

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 SECOND DISCOVERY REQUEST
TO TENNESSEE AMERICAN WATER COMPANY

To: Tennessee American Water Company
C/O Melvin J. Malone
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The Pinnacle at Symphony Place
150 3rd Avenue South, Suite 1600
Nashville, TN 37201
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Elaine K. Chambers
Director of Rates and Regulation – Tennessee and Kentucky
Kentucky American Water Company
2300 Richmond Road
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This Second 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), September 9, 2019.

PRELIMINARY MATTERS AND DEFINITIONS

These Additional Discovery Requests incorporate by reference the same Preliminary Matters and Definitions as set forth in the *Consumer Advocate's First Discovery Request to Tennessee American Water* sent to the Company on July 29, 2019, and are to be considered continuing in nature, and are to be supplemented from time to time as information is received by the Company which would make a prior response inaccurate, incomplete, or incorrect.

SECOND DISCOVERY REQUESTS

- 2-1. Have the rates authorized by the Commission as identified in its June 27, 2019 Motion in Docket No. 18-00022 been implemented? If so, please identify the implementation date.

RESPONSE:

- 2-2. Regarding the Workpaper Earning Test, identify the individual items comprising "Other Components" of Rate Base in the amount of \$2,934,402. Provide copies of General Ledger support for these balances.

RESPONSE:

- 2-3. The Company has reflected a zero balance for Customer Deposits within the Earnings Test Calculation. Confirm that the Company does not collect a deposit from customers. If this cannot be confirmed, provide the monthly balance for Customer Deposits for the period December 31, 2017 through December 31, 2018.

RESPONSE:

- 2-4. Referring to the Earnings Test Workpaper, confirm that the Over-Earning amount of \$745,142 has not been grossed-up for the effects of state/federal Income Taxes.
- a. If this is confirmed, provide a comprehensive explanation supporting the rationale for not grossing-up this amount for the effects of Income Taxes, including an explanation of why such gross-up is appropriate to use within the Exhibit Reconciliation tab through the use of the Pre-Tax Rate of Return calculation but not within the Earnings Test Calculation.
 - b. If this is not confirmed, provide the underlying calculation and corresponding support demonstrating the Over-earning amount of \$745,142 has been grossed-up for the effects of state/federal Income Taxes.

RESPONSE:

- 2-5. Provide the General Ledger support for the Administrative and General Expense total costs of \$14,106,024 as found in the Company's 3.06 Report, which underlies the Net Operating Income Amount of \$12,265,548 as contained in the Earnings Test.

RESPONSE:

- 2-6. Provide the split of labor costs associated with Governmental Affairs department employees (or similarly named departments) recorded as an operating expense (above the line for Earnings Test purposes) versus those labor costs recorded as a non-operating expense (below the line for Earnings Test purposes). If any Governmental Affairs department (or similar department) labor costs are recorded as an Operating Expense (above the line for purposes of quantifying the Earnings Test), provide copies of monthly and/or quarterly departmental reports covering 2018 activities.

RESPONSE:

2-7. Provide a copy of monthly (or weekly, if available) Governmental Affairs Department Reports provided to TAWC management for the 2018 calendar year.

RESPONSE:

2-8. Identify the amount of lobbying costs incurred by TAWC in 2018, including an identification of the account in which such costs were recorded and whether such costs were included in the General and Administrative total costs of \$14,106,024. If such costs are included as an Operating Expense within the Company's December 2018 3.06 Report (*See Company's Response to CA Request No. 2-2, Docket No. 18-00120*), identify the portion of costs identified as lobbying into the following categories:

- a. Governmental Affairs Department Employees;
- b. TAWC President;
- c. Outside Council;
- d. Affiliate Service Company Allocated Costs;
- e. Outside Governmental Affairs contractors (or similarly named vendor); and
- f. All Other Lobbying.

If no labor associated with the positions identified in a. through c. above are defined as lobbying by the Company and such costs are recorded as an Operating Expense, provide the justification for the lack of assignment of any of these costs attributable to the passage of legislation in calendar year 2018.

