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

RE: *Petition of Tennessee-American Water Company in Support of the Calculation of the 2019 Capital Recovery Riders Reconciliation, Docket No. 19-00031*

Dear Chairman Morrison:

Please find attached for filing the *Rebuttal Testimonies of TAWC Witnesses Elaine K. Chambers, John R. Wilde and Kurt A. Stafford* in the above-captioned docket.

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

Attachments

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

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 19-00031

REBUTTAL TESTIMONY

OF

ELAINE K. CHAMBERS

ON

**CHANGES TO THE QUALIFIED INFRASTRUCTURE INVESTMENT 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 (RECONCILIATION FOR CALENDAR YEAR 2018)**

SPONSORING PETITIONER'S EXHIBITS:

**PETITIONER'S EXHIBIT – CAPITAL RIDERS RECONCILIATION – REVISED
10 15 19 – EKC-1**

**PETITIONER'S EXHIBIT – EARNINGS TEST – REVISED 10 15 19 – EKC-2
PETITIONER'S EXHIBIT – EARNINGS TEST ADJUSTMENT – REVISED 10 15 19 –
EKC-3**

**PETITIONER'S EXHIBIT – PROPOSED TARIFF SHEET NO. 12 – RIDERS –
REVISED 10 15 19 – EKC-4
PETITIONER'S EXHIBIT – ANNUAL APPROVED TARIFFS – REVISED 10 15 19 –
EKC-5**

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Elaine K. Chambers and my business address is 2300 Richmond Road,
3 Lexington, Kentucky 40502.

4 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

5 A. I am employed by American Water Works Service Company ("AWW") as Director,
6 Rates and Regulatory for Tennessee and Kentucky.

7 Q. DID YOU PREVIOUSLY SUBMIT TESTIMONY IN THIS PROCEEDING ON
8 BEHALF OF TENNESSEE-AMERICAN WATER COMPANY ("TENNESSEE-
9 AMERICAN", "TAWC" OR THE "COMPANY")?

10 A. Yes. I filed direct and supplemental testimony.

11 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

12 A. The purpose of this testimony is to support revisions to the calculation of the 2019
13 Capital Recovery Riders Reconciliation for the calendar year 2018, based on direct
14 testimony of David N. Dittmore.

15 Q. ARE YOU SPONSORING ANY EXHIBITS?

16 A. Yes. I am sponsoring the following revised exhibits:

17 Petitioner's Exhibit – Capital Riders Reconciliation – Revised 10 15 19 –
18 EKC -1

19 Petitioner's Exhibit – Earnings Test – Revised 10 15 19 – EKC -2

20 Petitioner's Exhibit – Earnings Test Adjustment – Revised 10 15 19 – EKC -
21 3

22 Petitioner's Exhibit – Proposed Tariff Sheet No. 12 – Riders – Revised
23 10 15 19 – EKC-4

24 Petitioner's Exhibit – Annual Approved Tariffs – Revised 10 15 19 – EKC-5
25

26 I will discuss these exhibits in further detail in my testimony below.

1 Q. WERE THE PETITIONER'S EXHIBITS LISTED ABOVE PREPARED BY YOU
2 OR UNDER YOUR DIRECTION AND SUPERVISION?

3 A. Yes.

4 Q. WHAT WERE THE SOURCES OF THE DATA USED TO PREPARE THE
5 PETITIONER'S EXHIBITS LISTED ABOVE?

6 A. The data used to prepare the exhibits was acquired from the books of account and
7 business records of Tennessee American and other internal sources which I examined in
8 the course of my investigation of the matters addressed in this testimony.

9 Q. DO YOU CONSIDER THIS DATA TO BE RELIABLE AND OF A TYPE THAT
10 IS NORMALLY USED AND RELIED ON IN YOUR BUSINESS FOR SUCH
11 PURPOSES?

12 A. Yes.

13 Q. DO THE PETITIONER'S EXHIBITS LISTED ABOVE ACCURATELY
14 SUMMARIZE SUCH DATA AND THE RESULTS OF ANALYSIS USING SUCH
15 DATA?

16 A. Yes, they do.

17 Q. MR. DITTEMORE PROPOSES AN ADJUSTMENT TO THE
18 RECONCILIATION AMOUNT DUE TO LOBBYING EXPENSES BEING
19 INCLUDED IN OPERATING EXPENSE. DO YOU AGREE WITH THIS
20 ADJUSTMENT?

21 A. Partially. Of the total of \$100,335 Mr. Dittmore identified, \$4,879 was not recorded in
22 Operating Expense, therefore that amount should be removed from the total. The

1 Company will concede the remainder of \$95,456. We disagree with Mr. Dittemore's
2 characterization of the inclusion of these expenses as "strategic."¹

3 Mr. Dittemore spends a significant amount of time in his testimony speculating about
4 TAWC's accounting for lobbying expenses. We do believe we follow the NARUC
5 Uniform System of Accounts (USoA). Also, in Docket 10-00189, the Commission did
6 not find that all lobbying expenses should be denied.²

7 **Q. PLEASE DISCUSS MR. DITTEMORE'S ADJUSTMENT TO THE**
8 **RECONCILIATION AMOUNT DUE TO INCOME TAX EXPENSE.**

9 A. Prior to the 2016 Capital Riders Reconciliation Docket No. 17-00020, the Company was
10 not in an earning above authorized situation. In prior years, the Company earned below
11 the authorized amount. The Company has never grossed up the amount of earnings
12 above or below authorized, although Mr. Dittemore believes that the gross up should take
13 place whether the earning adjustment is positive or negative.³

14 On this issue, the Company maintains that it has consistently and properly applied the
15 plain tariff language since the Capital Rider Tariffs were approved, which does not
16 contain language requiring a gross-up of earnings, either positive or negative. While the
17 Company will accept the Commission's determination here, it nonetheless disagrees with
18 Mr. Dittemore's characterization of this adjustment as "an attempt by the Company to
19 maximize earnings."⁴ To be sure, the Consumer Advocate is entitled to its positions and
20 contentions. It is altogether different, however, to previously jointly agree to tariff
21 language on the one hand, as the Consumer Advocate has done, and then later

¹ *Consumer Advocate Witness David N. Dittemore*, TPUC Docket No. 19-00031, p. 5, l. 15 (Sept. 26, 2019) (hereafter "*Dittemore Testimony*").

² *Final Order*, TPUC Docket No. 10-00189, p. 62 (April 12, 2012).

³ *Dittemore Testimony* at p. 10, l. 10.

⁴ *Dittemore Testimony* at p. 9, l. 15.

1 characterize compliance with that same exact language as “an attempt by the Company to
2 maximize earnings.”

