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July 16, 2019

VIA ELECTRONIC FILING

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Hon. Robin L. Morrison, Chairman
c/o Ectory Lawless, Docket Room Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243

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, TPUC Docket No. 18-00120*

Dear Chairman Morrison:

Attached for filing please find *Tennessee American Water Company's Response to the Tennessee Public Utility Commission's Data Request* 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

Attachment

cc: Elaine K. Chambers, Tennessee-American Water Company
Vance Broemel, Assistant Attorney General, Financial Division, Consumer Advocate Unit
Daniel Whitaker, Assistant Attorney General, Financial Division, Consumer Advocate Unit

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 18-00120
RESPONSE TO COMMISSION'S FIRST DATA REQUEST**

Responsible Person: Elaine Chambers

Question:

01. Did TAWC include any Federal Tax Savings in its Capital Riders Calculation? If so, please provide the amount and source document. If not, please explain TAWC's position as to the appropriate docket for returning any federal tax savings to customers.

Response:

Yes. Federal tax expense savings associated with Capital Riders are included in the Capital Riders calculations.

For clarity, there are federal tax expense savings associated with 1) Capital Riders, federal tax savings associated with 2) Excess Accumulated Deferred Income Taxes ("EADIT"), and federal tax expense savings associated with 3) base rates.

1) Federal Tax Expense Savings Associated with Capital Riders

On February 8, 2018, TAWC filed supplemental testimony in TPUC Docket No. 17-00124 to explain how we proposed to include the tax savings in the Capital Riders. I am including excerpts from the testimony that may be helpful here. On page 2, starting on line 17:

"TAWC is proposing to adjust the 2018 Capital Recovery Riders for a reduced Federal income tax expense as well as an adjustment on only the calculation of the 2018 Capital Recovery Riders Accumulated Deferred Income Tax ("ADIT"). TAWC has recalculated the 2018 Capital Recovery Riders to account for those changes."

For the tax expense savings associated with Capital Riders, we have prepared an attachment showing the detailed calculation of the Capital Riders and how the tax savings were applied. Our attachment shows for comparison purposes, the calculations we used for our filing, which reflect a 21% tax rate, and for illustrative purposes only, what those same calculations would be at a 35% tax rate.

Page 1 labeled "Attachment" shows the overall calculation of the Capital Riders. Column 1 reflects the 21% tax rate and is actually what we used in the filing. Column 2 is for illustrative purposes only and shows how the calculations would look if we had not included the tax savings in our filing in Docket No. 18-00120.

Page 2 labeled “Factors with 21% Tax Rate” shows the detailed calculation of the Pre Tax Rate of Return and Conversion Factors used on the Summary page in column 1 that are based on the 21% tax rate that we used in our calculations.

Page 3 labeled “Factors with 35% Tax Rate” shows the detailed calculation of the Pre Tax Rate of Return and Conversion Factors used on the Summary page in column 2 that are provided for illustrative purposes only, based on the 35% tax rate.

Page 4 labeled “EXH Summary” is an excerpt from our Capital Riders filing on 5/31/2019 in Docket No. 18-00120. We included page 4 to show how the calculations from Page 1 flows through to our request for increase in Docket No. 18-00120. We have color coded a spreadsheet cell on Page 1, line 22 in green to show where that same number appears on Page 4 to make tracing the numbers through the various pages a little clearer.

Also on page 4, column “c” was highlighted with yellow to call attention to a tax savings offset we proposed in our filing that is associated with base rates. Our incremental request for increase in this proceeding was \$1,291,526, as highlighted in blue on Page 4. We proposed to offset the \$1,291,526 of incremental increase with a return of tax savings associated with base rates to the customers of \$1,291,526, resulting in the net increase to the bill of zero as shown in column labeled “d”. Again, the tax savings we are proposing to offset in Docket No. 18-00120 are tax savings being deferred that are associated with base rates.