RESPONSE:

2-9. If costs recorded in 2018 associated with the individuals listed below are included within the Total for Operating Expenses identified within the Company's December 2018 3.06 Report, (*See Company's Response to CA Request No. 2-2, Docket No. 18-00120*) identify

the costs associated with the following individuals and indicate the expense account where the costs were recorded:

- a. Myles Buell;
- b. Brad Lampley;
- c. Leigh McClure; and
- d. Holly McDaniel.¹

RESPONSE:

2-10. Identify the total Capital Expenditures made by year for the period 2016 – 2018, made exclusively for the following systems: a) Whitwell and b) Suck Creek.

RESPONSE:

2-11. Identify the number of customers of the a) Whitwell and b) Suck Creek Systems as of December 31, 2018.

RESPONSE:

2-12. Provide a comprehensive discussion supporting the continuation of maintaining a single Capital Rider calculation for all the TAWC areas versus computing individual Capital Rider percentages by area. To the extent certain areas require significant capital expenditures which are disproportionate to the ratio of average charges by customer as well as the customer counts within that area, and which would result in material cross-charges between systems, discuss how one set of Capital Rider charges would be in the public interest rather than a more precise calculation of Capital Rider charges by area. At what

¹ These individuals were registered with the Tennessee Ethics Commission as lobbyists for Tennessee-American Water during the 2018 period. (registry available at <https://apps.tn.gov/lobbysearch-app/viewEmployerDashboard.htm?employerId=803>).

point would disproportionate capital spending among TAWC areas justify adoption of separate charges by area?

RESPONSE:

2-13. Identify the qualifying Capital Rider surcharge expenditures by area and by year for the 2016 – 2018 period which are exclusive to the following areas:

- a. Chattanooga;
- b. Lookout Mountain;
- c. Lakeview;
- d. Suck Creek; and
- e. Whitwell.

RESPONSE:

2-14. Provide the average annual bill calculation for customers in the Chattanooga, Lookout Mountain, Lakeview, Suck Creek, and Whitwell areas, incorporating the results of the Commission's Final Order in Docket No. 18-00120.

RESPONSE:

2-15. Provide source documentation which confirms the depreciation rates found within the "WKP 2018 Tax Depreciation Balances" tab, within the Capital Rider Reconciliation - Revised 5 16 19 file, are the same rates used within the Company's corporate tax return.

RESPONSE:

2-16. Provide copies of the appropriate Form 4562 for the applicable periods covered by the Capital Riders which identify the tax depreciation elections made by the Company.

RESPONSE:

2-17. Regarding the “WKP 2018 Tax Depreciation Balances” tab, within the Capital Rider Reconciliation - Revised 5 16 19 file, provide a description for each of the Business Unit Numbers found in excel column E.

RESPONSE:

2-18. Refer to the following:

- a. Attachment provided in response to CA Request No. 1-4 in the current docket;
- b. “WKP 2018 ADIT Summary” tab, within the Capital Rider Reconciliation file - Revised 5 16 19; and
- c. Exhibit RT-EKC-1, provided in Docket No. 18-00120.

The total Repair deductions found within Attachment 1-4 is \$15,726,113 for the period 2014 – 2018, calculated by the Company and determined to be associated with the Capital Riders. This contrasts with total Repair Deductions (presumably) for all TAWC property of \$23,898,474 during this period, calculated from data shown on Attachment 1-4. Thus, during this period, the calculated Repair Deductions associated with Capital Rider expenditures as a percentage of total Repair Deductions was 65.8%.

1. Provide a narrative explanation of the types of Non-(Capital Rider) Eligible Plant identified within Exhibit RT-EKC-1 that was eligible for the Repair Deduction.
2. Provide the Amount, Project Title, Account Number, and Account Description of all Non-Eligible Plant, by year, as shown on Exhibit RT-EKC-1. The information provided should be consistent in form with that provided within the “WKP 2018 Tax Depreciation Balances” tab, columns G, I and K.
3. Confirm that the majority of plant eligible for the Repair Deduction is comprised of Service lines, Distribution lines, Main installation, and Main replacements.