3 **Q. PLEASE DISCUSS MR. DITTEMORE’S DISCUSSION OF THE EVENT ON**
4 **SEPTEMBER 12, 2019.**

5 A. This is a reconciliation for 2018. An event that took place in 2019 is not in the scope of
6 this reconciliation. Mr. Dittemore’s comments would be better addressed in the
7 appropriate docket, which will be the docket for the 2019 Capital Riders reconciliation,
8 which will be filed March 1, 2020. To alleviate any concerns about the tracking of the
9 September 12, 2019 main break costs, the Company is tagging those costs so that we can
10 easily identify them. In order to recommend appropriate accounting treatment, the
11 Company feels that we need more information. After more facts are gathered, we will
12 know more about the costs of this event and can better recommend the appropriate
13 accounting treatment.

14 **Q. PLEASE DISCUSS MR. DITTEMORE’S RECOMMENDATION FOR**
15 **SUSPENSION OF FURTHER CAPITAL RIDER SURCHARGE COSTS UPON**
16 **RESOLUTION OF THIS DOCKET.**

17 A. Mr. Dittemore is bringing a 2019 event into this calendar year 2018 reconciliation docket
18 that does not belong here. Mr. Dittemore already recommended suspension of the
19 Capital Riders in Docket 18-00120⁵ and the Commission did not accept his position. The
20 Consumer Advocate has mentioned suspension of the Capital Rider tariffs in Docket No.
21 13-00130⁶, Docket 18-00120 and now Docket 19-00031. In the deliberations from 18-

⁵ *Consumer Advocate Witness David N. Dittemore*, TPUC Docket No. 18-00120, p. 15, ll. 11-18 (April 23, 2019).

⁶ *Consumer Advocate Witness William H. Novak’s Direct Testimony*, TPUC Docket No. 13-00130, p. 19, ll. 7-9 (Dec. 20, 2013).

1 00120, the Commission did not suspend the Capital Riders as Mr. Dittmore
2 recommended. The Capital Riders were approved and simultaneously a path was opened
3 for the parties to have more time to continue evaluating the Capital Riders and the
4 Consumer Advocate's expressed concerns.

5 As for Mr. Dittmore's implication that a suspension of the Capital Riders would
6 encourage TAWC's cooperation in the expeditious resolution of the separate generic
7 docket⁷, TAWC's pattern and practice in the Capital Riders cases has consistently been to
8 act in a cooperative manner with both the Consumer Advocate and the Commission.
9 Such conduct is evident by the Company from the number of occasions in which the
10 parties have resolved discovery issues without the assistance of the Commission and from
11 time to time by the parties resolving most or all, contested issues in Capital Rider cases
12 before the hearing on the merits. Further, TAWC's past practice with respect to matters
13 before the Commission will demonstrate its efforts to work with the Commission and any
14 intervening parties to move pending matters along in an efficient and timely manner.

15 Another reason the Consumer Advocate maintains for its suspension request is that a
16 suspension would provide the Commission with "the opportunity to determine the
17 appropriate modifications to the Capital Riders prior to the Company submitting more
18 filings based on the old method."⁸ Here, the Consumer Advocate omits that the
19 Commission has reviewed the Capital Rider tariffs every year since the original
20 approval. Since the original approval in April 2014, the Commission has ordered
21 changes to the Capital Rider tariffs, the Company has proposed, and the Commission has
22 approved, changes to the Capital Rider tariffs, the Consumer Advocate has proposed, and

⁷ *Dittmore Testimony* at p. 13, ll. 20-21.

⁸ *Dittmore Testimony* at p. 13, ll. 21-23.

1 the Commission has approved, changes to the Capital Rider tariffs and the Company and
2 the Consumer Advocate have jointly proposed, and the Commission has approved,
3 changes to the Capital Rider tariffs. So, contrary to Mr. Dittmore's implication, the
4 Commission has had and continues to have the opportunity to consider appropriate
5 modifications to the Capital Rider tariffs absent the implementation of a draconian
6 measure such as a suspension. The Commission has ordered or approved a host of
7 technical and substantive changes and modifications to the Capital Rider tariffs since the
8 tariffs were originally approved in April 2014. Moreover, a suspension on such grounds
9 would undermine the Commission's previous findings of fact and conclusions of law, on
10 many occasions since April 2014, that the Capital Rider tariffs are reasonable, beneficial
11 and in the public interest. In fact, on August 12, 2019, in TPUC Docket No. 18-00120,
12 the Commission again concluded after hearing that the Capital Rider tariffs are
13 reasonable and beneficial to both consumers and the Company.⁹ A suspension would
14 also presume that the Commission intends on adopting the recommendations submitted
15 by the Consumer Advocate in Docket No. 18-00120. The Commission has neither
16 announced nor pre-determined any such intentions. Finally, in TPUC Docket No. 13-
17 00130 and again in Docket No. 18-00120, the Commission rejected the Consumer
18 Advocate's assertion that the Capital Rider tariffs should be suspended in the event
19 TAWC earns above its authorized return.¹⁰ Presently, there is a significant consequence
20 when TAWC earns above its authorized return. In such scenarios, the Capital Rider
21 tariffs' earnings test results in a credit back to consumers with interest. This safeguard,

⁹ See *Tennessee Public Utility Commission's Transcript of Proceedings*, TPUC Docket No. 18-00120, pp. 77-78 (Aug. 12, 2019).

¹⁰ See *Rebuttal Testimony of Elaine K. Chambers*, TPUC Docket No. 18-00120, pp. 10-11 and pp. 18-19 (June 28, 2019).

1 proposed by the parties and adopted by the Commission, is an effective remedy. If the
2 Commission determines to modify this remedy at some time in the future, it is not
3 prohibited from doing so. But, to bring the Capital Rider tariffs to a complete halt for
4 reasons that have been repeatedly rejected by the Commission seems quite a bit out of
5 step with the Commission's actions and orders.

6 **Q. MR. DITTEMORE EXPRESSES CONCERN ABOUT THE REPAIR**
7 **DEDUCTION IN HIS TESTIMONY. WHAT TAWC WITNESS WILL ADDRESS**
8 **REPAIR DEDUCTION CONCERNS?**

9 A. TAWC witness John R. Wilde.

10 **Q. MR. DITTEMORE ALSO MENTIONS CONCERNS ABOUT THE**
11 **METHODOLOGY USED TO SPREAD INCREASES¹¹ TO TAWC CUSTOMERS.**
12 **PLEASE DISCUSS.**

13 A. I believe that Mr. Dittmore is expressing concern over the average annual bill
14 calculations shown in the response to CPAD DR 2 Number 14 in this docket. As we
15 stated in CPAD DR 2 Number 12, the Capital Rider calculation tariff provides for a
16 single calculation and that is how the riders have been implemented since their inception.
17 This approach is consistent with the Capital Rider tariffs. Additionally, as we discussed
18 in CPAD DR 2 Number 13, not all expenditures are broken out separately by area, in
19 fact, for the purposes of computing qualifying capital rider surcharge expenditures,
20 Chattanooga, Lakeview and Lookout Mountain were considered to be included in the
21 larger Chattanooga area and are not separated. Developing a new methodology to spread
22 Capital Rider increases will require an assessment of what data is already tracked

¹¹ *Dittmore Testimony* at p. 2, ll. 14-15.

