

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:)
)
PETITION OF TENNESSEE-AMERICAN)
WATER COMPANY REGARDING)
CHANGES TO THE QUALIFIED)
INFRASTRUCTURE INVESTMENT) Docket No. 19-00031
PROGRAM RIDER, THE ECONOMIC)
DEVELOPMENT INVESTMENT RIDER,)
AND THE SAFETY AND)
ENVIRONMENTAL COMPLIANCE RIDER)
AND IN SUPPORT OF THE CALCULATION)
OF THE 2019 CAPITAL RECOVERY)
RIDERS RECONCILIATION)

CONSUMER ADVOCATE'S FIRST DISCOVERY REQUEST
TO TENNESSEE AMERICAN WATER COMPANY

To: Tennessee American Water Company
C/O Melvin J. Malone
Butler, Snow, O'Mara, Stevens & Cannada, PLLC
The Pinnacle at Symphony Place
150 3rd Avenue South, Suite 1600
Nashville, TN 37201
melvin.malone@butlersnow.com

Elaine K. Chambers
Director of Rates and Regulation – Tennessee and Kentucky
Kentucky American Water Company
2300 Richmond Road
Lexington, KY 40502
Elaine.K.Chambers@amwater.com

This First Discovery Request is hereby served upon Tennessee American Water Company (Company or TAWC), pursuant to Rules 26, 33, 34, and 36 of the Tennessee Rules of Civil Procedure and Tenn. Comp. R. & Reg. 1220-1-2-.11. The Consumer Advocate Unit in the Financial Division of the Attorney General's Office (Consumer Advocate) requests that full and complete responses be provided pursuant to the Tennessee Rules of Civil Procedure. The

responses are to be produced at the Office of the Tennessee Attorney General and Reporter, Consumer Advocate Unit in the Financial Division, 301 6th Avenue North, Nashville, Tennessee 37243, c/o Daniel P. Whitaker, III, on or before 2:00 p.m. (CDT), August 16, 2019.

PRELIMINARY MATTERS AND DEFINITIONS

1. **Continuing Request.** These discovery requests are to be considered continuing in nature and are to be supplemented from time to time as information is received by the Company and any of its affiliates which would make a prior response inaccurate, incomplete, or incorrect.

2. **Clear References.** To the extent that the data or information requested is incorporated or contained in a document, identify the document including page/line number if applicable.

3. **Format of Responses.** Provide all responses in the format in which they were created or maintained, for example, Microsoft Word or Microsoft Excel format with all cells and formulas intact and in working order. If a document (including without limitation a financial or other spreadsheet or work paper) is not created or maintained in Microsoft Excel format, convert the document to Microsoft Excel format or provide the document in a format that enables or permits functionality like or similar to Microsoft Excel (including without limitation the functionality of working cells and formulas), or provide the software program(s) that will enable the Consumer Advocate to audit and analyze the data and information in the same manner as would be enabled or permitted if the document were provided in Microsoft Excel format.

4. **Objections.** If any objections to this discovery are raised on the basis of privilege or immunity, include in your response a complete explanation concerning the privilege or immunity asserted. If you claim a document is privileged, identify the document and state the

basis for the privilege or immunity asserted. If you contend that you are entitled to refuse to fully answer any of this discovery, state the exact legal basis for each such refusal.

5. **Singular/Plural.** The singular shall include the plural, and vice-versa, where appropriate.

6. **Definitions.** As used in this Request:

(a) “You,” “Your,” “Company,” “Tennessee American,” or “TAWC” shall mean Tennessee American Water Company and all employees, agents, attorneys, representatives or any other person acting or purporting to act on its behalf.

(b) “Affiliate” shall mean any entity who, directly or indirectly, is in control of, is controlled by, or is under common control with the Company. For greater clarification, “control” is the ownership of 20% or more of the shares of stock entitled to vote for the election of directors in the case of a corporation, or 20% or more of the equity interest in the case of any other type of entity, or status as a director or officer of a corporation or limited liability company, or status as a partner of a partnership, or status as an owner of a sole proprietorship, or any other arrangement whereby a person has the power to choose, direct, or manage the board of directors or equivalent governing body, officers, managers, employees, proxies, or agents of another person. In addition, the term “Affiliate” shall mean any entity that directly or indirectly provides management or operational services to the Company or any affiliate (as defined in the preceding sentence) of the Company, or to which the Company provides management or operational services. Further, the payment of money to the Company or receipt by the Company of money from an entity with which the Company has any relationship, other than such payment or receipt, shall include the payor or recipient of such money as an “Affiliate”.

(c) “Communication” shall mean any transmission of information by oral, graphic, written, pictorial or otherwise perceptible means, including but not limited to personal conversations, telephone conversations, letters, memoranda, telegrams, electronic mail, newsletters, recorded or handwritten messages, meetings and personal conversations, or otherwise.

