Attorney General's Office (Consumer Advocate).

7 **Q2. ARE YOU THE SAME DAVID DITTEMORE THAT CAUSED PRE-FILED**
8 **DIRECT TESTIMONY TO BE SUBMITTED IN THIS DOCKET?**

9 A2. Yes.

10 **Q3. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

11 A3. The purpose of my supplemental testimony is to update previously submitted Exhibits to
12 reflect the new information provided by Tennessee American Water Company (TAWC or
13 Company). I will also address a concern with the Capital Riders Reconciliation rates
14 appearing on the Company's website that are significantly higher than the rates submitted
15 by the Company on May 7, 2019, in Docket No. 18-00022. I have prepared Supplemental
16 Exhibits DND-1 through DND-4 in support of my supplemental testimony.

17 **Q4. WHAT WAS YOUR TOTAL SURCHARGE RECOMMENDED IN YOUR**
18 **DIRECT TESTIMONY?**

19 A4. The total revenue requirement, net of tax savings accruing to ratepayers as a result of the
20 2017 Tax Cuts and Jobs Act, was \$4,797,499.

21 **Q5. CAN YOU PROVIDE AN OVERVIEW OF THE MODIFICATION MADE BY**
22 **TAWC IN ITS MOST RECENT SUPPLEMENTAL FILING AND ITS IMPACT ON**
23 **THE TOTAL SURCHARGE REQUEST?**

24 A5. Yes. The revisions supported by TAWC increase the Accumulated Deferred Income Tax
25 (ADIT) amount assigned to its Capital Riders calculations resulting from the application
26 of Bonus Depreciation and the Repair Deduction to qualifying capital expenditures. The

1 increase to ADIT reduces Rate Base. The reduction in the proposed Capital Riders in the
2 most recent update compared with its initial filing is \$856,687.¹

3 **Q6. WHAT IS THE RECOMMENDED SURCHARGE REQUEST YOU ARE**
4 **SUPPORTING IN SUPPLEMENTAL TESTIMONY?**

5 A6. The overall recommended surcharge I am proposing is \$4,797,499, which is identical to
6 the amount I supported in my direct testimony filed previously in this Docket. This
7 represents a reduction of \$2,937,070 from the \$7,734,570 proposed by TAWC. The
8 comparison of my recommendation and that of the Company may be found in
9 Supplemental Exhibit DND-1.

10 **Q7. WHY IS YOUR RECOMMENDATION SUPPORTED IN THIS TESTIMONY**
11 **IDENTICAL TO THAT RECOMMENDED IN YOUR DIRECT TESTIMONY**
12 **GIVEN THE SIGNIFICANT REDUCTION IN THE COMPANY'S PROPOSED**
13 **SURCHARGE?**

14 A7. In my direct testimony, I recommended that there be no increase in the Capital Riders
15 (before application of tax savings) due to the excess Compensated Rate Base.² Consistent
16 with that recommendation, I continue to recommend that the Commission authorize the
17 same level of Capital Riders Surcharge (before application of tax savings) that was
18 authorized in Docket No. 17-00124, despite the fact that such adoption results in a
19 Compensated Rate Base that remains in excess of the Company's actual Rate Base.³ I then
20 recommend that tax savings be applied to the Capital Riders Surcharge from the results
21 authorized by this Commission in Docket No. 17-00124, resulting in a "net" reduction due
22 to application of tax savings.⁴

¹ TAWC Schedule 1/Exhibit Summary tab.

² Direct Testimony of David N. Dittemore, Docket No. 18-00120, page 15, lines 11-18 (April 23, 2019).

³ By actual Rate Base, I am referring to the combined amount of both Rate Base from TAWC's last general rate case and Rate Base attributed to TAWC's Capital Riders.

⁴ For further information regarding the details of the Consumer Advocate tax savings proposal see the testimony of David Dittemore in Docket 18-00039.