1 separately and available vs. what data is needed before we can consider using a different
2 method.

3 **Q. CAN YOU EXPLAIN THE REVISIONS IN THE CAPITAL RIDERS**
4 **CALCULATIONS?**

5 A. Yes. We have revised our calculations to exclude \$95,456 of the lobbying expense from
6 operating expense.

7 **Q. WHAT IS THE PROPOSED ADJUSTED QIIP RIDER?**

8 A. TAWC is proposing an adjusted QIIP Rider that results in a total revenue recovery of
9 (\$221,552) for nine months of 2019 year or a surcharge of -0.63%. The original filing
10 requested total revenue recovery of \$578, 263 for nine months of 2019 year or a
11 surcharge of 1.638%.

12 **Q. HAS TENNESSEE AMERICAN FILED A TARIFF ADDRESSING THE**
13 **PROPOSED QIIP RIDER?**

14 A. Yes. A new tariff Fifteenth Revised Sheet No. 12 – Riders – 1 reflects all three Capital
15 Recovery Riders and is attached to my testimony as **Petitioner's Exhibit -- Proposed**
16 **Tariff Sheet No. 12 – Riders – Revised 10 15 19 – EKC-4.**

17 **Q. WHAT IS THE PROPOSED EDI RIDER?**

18 A. TAWC is proposing an EDI Rider that results in a total revenue recovery of (\$105,279)
19 for nine months of 2019 year or a surcharge of -0.30%. The original filing requested total
20 revenue recovery of (\$79,330) for nine months of 2019 year or a surcharge of -0.225%.
21 Again, this is shown on the new tariff Fifteenth Revised Sheet No. 12 – Riders – 1 which
22 reflects all three Capital Recovery Riders and is attached to my testimony as **Petitioner's**
23 **Exhibit -- Proposed Tariff Sheet No. 12 – Riders – Revised 10 15 19 – EKC-4.**

1 **Q. WHAT IS PROPOSED SEC RIDER?**

2 A. TAWC is proposing an SEC Rider that results in a total revenue recovery of (\$207,896)
3 for nine months of 2019 year or a surcharge of -0.59%. The original filing requested total
4 revenue recovery of \$296,690 for nine months of 2019 year or a surcharge of .840%.
5 Again, this is shown on the new tariff Fifteenth Revised Sheet No. 12 – Riders – 1 which
6 reflects all three Capital Recovery Riders and is attached to my testimony as Petitioner's
7 Exhibit -- Proposed Sheet No. 12 – Riders – Revised 10 15 19 – EKC-4. The sum of
8 the three riders is a decrease of -1.52% on the current base bill.

9 **Q. WHAT DO YOU RECOMMEND WITH REGARD TO THIS PETITION?**

10 A. I recommend that the Petition be approved for the increase in the QIIP, EDI and SEC
11 Riders, effective November 4, 2019 through December 31, 2019.

12 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

13 A. Yes. I reserve the ability to submit further testimony as is appropriate.

Tennessee American Water Company
Qualified Infrastructure Improvement Program Rider (QIIP)
Economic Development Investment Rider (EDI)
Safety and Environmental Compliance Rider (SEC)
Reconciliation of the Calculation of Revenue Requirement
As of 12/31/2018

Petitioner's Exhibit – Capital Riders Reconciliation – Revised 10_15_19 - EKC-1
Docket No. 19-00031

Line Number	Description	Qualified Infrastructure Investment Program QIIP Average YTD 12/31/2018			Economic Development Investment EDI Average YTD 12/31/2018			Safety and Environmental Compliance SEC Average YTD 12/31/2018			Total Average YTD 12/31/2018		
		Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
1	Additions Subject to Rider:	\$37,043,006	\$34,471,184	\$2,571,822	\$1,285,890	\$1,747,247	(\$461,357)	\$25,776,252	\$22,893,753	\$2,882,499	\$64,105,148	\$59,112,183	\$4,992,965
2	Plus: Cost of Removal less Salvage	4,572,046	5,315,317	(743,271)	933	1,262	(329)	2,927,298	2,676,731	250,568	7,500,278	7,993,310	(493,032)
3	Less: Contributions in Aid to Construction (CIAC)	2,293,497	493,440	1,800,058	31,700	3,845	27,855	0	0	0	2,325,198	497,284	1,827,913
4	Less: Deferred Income Taxes	5,828,886	281,920	5,546,966	190,955	26,904	164,051	3,824,037	532,977	3,291,060	9,843,878	841,801	9,002,076
5	Less: Accumulated Depreciation	1,681,625	1,849,125	(167,500)	37,852	42,678	(4,826)	1,409,092	1,142,221	266,871	3,128,569	3,034,023	94,546
6	Net Investment Supplied Additions:	\$31,811,045	\$37,162,017	(\$5,350,973)	\$1,026,316	\$1,675,082	(\$648,766)	\$23,470,422	\$23,895,285	(\$424,864)	\$56,307,782	\$62,732,385	(\$6,424,602)
7													
8	Pre-Tax Authorized Rate of Return:	8.45%	8.45%		8.45%	8.45%		8.45%	8.45%		8.45%	8.45%	
9	Pre-Tax Return on Additions:	\$2,688,495	\$3,140,730	(\$452,235)	\$86,739	\$141,569	(\$54,830)	\$1,983,592	\$2,019,499	(\$35,907)	\$4,758,825	\$5,301,798	(\$542,972)
10													
11	Depreciation Expense on Additions:	764,850	1,006,838	(241,988)	17,185	23,531	(6,346)	696,062	421,700	274,362	1,478,097	1,452,070	26,027
12													
13	Property and Franchise Taxes Associated:	448,094	441,677	6,417	17,370	23,590	(6,221)	322,199	288,397	33,802	787,662	753,665	33,997
14													
15	Revenues:	3,901,439	4,589,246	(687,807)	121,293	188,690	(67,397)	3,001,852	2,729,596	272,256	7,024,585	7,507,532	(482,948)
16													
17	Revenue Taxes	3.19%	3.19%		3.19%	3.19%		3.19%	3.19%		3.19%	3.19%	
18	Capital Riders Revenues with Revenue Taxes	4,030,038	4,740,516	(710,478)	125,291	194,910	(69,618)	3,100,799	2,819,569	281,230	7,256,128	7,754,994	(498,866)
19													
20	APP Revenue Reduction	(9,877)	(9,877)		(365)	(365)		(10,183)	(10,183)		(20,425)	(20,425)	
21													
22	Total Capital Riders Revenues with Revenue Taxes & APP	\$4,020,160	\$4,730,639	(\$710,478)	\$124,927	\$194,545	(\$69,618)	\$3,090,615	\$2,809,385	\$281,230	\$7,235,703	\$7,734,569	(\$498,866)
23													
24													
25	Actual Capital Riders Revenues Billed		\$4,284,542			\$177,713			\$2,752,446			\$7,214,701	
26													
27	(Over)/Under Capital Riders Revenue Billings		446,096			16,833			56,939			519,868	
28	Budget to Actual Adjustment		(710,478)			(69,618)			281,230			(498,866)	
29	2017 Reconciliation Amount		547,960			(28,970)			(219,809)			299,181	
30	Earnings Test Adjustment		(499,200)			(20,706)			(320,692)			(840,598)	
31	Interest (Prime - 5.50%)		(5,930)			(2,818)			(5,564)			(14,312)	
32													
33	Reconciliation Amount		(\$221,552)			(\$105,279)			(\$207,896)			(\$534,727)	
34													
35	Authorized Capital Riders Revenues (9/12th)		\$35,305,293			\$35,305,293			\$35,305,293			\$35,305,293	
36													
37	Current Reconciliation Factor Percentage		-0.63%			-0.30%			-0.59%			-1.52%	
38													