(d) “Document” shall have the broadest possible meaning under applicable law. “Document” shall mean any medium upon which intelligence or information can be recorded or retrieved, such as any written, printed, typed, drawn, filmed, taped, or recorded medium in any manner, however produced or reproduced, including but not limited to any writing, drawing, graph, chart, form, letter, note, report, electronic mail, memorandum (including memoranda, electronic mail, report, or note of a meeting or communication), work paper, spreadsheet, photograph, videotape, audio tape, computer disk or record, or any other data compilation in

any form without limitation, which is in your possession, custody or control. If any such document was, but no longer is, in your possession, custody or control, state what disposition was made of the document and when it was made?

(e) "Person" shall mean any natural person, corporation, firm, company, proprietorship, partnership, business, unincorporated association, or other business or legal entity of any sort whatsoever.

(f) "Identify" with respect to:

- i. Any natural person, means to state the full name, telephone number, email address and the current or last known business address of the person (if no business address or email address is available provide any address known to you) and that person's relationship, whether business, commercial, professional, or personal with you;
- ii. Any legal person, business entity or association, means to state the full name, the name of your contact person with the entity, all trade name(s), doing business as name(s), telephone number(s), email address(es), and current or last known business address of such person or entity (if no business address is available provide any address known to you);
- iii. Any document, means to state the type of document (e.g., letter), the title, identify the author, the subject matter, the date the document bears and the date it was written; and
- iv. Any oral communication, means to state the date when and the place where it was made, identify the person who made it, identify the person or persons who were present or who heard it, and the substance of it.

(g) "And" and "or" shall be construed conjunctively or disjunctively as necessary to make the discovery request inclusive rather than exclusive.

(h) "Including" shall be construed to mean including but not limited to.

FIRST DISCOVERY REQUESTS

- 1-1. The response to CPAD 1-9 in Docket No. 17-00020 outlined the process and coding used to determine eligibility for the inclusion of projects within the Capital Riders surcharge. Please review this response and indicate whether the process used within Docket No. 19-00031 is consistent with this response. To the extent any procedures or coding have

been changed from this response, provide a comprehensive explanation identifying how the process has changed.

RESPONSE:

- 1-2. Identify the amount of capitalized labor included within the Capital Riders split into the following categories: a) external labor, b) TAWC labor, and c) labor from any TAWC affiliate, including any service company or division, by year for the period 2016-2018.

RESPONSE:

- 1-3. Regarding the Supplemental Exhibit titled “Authorization of Tennessee American Water Capital Recovery Riders Since Last Rate Case”, the rates associated with Docket No. 18-00022 are identified as “Pending.” Provide a comprehensive explanation as to the status of implementing these rates. What needs to occur in order to implement rates consistent with the Commission’s decision”

RESPONSE:

- 1-4. The tab “WKP 2018 Tax Depreciation Balances within the TAWC Capital Riders Reconciliation file contains hard coded percentages for Repair Deductions for each year 2014 – 2018. Provide supporting workpapers and documentation for the hard-coded percentages contained within this worksheet by year.

RESPONSE:

- 1-5. Refer to the Company’s Response to Consumer Advocate Discovery Request No. 3-1 in Docket No. 18-00022 referring to the Comprehensive Planning Study (CPS). The response indicates that the long-range report is the starting point for the “majority” of the

strategy for infrastructure replacement. Provide a response indicating the source for the remaining portion of infrastructure replacement is developed, outside of the CPS.

RESPONSE:

1-6. Refer to the Company's Response to Consumer Advocate Discovery Request No. 3-1 in Docket No. 18-00022 referring to the Comprehensive Planning Study. With respect to this study please respond to the following:

- a. How often is the study updated?
- b. Provide a copy of any update study completed since November 2015.

RESPONSE:

1-7. Refer to the Company's Response to Consumer Advocate Discovery Request No. 3-1 in Docket No. 18-00022 referring to the Comprehensive Planning Study, Attachment 3, regarding the Whitwell and Suck Creek Systems. On pages xii and xiii of the Key Findings-Whitwell section, there is a statement indicating that reducing NRW is an important project that is anticipated to have a large impact on reducing projected demand, while also providing potential avoided costs with production upgrades. With respect to this statement, provide the following information:

- a. Identify the ratio of NRW by year for the period 2014 – 2018;
- b. Identify the capital expenditures made and included in the Capital Riders which impact the NRW for the Whitwell area by year for the period 2016 – 2018; and
- c. Provide a status update of priority projects A1 – A5, within Table E-1, identifying costs incurred to date and estimated remaining costs, and identifying the portion of such project costs included within the Capital Riders by year. It is understood that projects A1 – A5 would likely be included in response (b) above.