1 **Q8. DO YOU BELIEVE YOUR RECOMMENDATION TO MAINTAIN THE**
2 **EXISTING CAPITAL RIDERS SURCHARGE TO BE A CONSERVATIVE**
3 **RECOMMENDATION?**

4 A8. Absolutely. The excess Rate Base of approximately \$21.4 million produces a revenue
5 excess of nearly \$2.7 million (see Supplemental Exhibit DND-4). My proposal to eliminate
6 the increase sought in this Docket, due to excess Rate Base, from that authorized in Docket
7 No. 17-00124, is just under \$1.3 million; therefore, under my proposal, the Company
8 would continue to collect a surcharge based upon a calculated Rate Base in excess of its
9 actual Rate Base. If the entirety of the Company's excess Rate Base was taken into
10 consideration, the resulting decrease from that sought by the Company would be the \$2.7
11 million excess rather than my proposed reduction of \$1,291,525. This amount is simply
12 the reduction from the TAWC proposal in this Docket compared with the TPUC approved
13 Capital Riders Surcharge in Docket No. 17-00124. This reduction I am proposing is
14 identical to the reduction proposed by the Company for "attributable" tax savings and is
15 consistent with the Company's position that customers not realize an increase in rates
16 associated with this Capital Riders Surcharge. However, it is important to understand the
17 distinction between the position of the Consumer Advocate and the Company on this issue.
18 As I've set out in my direct testimony, I believe the existing Capital Riders Surcharge is
19 overstated and thus no new increase in the Capital Riders is justified. Further, customers
20 should realize the full benefits of the Tax Cuts and Jobs Act (TCJA), not simply some
21 portion of savings necessary to meet the "no increase" standard offered by the Company.
22 My proposal reduces the proposed Capital Riders Surcharge by \$1,291,535 for excessive
23 Rate Base, while the Company proposes an adjustment in the identical amount for tax
24 savings. I propose a further reduction in the Capital Riders of \$2,937,070 to reflect tax
25 savings that should flow to TAWC's ratepayers.

26 **Q9. CAN YOU PLEASE IDENTIFY THE SUPPLEMENTAL SCHEDULES YOU ARE**
27 **SUPPORTING RELATED TO YOUR RECOMMENDED CAPITAL RIDERS**
28 **REVENUE REQUIREMENT?**

29 A9. Yes. Supplemental Exhibit DND-1, discussed earlier, compares the overall
30 recommendations in this proceeding between the Consumer Advocate and the Company.

1 In summary, I am recommending a reduction in the Company's Capital Riders proposal of
2 nearly \$1.3 million, and a reduction from the Company's tax proposal of approximately
3 \$1.65 million (\$2,937,070 vs. \$1,291,525). Supplemental Exhibit DND-2 sets forth the
4 progression of TAWC's recommendations in this case. The recently filed proposal of
5 \$9,026,094 represents an increase of \$1,291,525 from the most recently authorized Capital
6 Riders revenue requirement in Docket No. 17-00124. Supplemental Exhibit DND-3
7 compares the Consumer Advocate's proposed Capital Riders Surcharge rates with those
8 proposed by the Company along with the Consumer Advocate's proposed Capital Riders
9 percentages, totaling 10.19%, compared with the Company's proposal of 16.43%.
10 Supplemental Exhibit DND-4 compares the revenue requirement associated with the
11 Excess Rate Base of approximately \$2.7 million with the reduction I am proposing in this
12 Docket, approximately \$1.3 million.

13 **Q10. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 A10. Yes.

Tennessee Attorney General
Consumer Advocate Unit, Financial Division
Docket No. 18-00120
Consumer Advocate Proposal Summary

Supplemental
Exhibit DND-1

Line No	Item	Consumer Advocate Position	TAWC Position
	TAWC Proposed Surcharge (Revised)(Before TCJA Credit)	\$ 9,026,095 a/	\$ 9,026,095 a/
	Less: Adjustment to eliminate proposed increase in TAWC Riders due to Excess Capital rider Rate Base	(1,291,525) b/	
	Authorized Surcharge in Docket 17-00124	<u>\$ 7,734,570</u>	<u>\$ 9,026,095</u>
			TAWC Net Proposal
	Commission Approved Surcharge (From 17-00124)	\$ 7,734,569	
	Less: Tax Savings proposed by Consumer Advocate in Docket 18-00039.	(2,937,070) c/	(1,291,525) d/
	Consumer Advocate Proposed Surcharge	<u>\$ 4,797,499</u>	<u>\$ 7,734,570</u>

TAWC Proposal to apply a portion of tax savings to Surcharge request to equal previously authorized Surcharge.

a/ TAWC Schedule 2019 Revised 5 31 19; Exhibit Summary Tab

b/ Adjusted to reflect changes in TAWC proposed Surcharge

c/ Exhibit DND-9

d/ See Testimony of Elaine Chambers filed 5/31/19; p. 7, lines 5-13

TAWC is proposing no increase from the previously authorized TAWC Capital Riders, thus the tax savings accrued to the benefit of customers to arrive at the previously authorized Capital Rider Revenue Requirement is \$1,291,525.