Explanation:
Tennessee American Water has been authorized 3 capital riders based on a 13-month average of in-service capital projects in the forecasted period. The revenue requirement for each rider is calculated similar to how total rate base is calculated by the Tennessee Public Utility Commission in a rate case. This table shows a comparison of the actual average over the reporting period to the proposed amount of each rider, and the total of the three.

*Taxes - From Docket #17-00124 which was approved on 4/9/2018.
Earnings Test - Calculation methodology from Earnings Test worksheet

Line #	Notes / Changes from Monthly Reports	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	Jun 2018
1	Additions:							
2	Plant in Service	Change in March	\$312,344,667	\$312,914,868	\$314,161,550	\$314,419,406	\$315,433,611	\$315,944,323
3	Plant Under Construction	Change in March	4,065,376	4,302,364	3,618,906	4,120,037	3,939,391	4,115,487
4	Property Held For Future Use		0	0	0	0	0	0
5	Materials and Supplies	Change in March	914,411	909,768	951,458	927,201	870,891	918,704
6	Other Additions:							
7	Leased Utility Plant		0	0	0	0	0	0
8	Unamortized Painting - net		0	0	0	0	0	0
9	Working Capital C/		3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884
10								
11	Total Additions		\$320,734,338	\$321,536,884	\$322,141,798	\$322,876,528	\$323,653,777	\$324,388,398
12								
13								
14	Deductions:							
15	Accumulated Depreciaton and Amortization	Changes to tie to general ledger	\$84,796,362	\$85,324,758	\$85,348,893	\$85,561,837	\$85,652,593	\$86,219,313
16	Accumulated Deferred Income Taxes	Changes to tie to general ledger	47,253,614	46,946,191	46,838,795	46,905,958	46,800,695	46,848,256
17	Unamortized Investment Credit - Pre 1971		6,775	6,517	6,259	6,001	5,743	5,485
18	Customer Deposits		0	0	0	0	0	0
19	Other Deductions:							
20	Contributions in Aid of Construction		17,119,159	17,299,418	17,312,882	17,295,956	17,605,751	17,789,021
21	Customer Advances for Construction	Changes to tie to general ledger	3,520,859	3,461,373	3,544,215	3,589,850	3,804,566	3,609,481
22	All Other A/	Changes to tie to general ledger	(1,372,670)	(1,853,540)	(1,624,386)	(924,215)	(811,735)	(1,286,693)
23								
24								
25								
26	Total Deductions		\$151,324,099	\$151,184,717	\$151,426,658	\$152,435,387	\$153,057,613	\$153,184,862
27								
28	Rate Base		\$169,410,239	\$170,352,167	\$170,715,140	\$170,441,141	\$170,596,164	\$171,203,536
29								
30	Net Operating Income	Change in March		\$1,077,554	\$911,625	\$1,086,307	\$704,461	\$1,337,879
31	Adjustments to NOI			0	0	0	0	0
32	Allowance for funds used during construction	Change to after tax basis		13,230	15,587	15,989	16,440	16,426
33	Adjustment to reflect effective federal			0	0	0	0	0
34	Income tax rate (debt assigned to parent)	Rate updated and math updated		21,770	21,765	21,719	20,603	21,822
35	Interest on customer deposits			0	0	0	0	0
36	Incentive Compensation	Added per deliberations December 17, 2018		42,770	42,770	42,770	42,770	42,770
37	Lobbying Expenses	Per Rebuttal Exhibit EKC-3						
38								
39	Adjusted Net Operating Income			\$1,155,324	\$991,747	\$1,166,786	\$784,274	\$1,418,897
40								
41								
42	Rate of return B/			8.14%	6.97%	8.21%	5.52%	9.95%

7.48%

Line #	Notes / Changes from Monthly Reports	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	Jun 2018
A/ All Other								
	Acquisition adjustment	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Accounts payable applicable to CWIP	27,314	(935,859)	(706,213)	24,465	90,486	(380,347)	200,609
	Unpaid for materials and supplies	(8,558)	8,123	9,242	(22,809)	22,362	16,948	(15,067)
	Taxes on CIAC-DEF. FIT & SIT	(1,391,426)	(925,805)	(927,415)	(925,870)	(924,583)	(923,294)	(922,005)
		(\$1,372,670)	(\$1,853,540)	(\$1,624,386)	(\$924,215)	(\$811,735)	(\$1,286,693)	(\$736,463)
C/ Per order								
	Cash working capital Lead Lag Study	\$591,674	\$591,674	\$591,674	\$591,674	\$591,674	\$591,674	\$591,674
	Incidental collection	(116,192)	(116,192)	(116,192)	(116,192)	(116,192)	(116,192)	(116,192)
	Average cash	0	0	0	0	0	0	0
	Other components	2,934,402	2,934,402	2,934,402	2,934,402	2,934,402	2,934,402	2,934,402
	Working Capital	\$3,409,884	\$3,409,884	\$3,409,884	\$3,409,884	\$3,409,884	\$3,409,884	\$3,409,884
	Rate of Return - 2018	7.71%						
	Authorized Rate of Return	7.23%	(Schedule 1 Exhibit to Settlement Agreement Docket No. 12-00049)					
	Authorized Adjusted Net Operating Income	\$ 12,545,254						
	Actual 2018 Adjusted Net Operating Income	\$ 13,385,851						
	Above or (Below) Earnings	\$ 840,598						