2) Federal Tax Expense Savings Associated with Excess Accumulated Deferred Income Taxes

For the federal tax savings associated with Excess Accumulated Deferred Income Taxes (“EADIT”), the Company’s position is to handle the amortization and normalization of the entire EADIT balance through tax Docket No. 18-00039.

In the same February 8, 2018, supplemental testimony discussed above, starting on page 3, line 5, we also proposed how our EADIT should be handled:

Tennessee American proposed that the remeasurement of all ADIT would be addressed outside of this current docket on the Capital Recovery Riders. Deferring the remeasurement of ADIT prior to December 31, 2017 to a future docket reduces any potential for inaccuracy.

3) Federal Tax Expense Savings Associated with Base Rates

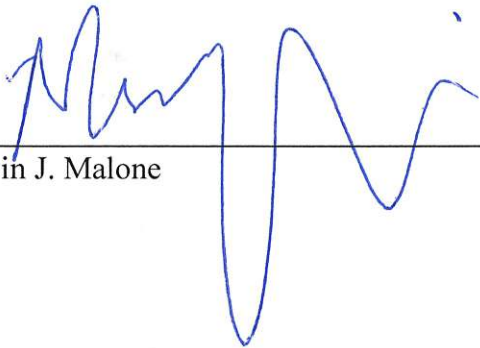
For the federal tax savings associated with 3) base rates, which were authorized in Docket No. 12-00049, the Company’s position is also to handle those savings through tax Docket No. 18-00039. Until Docket No. 18-00039 is addressed, as discussed above, we proposed an offset to our incremental increase in Docket No. 18-00120 to return a portion of tax savings associated with base rates that are being deferred to our customers.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

Daniel P. Whitaker III
Vance Broemel
Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Advocate Unit, Financial Division
P.O. Box 20207
Nashville, TN 37202-0207
Daniel.Whitaker@ag.tn.gov
Vance.Broemel@ag.tn.gov

This the 16th day of July, 2019.



Melvin J. Malone

Tennessee American Water Company
Qualified Infrastructure Improvement Program Rider (QIIP)
Economic Development Investment Rider (EDI)
Safety and Environmental Compliance Rider (SEC)
Response to Commission DR 1-001

Docket # 18-00120
TAW_R_TPUCDR1_NUM001_071619 Attachment

Line Number	Description	As - Filed 2019 Capital Riders With Federal Tax Expense Savings	Illustrative - Not Filed 2019 Capital Riders Without Federal Tax Expense Savings	Change
1	Additions Subject to Rider:	\$79,902,541	\$79,902,541	\$0
2	Plus: Cost of Removal less Salvage	9,772,014	9,772,014	0
3	Less: Contributions in Aid to Construction (CIAC)	2,306,691	2,306,691	0
4	Less: Deferred Income Taxes	11,017,211	11,017,211	0
5	Less: Accumulated Depreciation	4,742,511	4,742,511	0
6	Net Investment Supplied Additions:	\$71,608,141	\$71,608,141	\$0
7				
8	Pre-Tax Authorized Rate of Return:	8.45%	9.45%	
9	Pre-Tax Return on Additions:	\$6,051,928	\$6,770,104	(\$718,176) A/
10				
11	Depreciation Expense on Additions:	1,734,675	1,734,675	0
12				
13	Property and Franchise Taxes Associated:	960,594	960,594	0
14				
15	Revenues:	8,747,197	9,465,373	(718,176)
16				
17	Revenue Taxes	3.19%	3.19%	
18	Total Capital Riders Revenues with Revenue Taxes	\$9,035,521	\$9,777,369	(\$741,849) B/
19				
20	APP Revenue Reduction	(9,426)	(9,426)	0
21				
22	Revenues with Revenue Taxes & APP Reduction	\$9,026,095	\$9,767,943	(\$741,849)
23				
24	Service Charge and Volumetric Revenues as Per Docket No. 12-00049	\$47,073,724	\$47,073,724	\$0
25				
26	Percentage to Apply to Bill:	19.18%	20.75%	

A/ Federal tax expense savings from the change in the Pre Tax Rate of Return from 9.45% to 8.45%.