RESPONSE:

1-8. With respect to the customers served by the Company in Georgia, provide the following information:

- a. Identify the number of customers as of December 31, 2018;
- b. Indicate whether these customers are served pursuant to the Company's tariffs and rates, including the Capital Riders approved by TPUC; and
- c. Indicate whether revenues, expenses, and Rate Base utilized to serve these customers are incorporated into the monthly earnings reports provided to the Commission. If these are not incorporated, provide a comprehensive explanation indicating how the Tennessee portion of the revenue requirement is determined.

RESPONSE:

1-9. Refer to the Company's Response to Consumer Advocate Discovery Request No. 3-1 in Docket No. 18-00022 referring to the Comprehensive Planning Study. The Study references the need to complete certain projects to meet future growth, primarily the increased flows to Catoosa UD. Provide the amount of qualifying Capital Riders expenditures by year for the period 2016 – 2018 exclusively associated with the provision of wholesale service to Catoosa UD.

RESPONSE

1-10. Refer to the Company's Response to Consumer Advocate Discovery Request No. 3-1 in Docket No. 18-00022 referring to the Comprehensive Planning Study. Page 15 of 384 refers to an energy study conducted in parallel with the CPS. With respect to the projects referenced on this page, provide the following information:

- a. Provide a copy of the referenced energy study;
- b. Were any projects identified within the energy study included as Capital Rider investment for the period 2016 – 2018;
- c. If so, provide the annual expenditures included in the Capital Riders associated with the energy study investments; and
- d. Provide an explanation justifying the eligibility of such investments within the Capital Riders revenue requirement.

RESPONSE:

1-11. Refer to the Capital Riders Reconciliation file, specifically the WKP SAP revenue tab:

- a. Provide the title of each of the GL Accounts identified within column A;
- b. Provide the definition of the various rate numbers within column B (notwithstanding the identifiers QIIP, EDI and SEC);
- c. Identify any rate class which is not billed for the Capital Riders; and
- d. Provide the 2018 annual general ledger balances for each revenue account of TAWC.

RESPONSE:

1-12. Refer to the Capital Riders Reconciliation file, specifically the WKP 2018 Tax Depreciation Balances tab, columns S - AA.

- a. Provide confirmation through the provision of the applicable portion of TAWC (or AWC) federal tax returns documenting the use of a 4% straight line tax depreciation rate for 25-year property (beginning the year subsequent to installation) and a 2.564% rate for 39 year property; and

- b. Provide confirming documentation that Transmission Mains are depreciated for tax purposes over a 39-year life.

RESPONSE:

- 1-13. Refer to the Capital Riders Reconciliation file, specifically the WPK NOLC Calculation tab. Provide the justification for the use of a 35% tax rate in cell J56, rather than the current effect federal rate of 21%.

RESPONSE:

- 1-14. Refer to TAW_2018_Capital_Rider_Recon_Revised_5_16_19.xlsx. Specifically, refer to the tab "WKP 2018 Actuals". Provide a description of the work performed regarding the Camp Jordan Relocation under the relocated mains project.

RESPONSE:

- 1-15. Refer "TAW_2018_Capital_Rider_Recon_Revised_5_16_19.xlsx" as filed with the Company's amended Petition. Specifically refer to the tab "WKP 2018 Actuals." Provide invoice support for row 111: I26-050002091, facility upgrades at Whitwell WTP in the amount of \$76,063.16.

RESPONSE:

- 1-16. Refer to "TAW_2018_Capital_Rider_Recon_Revised_5_16_19.xlsx" as filed with the Company's Amended Petition. Specifically, refer to the tab "WKP 2018 Actuals". Provide invoice support for row 113: R26-02B1.18-P-0002, Hanover 1300 blk in the amount of \$75,700.01.

RESPONSE:

1-17. Refer "TAW_2018_Capital_Rider_Recon_Revised 5_16_19.xlsx" as filed with the Company's amended Petition. Specifically, refer to the tab "WKP 2018 Actuals". Provide invoice support for row 184: R26-02M1.18-P-8001, ExacQ – TN in the amount of \$42,810.05.

RESPONSE:

1-18. Refer "TAW_2018_Capital_Rider_Recon_Revised 5_16_19.xlsx" as filed with the Company's amended Petition. Specifically, refer to the tab "WKP 2018 Actuals". Provide invoice support for row 693: Cost of Removal, R26-02Q1.18-P-0005, Repl. 10" Intake Flush Line Gate VI in the amount of \$7,193.72.

RESPONSE:

1-19. Refer "TAW_2018_Capital_Rider_Recon_Revised 5_16_19.xlsx" as filed with the Company's amended Petition. Specifically, refer to the tab "WKP 2018 Actuals". Provide invoice support for row 860: Addition, R26-02M1.18-P-8006, CITICO Cabling, in the amount of \$5,065.58.