Tennessee American Water Company
2018 Reconciliation of Capital Riders
Earnings Test

Petitioner's Exhibit – Earnings Test – Revised 10_15_19 - EKC-2
Docket No. 19-00031
Page 3 of 4

Line #		Jul 2018	Aug 2018	Sep 2018	Oct 2018	Nov 2018	Dec 2018	13Mth Average
1	Additions:							
2	Plant in Service	\$317,016,258	\$317,597,616	\$318,937,485	\$319,267,736	\$321,146,916	\$323,576,583	\$316,882,891
3	Plant Under Construction	6,368,646	7,982,161	9,259,264	10,856,004	12,432,467	11,539,185	6,747,572
4	Property Held For Future Use	0	0	0	0	0	0	0
5	Materials and Supplies	893,955	903,629	888,955	901,010	906,941	893,746	905,145
6	Other Additions:							
7	Leased Utility Plant	0	0	0	0	0	0	0
8	Unamortized Painting - net	0	0	0	0	0	0	0
9	Working Capital C/	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884	3,409,884
10								
11	Total Additions	\$327,688,743	\$329,893,290	\$332,495,588	\$334,434,634	\$337,896,208	\$339,419,398	\$327,945,492
12								
13								
14	Deductions:							
15	Accumulated Depreciation and Amortization	\$87,690,126	\$87,958,823	\$88,430,971	\$88,820,761	\$89,365,424	\$88,650,720	86,971,786
16	Accumulated Deferred Income Taxes	47,349,168	47,621,917	47,304,125	47,097,532	47,117,245	47,199,183	47,120,351
17	Unamortized Investment Credit - Pre 1971	4,969	4,711	4,453	4,195	3,937	3,679	5,227
18	Customer Deposits	0	0	0	0	0	0	0
19	Other Deductions:							
20	Contributions in Aid of Construction	17,741,283	17,736,418	17,710,742	17,685,065	17,815,319	17,797,628	17,590,138
21	Customer Advances for Construction	3,634,327	3,650,517	3,655,599	3,642,093	3,786,124	3,769,777	3,637,497
22	All Other A/	(950,743)	(889,239)	(506,225)	(681,326)	(430,575)	417,800	(896,155)
23								
24								
25								
26	Total Deductions	\$155,469,130	\$156,083,147	\$156,599,665	\$156,568,320	\$157,657,474	\$157,838,787	\$154,428,845
27								
28	Rate Base	\$172,219,613	\$173,810,143	\$175,895,923	\$177,866,314	\$180,238,734	\$181,580,611	\$173,516,647
29								13Mth Average Rate Base
30	Net Operating Income	\$1,421,593	\$1,436,824	\$964,782	\$945,312	\$887,761	\$503,816	\$12,265,548
31	Adjustments to NOI	0	0	0	0	0	0	0
32	Allowance for funds used during construction	21,751	27,373	26,385	26,919	30,462	20,897	247,133
33	Adjustment to reflect effective federal	0	0	0	0	0	0	0
34	Income tax rate (debt assigned to parent)	21,948	22,110	22,355	22,583	22,923	23,054	264,469
35	Interest on customer deposits	0	0	0	0	0	0	0
36	Incentive Compensation	42,770	42,770	42,770	42,770	42,770	42,770	513,245
37	Lobbying Expenses						95,456	95,456
38								
39	Adjusted Net Operating Income	\$1,508,062	\$1,529,078	\$1,056,292	\$1,037,585	\$983,917	\$685,994	\$13,385,851
40								12Mths Net Operating Income
41								
42	Rate of return B/	10.51%	10.56%	7.21%	7.00%	6.55%	4.53%	7.71%

Petitioner's Exhibit – Earnings Test – Revised 10_15_19 - EKC-2
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Tennessee-American Water Company
Docket No. 19-00031
Lobbying Expense Adjustment to Earnings Test

	2018
	<u>Lobbying Costs</u>
Company Response to CA Data Request 2--8	\$100,335
Less: Non-operating Expense Provided for Account 75840000	<u>4,879</u>
Amount in Operating Expense	<u><u>\$95,456</u></u>

TENNESSEE-AMERICAN WATER COMPANY

TPUC NO. 19

Fifteenth Revised Sheet No. 12-Riders-1

CLASSIFICATION OF SERVICE**SUMMARY OF RIDERS****1. Applicability**

In addition to the other charges provided for in this Tariff under Service Classifications Residential, Commercial, Industrial, Other Public Authority, Sales for Resale, and Private Fire, a Qualified Infrastructure Improvement Program ("QIIP") Rider, an Economic Development Investment Program Rider ("EDI"), a Safety and Environmental Compliance Program Rider (SEC), and Production Costs and Other Pass-Throughs Rider ("PCOP") will apply to customers in all service areas.

2. The Percentage of Riders and Reconciliations

For the Riders defined in the tariffs:

QIIP	11.65%
EDI	0.65%
<u>SEC</u>	<u>6.88%</u>
Subtotal of all Capital Recovery Riders	19.18%
QIIP Annual Reconciliation Percentage	-0.63% (D)
EDI Annual Reconciliation Percentage	-0.30% (D)
<u>SEC Annual Reconciliation Percentage</u>	<u>-0.59% (D)</u>
Subtotal of all Capital Recovery Riders	-1.52%
Total of Capital Recovery Riders and Reconciliation Percentages	17.66% (D)
Offset to Capital Recovery Riders for TCJA savings	-6.62%
PCOP	-1.10%

(D) Indicates Decrease

ISSUED: October 15, 2019 EFFECTIVE: November 4, 2019

BY:



Darlene L. Williams
PRESIDENT

109 Wiehl Street
Chattanooga, Tennessee 37403

Petitioner's Exhibit – Annual Approved Tariffs – Revised 10_15_19 - EKC-5

Docket No. 19-00031

Authorization of Tennessee American Water Capital Recovery Riders
Since Last Rate Case (Docket No. 12-00049)