B/ Total federal tax expense savings including additional revenue taxes.

Tennessee American Water Company
Pre Tax Rate of Return & Revenue Conversion Factors FEDERAL TAX RATE 21%

Last Rate Order:	Notes	
PTR = ((WCCE +WCPE) * PTRCF) + WCLTD +WSTD	8.45145%	8.451452% Calculated Pre-tax Return based on capital structure ratios and cost rates
Reconciliation component	0.0000%	
Weighted Cost of Common Equity (WCCE)	3.4380000%	3.4380000% From Settlement agreement Docket No. 12-00049
Weighted Cost of Preferred Equity (WCPE)	0.0014790%	0.0014790% From Settlement agreement Docket No. 12-00049
Weighted Cost of Long-Term Debt (WCLTD)	3.7620130%	3.7620130% From Settlement agreement Docket No. 12-00049
Weighted Cost of Short- Term Debt (WCSTD) (from Settlement agreement)	0.0330000%	0.0330000% From Settlement agreement Docket No. 12-00049
Gross Revenue Conversion Factor (PTRCF): 1/(1-PPRT)(1-SIT)(1-FIT)	1.35382116	1.35382116
<u>PreTax ROR Conv. Factor</u>		
State Excise Tax	6.5%	0.065 From Settlement agreement Docket No. 12-00049
Balance (1.0-.065)		0.935
Fed Inc. Tax (.935*.21)	21.0%	0.19635 From Settlement agreement Docket No. 12-00049
Combined Tax Rate (.065 + .19635)		0.26135
Balance (1.0-.26135)		0.73865
PreTax ROR Conv. Factor		<u>1.35382116</u>
<u>Revenue Taxes:</u>		
Uncol. Exp		1.057% From Settlement Agreement - Does not include forfeited discounts
TRA Fee		From House Bill 191
GR Tax		3.000% From Settlement Agreement
Forfeited Discounts		-0.866% From Settlement Agreement
Total Rev. Taxes		<u>3.1910%</u>
Projection of Annual Revenues from Last Rate Order:	\$ 47,073,724	From Settlement agreement Docket No. 12-00049
Projection of Annual Sales from Last Order in 100 Gallons	100,589,065	From Settlement agreement Docket No. 12-00049
Property tax per Settlement Agreement	\$ 2,757,695	From Settlement agreement Docket No. 12-00049
Properly tax base per Settlement Agreement	\$ 250,455,533	From Settlement agreement Docket No. 12-00049
Property tax rate (Property tax divided by tax base)	1.101072%	
Franchise Fee rate per \$100 of Net Investment	\$ 0.25	From Settlement agreement Docket No. 12-00049
Franchise Fee % per \$1 of Net Investment	0.25%	
	Ratio	Cost Rate
Company Long Term Debt	52.94%	6.02% From Settlement agreement Docket No. 12-00049
Company Short Term Debt	2.45%	1.00% From Settlement agreement Docket No. 12-00049
Parent Long Term Debt	9.35%	6.15% From Settlement agreement Docket No. 12-00049
Parent Short Term Debt	0.85%	1.00% From Settlement agreement Docket No. 12-00049
Company Preferred Stock	0.00%	10.00% From Settlement agreement Docket No. 12-00049
Company Common Equity	0.00%	0.00% From Settlement agreement Docket No. 12-00049
Parent Preferred Stock	0.03%	4.93% From Settlement agreement Docket No. 12-00049
Parent Common Equity	34.38%	10.00% From Settlement agreement Docket No. 12-00049

Tennessee American Water Company
Pre Tax Rate of Return & Revenue Conversion Factors FEDERAL TAX RATE 35%