Tennessee Attorney General
Consumer Advocate Unit, Financial Division
Docket No. 18-00120
Comparison of Rider Revenue Requirements

Supplemental
Exhibit DND-2

Rate Mechanism	Column				
	1	2	3	4	5 (Column 4 - 1) Revised Consumer Adjustment due to Excess Rate Base
Revenue Requirement Authorized 2018 - (1)		Original Proposed Revenue Requirement /a	TAWC Revised Filing b/	TAWC Revised Filing c/	
QIIP	\$ 4,730,639	\$ 6,024,341	\$ 5,828,061	\$ 5,482,911	\$ (752,272)
EDI	194,545	320,794	317,625	306,548	\$ (112,003)
SEC	2,809,385	3,537,646	3,449,420	3,236,635	\$ (427,250)
Total	\$ 7,734,570	\$ 9,882,782	\$ 9,595,106	\$ 9,026,094	\$ (1,291,525)
Less: Previously Approved Revenue Requirement			\$ 7,734,570		
Consumer Advocate Adjustment - Original Filing			\$ (1,860,536)		

(1) Docket 17-00124 Order
a/ TAWC Filing 11/16/18
b/ TAWC Filing 2/19/19
c/ TAWC Filing 6/3/19

Calculation of Impact of TCJA Income Tax Expense Savings on Capital Riders

	1	2	3	4	5	6	7	8	9	10
				CA Adjustment 1: Annual Income				TAWC Revised Proposed		
Rate Mechanism	TAWC Revised Proposed Revenue Requirement - Capital Riders	Percent of Total	CA Adjustment 2: Effect of Rate Base Limitation	Tax Expense Savings Weighted to Riders	CA Proposed Revenue Requirement	Total Percentage Applied to Bill After Adjustments	TAWC Revised Proposed Requirement with TCJA Credit	Percentage Applied to Bill After TCJA Credit	Impact of Proposed CA Adjustments on Revenue Requirement	Impact of Proposed CA Adjustments on Bill Percentage
QIIP	\$ 5,482,911	61%	\$ (752,272)	\$ (1,784,126)	\$ 2,946,513	6.26%	\$ 4,730,639	10.05%	\$ (1,784,126)	-3.79%
EDI	306,548	3%	\$ (112,003)	\$ (99,750)	\$ 94,795	0.20%	194,545	0.41%	\$ (99,750)	-0.21%
SEC	3,236,635	36%	(427,250)	\$ (1,053,194)	\$ 1,756,191	3.73%	2,809,385	5.97%	\$ (1,053,194)	-2.24%
Total	\$ 9,026,094	100%	\$ (1,291,525)	\$ (2,937,070)	\$ 4,797,499	10.19%	\$ 7,734,569	16.43%	\$ (2,937,070)	-6.24%
Revised File 5_31_19 filed 6/3/19			Supplemental DND-2	Exhibit DND-9	Column 1 - 3 - 4	Col 5/TAWC Revenue Docket 12-00049	TAWC Sch1 Revised 5 31 19	TAWC Sch1 Revised 5 31 19	Col 5 - 7	Col 6 - 8

Tennessee Attorney General
Consumer Advocate Unit, Financial Division
Docket No. 18-00120
Revenue Requirement Associated with Excess Rate Base

Supplemental
Exhibit DND-4

	1	2	3
Description	Revised Proposed Revenue Requirement a/	Net Investment a/	(Column 1 / 2) % Revenue Requirement To Net Investment
QIIP	\$ 5,482,911	\$ 44,711,217	12.26%
EDI	306,548	2,592,975	11.82%
SEC	<u>3,236,635</u>	<u>24,303,949</u>	<u>13.32%</u>
Total	\$ 9,026,094	\$ 71,608,141	12.60%

Overstated Rate Base	\$ (21,411,146) b/
Revenue Requirement Percentage	<u>12.60%</u>
Excess Capital Riders Charges Associated with Overstated Rate Base	\$ (2,698,841)
Less: Reduction Proposed By Consumer Advocate for Excess Rate Base	<u>\$ (1,291,525)</u>
Excess Capital Rider Surcharge associated with Overstated Rate Base	\$ (1,407,317)

a/ Revised Schedules 6/3/19

b/ Exhibit DND-2