TPUC Docket No.	Effective Date	Rider	Authorized Annual Change	Total Cumulative Rider	Reconciliation Authorized	Individual Authorized Rider Total	Capital Riders Cumulative Total	TCJA Offset	Impact to Bill
13-00130	4/15/2014	QIIP	0.790%	0.790%	0.000%	0.790%			
		EDI	0.180%	0.180%	0.000%	0.180%			
		SEC	0.110%	0.110%	0.000%	0.110%			
		Total	1.080%		0.000%		1.080%	0.00%	1.080%
14-00121	6/30/2015	QIIP	1.340%	2.130%	0.000%	2.130%			
		EDI	-0.130%	0.050%	0.000%	0.050%			
		SEC	3.430%	3.540%	0.000%	3.540%			
		Total	4.640%		0.000%		5.720%	0.00%	5.720%
15-00029*	11/1/2015	QIIP	0.000%	2.130%	0.254%	2.384%			
		EDI	0.000%	0.050%	-0.150%	-0.100%			
		SEC	0.000%	3.540%	0.064%	3.604%			
		Total	0.000%	5.720%	0.168%		5.888%	0.00%	5.888%
15-00111	3/15/2016	QIIP	2.430%	4.560%	0.000%	4.560%			
		EDI	0.050%	0.100%	0.000%	0.100%			
		SEC	2.180%	5.720%	0.000%	5.720%			
		Total	4.660%		0.000%		10.380%	0.00%	10.380%
16-00022*	10/11/2016	QIIP	0.000%	4.560%	1.166%	5.726%			
		EDI	0.000%	0.100%	-0.178%	-0.078%			
		SEC	0.000%	5.720%	-0.118%	5.602%			
		Total	0.000%		0.870%		11.250%	0.00%	11.250%
16-00126	3/14/2017	QIIP	2.960%	7.520%	0.000%	7.520%			
		EDI	0.240%	0.340%	0.000%	0.340%			
		SEC	0.370%	6.090%	0.000%	6.090%			
		Total	3.570%		0.000%		13.950%	0.00%	13.950%
17-00020*	8/16/2017	QIIP	0.000%	7.520%	1.763%	9.283%			
		EDI	0.000%	0.340%	-0.031%	0.309%			
		SEC	0.000%	6.090%	-0.826%	5.264%			
		Total	0.000%		0.906%		14.856%	0.00%	14.856%
17-00124	4/10/2018	QIIP	2.530%	10.050%	0.000%	10.050%			
		EDI	0.070%	0.410%	0.000%	0.410%			
		SEC	-0.120%	5.970%	0.000%	5.970%			
		Total	2.480%		0.000%		16.430%	0.00%	16.430%
18-00022*	12/17/2018	QIIP	0.000%	10.050%	1.542%	11.592%			
		EDI	0.000%	0.410%	-0.081%	0.329%			
		SEC	0.000%	5.970%	-0.628%	5.342%			
		Total	0.000%		0.833%		17.263%	0.00%	17.263%
18-00120	9/1/2019	QIIP	1.600%	11.650%	0.000%	11.650%			
		EDI	0.240%	0.650%	0.000%	0.650%			
		SEC	0.910%	6.880%	0.000%	6.880%			
		Total	2.750%		0.000%		19.180%	-6.62%	12.560%
19-00031	11/4/2019	QIIP	0.000%	11.650%	-0.630%	11.020%			
		EDI	0.000%	0.650%	-0.300%	0.350%			
		SEC	0.000%	6.880%	-0.590%	6.290%			
		Total	0.000%		-1.520%		17.660%	-6.62%	11.040%

* Reconciliations are only effective until December 31 of the year authorized by the TPUC.

STATE OF Kentucky)
COUNTY OF Fayette)

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Elaine K. Chambers, being by me first duly sworn deposed and said that:

She is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Public Utility Commission, and if present before the Commission and duly sworn, her testimony would be as set forth in her pre-filed testimony in this matter.


Elaine K. Chambers

Sworn to and subscribed before me
this 15th day of October, 2019.


Notary Public

My Commission Expires: 7/25/2020

PETITIONER'S EXHIBIT JRW-1

TENNESSEE-AMERICAN WATER COMPANY, INC.

DOCKET NO. 19-00031

REBUTTAL TESTIMONY

OF

JOHN R. WILDE

ON

**CHANGES TO THE QUALIFIED INFRASTRUCTURE INVESTMENT 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 (RECONCILIATION FOR CALENDAR YEAR 2018)**

SPONSORING PETITIONER'S EXHIBITS:

Petitioner's Exhibit – TAW R CPADDR2 NUM018 090919 – JRW-1

1 **Q. PLEASE STATE YOUR NAME.**

2 **A.**My name is John R. Wilde.

3 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

4 **A.**I am employed by American Water Works Service Company, Inc. ("Service Company")
5 as Senior Director - Tax. The Service Company is a subsidiary of American Water
6 Works Company, Inc. ("American Water") that provides services to American Water's
7 subsidiaries, including Tennessee-American Water Company ("Tennessee-American,"
8 "TAWC" or the "Company").

9 **Q. DID YOU PREVIOUSLY SUBMIT TESTIMONY IN THIS PROCEEDING ON**
10 **BEHALF OF TENNESSEE-AMERICAN WATER COMPANY ("TENNESSEE-**
11 **AMERICAN", "TAWC" OR THE "COMPANY")?**

12 **A.**No.

13 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

14 **A.**Yes. In Docket No. 18-00039, regarding Tennessee-American Water Company's
15 calculations of impacts of the Federal Tax Cuts and Jobs Act of 2017 on its cost of
16 service and revenue requirement. I also testified in Docket 18-00022, regarding the
17 calculation and inclusion of Accumulated Deferred Income Taxes (ADIT) in TAWC
18 capital riders.

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20 **A.**The purpose of this testimony is to respond to the tax matters regarding the calculation
21 and inclusion of ADIT related to tax repairs addressed in the testimony of Consumer
22 Advocate Witness David N. Dittimore.

1 Q. ARE YOU SPONSORING ANY EXHIBITS?

2 A. Yes. I am sponsoring the following exhibits:

3 **Petitioner's Exhibit – TAW R CPADDR2 NUM018 090919 – JRW-1**

4 Q. DO YOU AGREE WITH MR. DITTEMORE'S EXPLANATION OF WHAT THE
5 REPAIR DEDUCTION IS AND HOW IT IMPACTS THE CAPITAL RIDER
6 CALCULATION BEGINNING ON LINE 20 OF PAGE 14 AND CONCLUDING
7 ON LINE 8 OF PAGE 15?

8 A. No, it is incomplete and therefore in my opinion does not provide the Commission with
9 enough information to address the concerns related to tax repairs that Mr. Dittemore
10 raises through his testimony.