Last Rate Order:	Notes	
PTR = ((WCCE +WCPE) * PTRCF) + WCLTD +WSTD	9.45438%	9.454378% Calculated Pre-tax Return based on capital structure ratios and cost rates
Reconciliation component	0.0000%	
Weighted Cost of Common Equity (WCCE)	3.4380000%	3.4380000% From Settlement agreement Docket No. 12-00049
Weighted Cost of Preferred Equity (WCPE)	0.0014790%	0.0014790% From Settlement agreement Docket No. 12-00049
Weighted Cost of Long-Term Debt (WCLTD)	3.7620130%	3.7620130% From Settlement agreement Docket No. 12-00049
Weighted Cost of Short- Term Debt (WCSTD) (from Settlement agreement)	0.0330000%	0.0330000% From Settlement agreement Docket No. 12-00049
Gross Revenue Conversion Factor (PTRCF): 1/(1-PPRT)(1-SIT)(1-FIT)	1.64541341	1.64541341
<u>PreTax ROR Conv. Factor</u>		
State Excise Tax	6.5%	0.065 From Settlement agreement Docket No. 12-00049
Balance (1.0-.065)		0.935
Fed Inc. Tax (.935*.21)	35.0%	0.32725 From Settlement agreement Docket No. 12-00049
Combined Tax Rate (.065 + .32725)		0.39225
Balance (1.0-.26135)		0.60775
PreTax ROR Conv. Factor		<u>1.64541341</u>
<u>Revenue Taxes:</u>		
Uncol. Exp		1.057% From Settlement Agreement - Does not include forfeited discounts
TRA Fee		From House Bill 191
GR Tax		3.000% From Settlement Agreement
Forfeited Discounts		-0.866% From Settlement Agreement
Total Rev. Taxes		<u>3.1910%</u>
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Property tax rate (Property tax divided by tax base)	1.101072%	
Franchise Fee rate per \$100 of Net Investment	\$ 0.25	From Settlement agreement Docket No. 12-00049
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	Ratio	Cost Rate
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Company Short Term Debt	2.45%	1.00% From Settlement agreement Docket No. 12-00049
Parent Long Term Debt	9.35%	6.15% From Settlement agreement Docket No. 12-00049
Parent Short Term Debt	0.85%	1.00% From Settlement agreement Docket No. 12-00049
Company Preferred Stock	0.00%	10.00% From Settlement agreement Docket No. 12-00049
Company Common Equity	0.00%	0.00% From Settlement agreement Docket No. 12-00049
Parent Preferred Stock	0.03%	4.93% From Settlement agreement Docket No. 12-00049
Parent Common Equity	34.38%	10.00% From Settlement agreement Docket No. 12-00049

Tennessee American Water Company
Qualified Infrastructure Improvement Program (QIIP)
Economic Development Investment Rider (EDI)
Safety and Environmental Compliance Rider (SEC)
Summary Page

Line Number	Rate Mechanism	a		b		c	d = b+c	e = a+c	Original Proposed Revenue Requirement	Impact of Revised Revenue Requirement
		Revised Proposed Revenue Requirement*	Percentage Applied to Bill*	Revenue Requirement as Authorized - 2018 (1)	Percentage Applied to Bill as Authorized (1)	Impact of Proposed Adjustments on Revenue Requirement	Impact of Proposed Adjustments on Bill Percentage	2019 TCJA Credit at -2.75%	Total Impact of Proposed Adjustments and TCJA Credit on Bill	Total Percentage Applied to Bill After TCJA Credit
1										
2	QIIP	\$ 5,482,911	11.65%	\$ 4,730,639	10.05%	\$ 752,273	1.60%	-1.60%	0.00%	10.05%
3										
4	EDI	306,548	0.65%	194,545	0.41%	112,003	0.24%	-0.24%	0.00%	0.41%
5										
6	SEC	3,236,635	6.88%	2,809,385	5.97%	427,250	0.91%	-0.91%	0.00%	5.97%
7										
8	Total	\$ 9,026,095	19.18%	\$ 7,734,569	16.43%	\$ 1,291,526	2.75%	-2.75%	0.00%	16.43%
9										
10										

*Includes Def. Tax, Accum. Depreciation, Forfeited Discount Gross Up

(1) From prior docket #17-00124 order that approved the capital rider surcharges