4. Given that the ratio of Repairs used within the Capital Rider calculation for the period 2014 – 2016 uses a denominator of Total Plant, provide a comprehensive explanation why the resulting ratio should not be applied to all Capital Rider expenditures.
5. Referring to the Company's Response to CA Request No. 1-4, provide a complete explanation justifying the various methods used to determine the Repair Deduction over the five-year period. What is the rationale for the use of four different methodologies over this six-year period, rather than the consistent use of one methodology?
6. Identify the annual Repair Deduction claimed on TAWC property within the appropriate entities' federal tax return for the period 2014 – 2018.

RESPONSE:

2-19. Respond to the following concerning the 2018 CapRider Cost Detail file, specifically the AFUDC Equity and Debt charge types:

- a. The "GL account column" includes a reference to either account 101 or 106. Further, for a given work order, there is also a reference to account 107 in the "external GL account" column. Provide an explanation differentiating the reference to different account numbers between the "GL account" and "external GL account columns";
- b. Provide the supporting calculation underlying the AFUDC rate used within the "WKP-Charge Detail" tab; and
- c. Confirm that AFUDC is only applied to those work orders prior to their completion.

RESPONSE:

2-20. Refer to the Company's Response to CA Request No. 1-28 in the current Docket where it indicates that "Project I26-020032 was placed in-serviced [sic] in November of 2015", while later in the response it indicates the same project was "...later completed in November 2016." Provide a comprehensive explanation of when the plant was actually

providing service to customers and reconcile the two statements above. The explanation should include the distinction between “placed in service” and “completed.”

RESPONSE:

2-21. Refer to TAW_DRCPADDR1_NUM017_081619_Attachment.pdf, provided in response to CA Request No. 1-17. The invoiced amount of taxes does not match the taxes listed within the attached rider for each invoice/rider combination. Provide an explanation for these discrepancies. Further, provide an explanation of why the rider on the last page of the response indicates that service was provided in Cherry Hill, New Jersey, and why these costs should be eligible for recovery under the TAWC Capital Riders.

RESPONSE:

2-22. Refer to the “WKP-Charge Detail” tab within the 2018 CapRider Cost Detail file. Identify the Account where the credit is recorded for i) AFUDC-Equity and ii) AFUDC-Debt.

RESPONSE:

2-23. Regarding the response to CA Request No. 1-12 in this Docket, confirm that the Company uses straight line depreciation (without MACRS) applied to the various classes of utility property on its corporate federal Income Tax return for all property other than 5-year property. If this is not confirmed, provide the applicable table identifying the tax depreciation rates utilized by asset year for each class of utility property. If confirmed, provide the justification for not utilizing one established tax depreciation methodology for all property.

RESPONSE:

2-24. In Docket No. 18-00022, Mr. Wilde discussed concerns with potential normalization violations at length and indicates the company would lose the ability to claim accelerated depreciation on its public utility property if such violation occurred. Identify the accelerated depreciation rates utilized in the Capital Riders calculation by asset class and compare them with the corresponding (non-accelerated) tax depreciation rates that would be used if accelerated rates were not able to be used.

RESPONSE:

2-25. Concerning the affordability of TAWC's bills, provide the following:

- a. An analysis of the bad debt ratio for each of TAWC's service areas – Chattanooga, Lookout Mountain, Lakeview, Suck Creek, and Whitwell – for 2018 along with an explanation of how such ratios were determined; and
- b. Provide a breakdown of the TAWC Accounts Receivable balance as of December 31, 2018, broken into the following categories by area: Current; 0-30 days past due; 30-60 days past due; and greater than 60 days past due.

RESPONSE:

2-26. Regarding comments supplied by American Water in IRS Notice 2019-33, confirm that no input was sought or obtained from a Consumer Advocate or similar group or any state utility commission staff in the preparation of the comments.

RESPONSE:

Signature block on following page

RESPECTFULLY SUBMITTED,



DANIEL P. WHITAKER III (BPR No. 035410)

Assistant Attorney General

KAREN H. STACHOWSKI (BPR No. 019607)

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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:

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Elaine K. Chambers
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This the 27th day of August, 2019.



DANIEL P. WHITAKER III
Assistant Attorney General