RESPONSE:

1-20. Refer "TAW_2018_Capital_Rider_Recon_Revised 5_16_19.xlsx" as filed with the Company's amended Petition. Specifically, refer to the tab "WKP 2018 Actuals". Provide a narrative description for the entries on rows 1157 and 6159 referencing offsetting entries for CIAC, R26-02E1.18-P-0002-CN, Elam Lane North of Lifestyle Way, in the amount of \$2,800.00.

RESPONSE:

1-21. Refer to "TAW_2018_Capital_Rider_Recon_Revised_5_16_19.xlsx." Specifically, refer to the tab "Exhibit Reconciliation". Please provide a narrative description along with source and support the amounts shown on this line for "APP Revenue Reduction" appearing on line 20.

RESPONSE:

1-22. Refer to "TAW_2018_CapRider_Cost_Detail.xlsx" as filed with the Company's Petition. Specifically, refer to the tab "WKP-Charge Detail." Confirm that the entries coded "AIP Cap Credits" in the column E "cost element" are referencing capitalized annual incentive plan charges. If confirmed, provide evidence that the inclusion of this cost element is consistent with Commissions regulatory treatment of AIP in Docket No. 10-00189 and subsequent dockets.

RESPONSE:

1-23. Refer to "TAW_2018_CapRider_Cost_Detail.xlsx" as filed with the Company's Petition. Specifically, refer to the tab "WKP-Charge Detail." Confirm that the entries coded "Pension Cap Credits" in the column E "cost element" are referencing capitalized cash basis pension plan charges.

RESPONSE:

1-24. Refer to "TAW_2018_CapRider_Cost_Detail.xlsx" as filed with the Company's Petition. Specifically, refer to the tab "WKP-Charge Detail." Provide a description of the following terms that are found in column E of this tab:

- a. "LaborNSOT CapCredits"
- b. "PBOP CapCredits"

RESPONSE:

- 1-25. Refer to the Capital Riders Reconciliation file, specifically the WPK NOLC Calculation tab. The NOLC Total Company of \$4,117,546 is a hard-coded number.
- a. Provide General Ledger support for this balance; and
 - b. Provide all supporting workpapers validating this balance.

RESPONSE:

- 1-26. Refer to page 4 of Ms. Chambers testimony, specifically relating to the inclusion of estimated CIAC into the 2018 calculation of taxable income. Provide a comprehensive explanation justifying the inclusion of "estimated" CIAC into a historic reconciliation calculation, rather than limiting CIAC to known amounts.

RESPONSE:

- 1-27. Refer to page 4 of Ms. Chambers testimony, lines 5 and 6 where she indicates that "[t]he Bonus percentages are being applied to annual investments with tax lives less than or equal to 25 years.
- a. Provide a comprehensive explanation supporting why Bonus is not applied to properties with a 39-year tax life for the period 2014 - 2017.
 - b. Provide the portions of American Water Company's federal tax return for 2017 which provide evidence that the Company did not take Bonus Depreciation associated with TAWC assets with 39-year lives.

RESPONSE:

- 1-28. Refer to the Capital Riders Reconciliation file, specifically the tab identified as WKP 2018 Tax Depreciation Balances. Excel row 142 titled Structures and Improvements – General contains a net addition in 2015 of \$7.7 million, while the 2017 balance includes a credit of nearly \$6.3 million. Provide an overview of the reasons for the volatility in these balances in 2015 and 2017.

RESPONSE:

- 1-29. Confirm that Costs of Removal have historically been estimated and included as a component of depreciation rates, which have then been included in revenue requirements recovered from ratepayers. If this is confirmed, provide the theoretical support for including such cost of removal charges as a component of the Capital Riders Rate Base. If this is not confirmed, provide documentation supporting the development of approved depreciation rates, which document that accrued removal costs are not a component of the depreciation rate for Mains.

RESPONSE:

Signature block on following page

RESPECTFULLY SUBMITTED,



DANIEL P. WHITAKER III (BPR No. 035410)

Assistant Attorney General

KAREN H. STACHOWSKI (BPR No. 019607)

Assistant Attorney General

Office of the Tennessee Attorney General

Financial Division, Consumer Advocate Unit

P.O. Box 20207

Nashville, Tennessee 37202

Email: daniel.whitaker@ag.tn.gov

Email: karen.stachowski@ag.tn.gov

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:

Melvin J. Malone
Butler Snow LLP
The Pinnacle at Symphony Place
150 3rd Avenue South, Suite 1600
Nashville, TN 37201
melvin.malone@butlersnow.com

Elaine K. Chambers
Director of Rates and Regulation –
Tennessee and Kentucky
Kentucky American Water Company
2300 Richmond Road
Lexington, KY 40502
Elaine.K.Chambers@amwater.com

This the 29th day of July, 2019.



DANIEL P. WHITAKER III
Assistant Attorney General