

**IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE**

IN RE:)
)
PETITION OF TENNESSEE AMERICAN)
WATER COMPANY REGARDING THE)
2022 INVESTMENT AND RELATED)
EXPENSES UNDER THE QUALIFIED)
INFRASTRUCTURE INVESTMENT)
PROGRAM RIDER, THE ECONOMIC)
DEVELOPMENT INVESTMENT RIDER,)
AND THE SAFETY AND ENVIRONMENTAL)
COMPLIANCE RIDER)

Docket No. 22-00072

DIRECT TESTIMONY OF DAVID N. DITTEMOORE

September 19, 2022

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1 I. Background

2 Q1. PLEASE STATE YOUR NAME AND OCCUPATION FOR THE RECORD.

3 A1. My name is David N. Dittmore. I am a self-employed consultant working in the utility
4 regulatory sector.

5 Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND
6 PROFESSIONAL EXPERIENCE.

7 A2. I received a Bachelor of Science Degree in Business Administration from the University
8 of Central Missouri in 1982. I am a Certified Public Accountant licensed in Oklahoma
9 (#7562). I was previously employed by the Kansas Corporation Commission ("KCC")
10 in various capacities, including Managing Auditor, Chief Auditor, and Director of the
11 Utilities Division. I was self-employed as a Utility Regulatory Consultant for
12 approximately four years, representing primarily the KCC Staff in regulatory issues. I
13 also participated in proceedings in Georgia and Vermont, evaluating issues involving
14 electricity and telecommunications regulatory matters.

15 During this time, I also performed a consulting engagement for Kansas Gas Service
16 ("KGS"), my subsequent employer. For eleven years, I served as Manager and
17 subsequently Director of Regulatory Affairs for KGS, the largest natural gas utility in
18 Kansas, serving approximately 625,000 customers. KGS is a division of One Gas, a
19 natural gas utility serving about two million customers in Kansas, Oklahoma, and Texas.
20 I joined the Tennessee Attorney General's Office in September 2017 as a Financial
21 Analyst. In July 2021, I began my consulting practice.

1 I have been a Board Member of the Financial Research Institute (University of
2 Missouri). I have also been a member of the NARUC Subcommittee on Accounting, the
3 Vice-Chair of the Accounting Committee of the National Association of State of Utility
4 Consumer Advocates (NASUCA), and an active participant in NASUCA's Natural Gas
5 and Water Committees.

6 Overall, I have thirty years of experience in public utility regulation. I have presented
7 testimony as an expert witness on many occasions. Attached as Exhibit DND-1 is a
8 detailed overview of my background.

9 **Q3. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE**
10 **TENNESSEE PUBLIC UTILITY COMMISSION ("TPUC" OR THE**
11 **"COMMISSION")?**

12 **A3.** Yes. I have submitted testimony in many TPUC dockets.

13 **Q4. ON WHOSE BEHALF ARE YOU APPEARING?**

14 **A4.** I am appearing on behalf of the Consumer Advocate Division of the Tennessee Attorney
15 General's Office (the "Consumer Advocate").

16 **II. Purpose of Testimony**

17 **Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

18 **A5.** The purpose of my testimony is to present the Consumer Advocate's position regarding
19 the capital rider proposal of Tennessee American Water Company ("TAWC" or the
20 "Company") in TPUC Docket No. 22-00072.

1 **Q6. HAVE YOU REVIEWED THE COMPANY’S APPLICATION?**

2 **A6.** Yes. I have reviewed the pre-filed testimony and Exhibits of the Company and have
3 participated in issuing discovery in this matter.

4 **III. Executive Summary**

5 **Q7. PROVIDE AN EXECUTIVE SUMMARY OF YOUR TESTIMONY.**

6 **A7.** The Company is requesting an annual increase in its capital riders of \$2,830,573,
7 representing a surcharge percentage of 36.1%.¹ This reflects an increase in the
8 surcharge percentage of 6.01% from the current surcharge. I am recommending an
9 increase in the Company’s capital riders of \$2,781,703, representing an overall
10 surcharge percentage of 35.99%, equating to an increase in the surcharge of 5.9%. I am
11 supporting one adjustment to the budgeted level of Accumulated Deferred Income
12 Taxes (“ADIT”), which accounts for the difference in the revenue requirement I am
13 supporting contrasted with that of the Company.