11 First, Mr. Dittemore use of the term "write-off" [Page 14, Line 20], but a tax repair does
12 not result in a write-off, it results in a current deduction for tax purposes of an investment
13 in Utility Plant in Service (UPIS), which is an investment that will be financed for both
14 book and tax purpose over the useful life of the underlying assets. The investment or cost
15 that gave rise to the tax benefit will be recovered from customers through the recovery of
16 book depreciation from customers over the useful life of the underlying asset. Recording
17 of book depreciation is also the means that the ADIT or timing difference will reverse
18 and be paid to the government. The investment in UPIS remains part of the book and tax
19 record, the book to tax timing differences that result when the repair is deducted for tax
20 purposes and then reverses as book depreciation is claimed forms the basis of
21 Accumulated Deferred Income Taxes.

22 Second, Mr. Dittemore, in explaining the repair deduction beginning on page 14, does not
23 explain the fundamental reason there is a repair deduction for tax purposes and not book

1 purposes. The unit of property for tax purposes is made up of many book units of
2 property, so replacing a book unit of property is viewed as repairing part of a tax unit of
3 property. A simple example is for book and financial accounting purpose the
4 replacement of several feet of pipe might be considered a book unit(s) of property and
5 thus an addition to UPIS with an offsetting retirement of pipe that had been replaced.
6 However, for tax purpose the tax unit of property would consist of the total segment of
7 pipe that several feet of pipe is part of, so for tax purpose the replacement of only a small
8 part of the tax unit of property is a current tax deduction. Therefore, the reason for the
9 book to tax timing difference is inherent in the definition of what is a unit of property
10 pursuant to the tax code, versus what is a unit of property pursuant to financial and
11 regulatory rules.

12 Third, while Mr. Dittmore does make mention of the fact elsewhere in his testimony
13 [Page 15, Line 20], it is important to understand that claiming tax repair also eliminates
14 the opportunity to claim other tax deductions that would have otherwise been available,
15 such as accelerated tax depreciation including any available bonus depreciation. Having
16 claimed a tax repair deduction also can cause offsetting book to tax timing differences to
17 accrue, such as increasing or delaying the use of the balance of net operating loss
18 carryforwards. Book to tax timing differences related to gains and losses on the
19 disposition of assets, can also be impacted, as a result of having claimed a tax repair
20 deduction. In this docketed case, the Company has estimated the repair deduction and for
21 all years has accounted for these complexities and interdependencies.

22 Lastly, Mr. Dittmore classifies Accumulated Deferred Income Taxes as “funds provided
23 by rate payers” [Page 15, Line 4], I would classify Accumulated Deferred Income Taxes

1 as an interest free loan or cost free source of funds provided by the government. Both are
2 positions taken by others. My reasons for classifying ADIT as an interest free loan
3 provided by the government is as follows:

- 4 • The ADIT liability is payable to the government, and unless there is a change in
5 law that changes that obligation, it is ultimately paid to the government and is not
6 returned to customers.
- 7 • Pursuant to the TPUC practice of fully normalizing the benefits of plant related
8 ADIT balances over the life of the underlying assets, the tax cost collected from
9 customers is what would have been due from utility operations had the investment
10 in UPIS not have been made or the tax incentive to accelerate the deduction had
11 not been available by the government. Therefore, the taxes collected are not
12 related to future operations, but instead are to pay the taxes on prior operations
13 and use of UPIS.
- 14 • The investment in UPIS that makes up the balance of the book to tax timing
15 difference for the tax repair deduction has not yet been funded by customers. It is
16 that investment that gave rise to the accelerated tax deduction and the cumulative
17 book to tax difference that plant related ADIT is based on. Those UPIS
18 investments will be funded over time as a matter of collecting for book
19 depreciation in rates.

20 Mr. Dittmore states ADIT related to tax repairs will be paid to the IRS at some future
21 (often) distant date [Page 14, Line 4-5]. Actually, that is not true. A portion of the ADIT
22 is paid (reversed) in each year as the investment in UPIS that gave rise to the repair
23 deduction is recovered for in rates as book depreciation is recorded. The reversal or

1 payment actually begins in the year the UPIS is place in service, which is most often the
2 same year the tax repair occurs. If a sale of the underlying assets is executed, the ADIT
3 would be immediately payable by the Company.

4 Mr. Dittmore is correct in stating that plant related ADIT is typically treated as a
5 reduction to rate base [Page 15, Line 6-7], but the point I feel should be made clear is that
6 as a result of this rate base reduction that it is the customer and not the company that
7 receives the benefit of the zero cost capital being available as it reduces rate base and thus
8 the debt and equity costs that are collected from customers.

9 **Q: MR. DITTEMORE STATES THAT THE COMPANY FIRST ACCOUNTED FOR**
10 **THE ADIT RELATED TO TAX REPAIRS IN DOCKET NO. 18-00022 [Page 15,**
11 **Line 12-13]. DO YOU AGREE WITH THAT STATEMENT?**

12 **A:** No, again that is only a partially true statement. In computing the earnings test the
13 Company in prior docketed rider reconciliation cases has used the total Company actual
14 ADIT balance from its books and records, an amount that would have included ADIT
15 related to tax repairs. In this case the Company has provided for ADIT balances related to
16 rider property consistent with the Commission order and inclusion in the above mentioned
17 Docketed Case No. 18-00022. The Company's position in not including the ADIT related
18 to tax repairs and bonus in the computation of the rate base specific to the Capital Rider
19 property was comprehensively discussed in Docketed Case No. 18-00022, and was not
20 limited to a "de minimis" standard as Mr. Dittmore implies in his footnote. [See Order
21 filed 03/06/19 page 6-10, and 13]. The Companies position was based on a concern that
22 if the complexity of doing so was undertaken, then to achieve the appropriate economics
23 the offsetting impact on other tax deductions including net operating loss carryover

1 balances should be accounted for in the process. The Companies position was also that the
2 riders were meant to be discrete in terms of the ADIT included, and the earnings test
3 calculation an adjustment that is executed as part of the reconciliation portion of the
4 capital rider was in part intended to protect customers from any earnings above authorized
5 that resulted limiting the calculation of ADIT.

6 **Q: MR. DITTEMORE RAISES A CONCERN THAT THE COMPANY HAS NOT**
7 **BEEN CONSISTENT IN ESTIMATING THE TAX REPAIR DEDUCTION**
8 **WITHIN THE CAPITAL RIDER MECHANISM OVER TIME [Page 15, Line 12-**
9 **14]. CAN YOU ADDRESS THOSE CONCERNS?**

10 **A:** Yes. First, the Consumer Advocate raised this concern and the Company responded to
11 these concerns in the attached data request. Petitioner's Exhibit –
12 TAW R CPADDR2 NUM018 090919 - JRW-1. As stated above, the earnings test
13 adjustment portion of the rider calculation has consistently used total company ADIT
14 amount including ADIT related to tax repair deductions, which is an estimate that is
15 reconciled to actual amounts claimed through the latest filed tax return. I find no
16 inconsistency in that approach. Mr. Dittemore acknowledges [Page 15, Line 20-21] the
17 Company is entitled to tax repair deductions not only on qualified rider property, but non-
18 rider property as well. He goes on to characterize the Company's estimate of the repair
19 deduction in the context of rider property to be an assignment or allocation [Page 16, Line
20 1]. Instead, I would clarify that the Company estimates for the tax deduction (including
21 tax repairs) used for capital rider investments property in this docketed case were intended
22 to be consistent with methods used to estimate the total Company tax deductions and
23 resulting ADIT amounts used for financial accounting purposes, and the reason for any

1 perceived inconsistency in the assumptions was explained and quantified for the purpose
2 of gaining an understanding of what impact would have been on the estimate provided in
3 this case. Therefore, I do not see any variation in how these estimates were calculated on
4 a year over year basis that would result in a significant difference in the rider calculation,
5 and the Company has provided its reasoning for why the variation occurred.

6 **Q: MR. DITTEMORE INDICATES THOSE REPRESENTING THE CA HAVE NOT**
7 **HAD AMPLE TIME TO REVIEW THE COMPANY'S CALCULATION OF ITS**
8 **TAX REPAIR DEDUCTION, AND IT IS AN ISSUE THAT REQUIRES FURTHER**
9 **STUDY [Page 16, Line 7-13]. CAN YOU COMMENT?**

10 **A:** Mr. Dittmore representing the CA used the same method to estimate tax deductions and
11 propose the resulting ADIT balances in Docketed Case No. 18-00022. [See Direct
12 Testimony of David Dittmore filed July 6, 2018 and related attachment DND-3] In the
13 discovery phase of this docketed case and Docketed Case No. 18-00022 the CA made and
14 the Company responded to over 10 data requests related to how it estimates tax repair
15 deduction and more broadly Capital Rider related tax deduction. The Company's
16 response to the DR cited above explaining the Company's estimate and addressing the
17 inconsistencies raised by the CA were provided on September 9, 2019, 18 days before Mr.
18 Dittmore's testimony was submitted on September 26, 2019. In addition, the Company,
19 for the CA's benefit, provided the change in the Company's estimate that would result if
20 the same method were to be used for each year to compute the tax repair deduction,
21 including an estimate of the offset that would then occur in the amount of tax depreciation.
22 It appears to me that Mr. Dittmore and the CA as an organization have devoted
23 significant resources to reviewing these estimates, and has had a significant amount of

1 time to complete its review. I do not find the Company estimates for the tax repair
2 deduction related to Capital Rider investments to be inconsistent with how the Company
3 estimates tax repair deductions for plant investment in general for tax accounting, financial
4 accounting, or regulatory accounting purposes, and the Company explained and quantified
5 any perceived inconsistency in assumptions it made in computing these estimates on a
6 year over year basis. These estimates also seem to be consistent with the methods used by
7 Mr. Dittmore and the CA to include these amounts in a previous Docketed Case No. 18-
8 00022.

9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 **A.** Yes.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 19-00031
SECOND DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE AND PROTECTION DIVISION**

Responsible Witness: John R. Wilde

Question:

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:

1. Any utility plant in service addition that would involve the replacement of something less than a tax unit of property or a major component thereof.
2. See attachment "TAW_R_CPADDR2_NUM018_090919_Attachment1".
3. Generally, a majority of the Plant eligible for the Repairs Deduction is comprised of service lines, distribution lines, main installations and main replacements but also includes the non-network property located in the Company's plants and buildings.
4. As explained in 1 above not all property additions are eligible for a tax repair, and rider eligible property additions could have included a disproportionate percentage of addition not eligible for a tax repair deduction. In addition, the tax repairs method being used was modified in 2015 to exclude meters, so 2014 percentage and prior repair deductions would overstate the deduction actually claimed inclusive of the 2015 481(a) adjustment. Therefore, as a refinement the percentage was applied to property that would have been most likely to have resulted in a tax repair deduction. In addition, to the extent a tax repair was not estimated, the calculation would have considered if the property was bonus eligible. Therefore, if the repair estimate was to be modified, then the bonus and depreciation estimate has to be modified accordingly. For 2014-2016, see the following table indicating what the change in tax repair deduction would be, however, that number would need to be adjusted for tax depreciation and bonus, and would result insignificant change in the estimate.

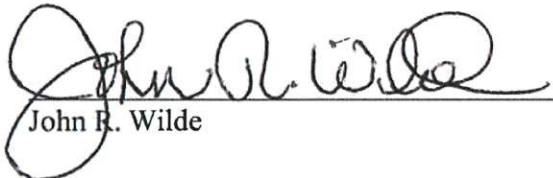
	2014	2015	2016
Rider Property	6,823,293	24,365,106	13,575,732
Repair % used	22.93%	17.71%	35.94%
Rider Property * Repairs % used	1,564,581	4,315,060	4,879,118
Rider Repair calculated	1,348,263	3,975,280	4,413,887
Difference	216,318	339,780	465,231

5. The question inquires about a 6 year period, but the Company's estimate only covers 2014-2018 a five year period. In addition, the Company is aware of using only two methods, for 2014-2016 it applied the ratio of total repairs claimed over total utility plant additions to rider property that was eligible for a tax repair deduction. In 2017-2018 it used ratio of tax repairs over total replacement property. In an attempt to address all the complexities of making a repairs determination on a portion of the plant additions in any given year, the Company may have made the determination overly complex for 2014-2018 period. However, those complexities do exist, and an oversimplified method will not account for them either. As a matter of simplicity the Company could have used a single method for all 4 years, using the ratio of actual repair deductions claimed to total Utility Plant Additions. The Company will provide this alternative calculation with the corresponding adjustments to tax depreciation and bonus depreciation. See "TAW_R_CPADDR2_NUM018_090919_Attachment2".
6. The Company took the following as a tax repairs deduction - Year 2017 - \$6,917,812; Year 2016 - \$6,375,298; Year 2015 - \$5,108,100; Year 2014 - \$3,545,498. In addition, in 2015, the company filed a section 481(a) adjustment related to repairs, specifically reversing the deductions taken in prior years related to meters. This adjustment was spread over the 2015-2018 tax returns. The net adjustment was \$3,304,563.

STATE OF NJ)
COUNTY OF Camden)

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared John R. Wilde, being by me first duly sworn deposed and said that:

He is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Public Utility Commission, and if present before the Commission and duly sworn, his testimony would be as set forth in his pre-filed testimony in this matter.


John R. Wilde

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


Notary Public

My Commission Expires: 4/20/20

BEVERLY A. VAZQUEZ
NOTARY PUBLIC OF NEW JERSEY
ID # 50014203
My Commission Expires 4/20/2020