14 **Q8. PLEASE BEGIN BY EXPLAINING THE ADJUSTMENT YOU ARE**
15 **SUPPORTING TO THE COMPANY’S BUDGETED LEVEL OF**
16 **ACCUMULATED DEFERRED INCOME TAXES.**

17 **A8.** The Company has pro-rated its 2022 tax depreciation twice, thus understating tax
18 depreciation on qualifying assets installed in 2022 and resulting in an understated ADIT
19 balance included within the Company’s 2022 forecasted rate base. The pro-rationing is
20 the one addressed in my testimony in TPUC Docket No. 22-00021. The double count

¹ The requested 36.1% is before the recognition of credits associated with implementing the Tax Cuts and Jobs Act. *Direct Testimony of Tricia Sinople* at 27:18–29:12, TPUC Docket No. 22-00072 (July 8, 2022).

1 of the 2022 tax depreciation pro-rationing arises by the combination of the Company's
2 use of the one-half year convention associated with its Modified Accelerated Cost
3 Recovery tax depreciation rate (MACRS) in conjunction with its further reduction in
4 ADIT occurring in 2022 through a 'Proration %' calculation. The Company's
5 calculations are found in its "TAWC Workpapers Capital Recovery Riders Petition
6 07_07_22," pp. 72/186--75/186.² This issue is more readily understandable through a
7 review of the excel schedules supporting this calculation.

8 **Q9. CAN YOU FURTHER EXPLAIN HOW THE COMPANY HAS DOUBLE**
9 **COUNTED ITS 2022 ADIT PRORATION?**

10 **A9.** Yes. The Company applies what is known as the MACRS half-year convention for all
11 assets placed in service in 2022. This tax calculation allows taxpayers to use a tax rate
12 equal to one-half the normal tax rate for any plant installed in that tax year. This
13 simplifying approach to computing tax depreciation allows taxpayers to avoid the
14 arduous process of calculating tax depreciation month by month based on when a
15 particular asset is placed in service. Thus, an asset placed in service in January would
16 have the same tax depreciation calculated as an identical asset placed in service in
17 December. A close review of the excel formulas within the Company's 2022 tax
18 calculation indicates it has relied upon this half-year convention calculation.³ The
19 simplifying assumption is that all assets placed in service in a given year will calculate

² *Petition of Tennessee-American Water Company Regarding The 2022 Investments and Related Expenses Under the Qualified Infrastructure Investment Program Rider, The Economic Development Investment Rider and The Safety and Environmental Compliance Rider*, "TAWC Workpapers Capital Recovery Riders Petition 07_07_22," TPUC Docket No. 22-00072 (July 8, 2022). The Company also provided the workpapers in Excel format. *See* Excel File <TAW_SCH1_2022_Filing2>, Tab "WKP 2022 ADIT Summary."

³ "TAWC Workpapers Capital Recovery Riders Petition 07_07_22". at pp. 77-79, 104-106/186. *See* Excel File <TAW_SCH1_2022_Filing2>Tab "WKP 2022 Tax Depr Balances," Columns J and CV.

1 one-half of the annual tax depreciation for those assets placed in service in that year.

2 The one-half method is a calculation convention acceptable to the IRS.

3 **Q10. DO YOU AGREE WITH THE COMPANY'S RELIANCE UPON THE MACRS**
4 **HALF-YEAR CONVENTION?**

5 **A10.** Yes. I find the Company's calculation reasonable up to this point. However, the issue
6 is that the Company does not stop there in its proration of 2022 tax depreciation. It then
7 takes its already pro-rated 2022 MACRS tax depreciation and further pro-rates the
8 annual balance as if the investments were placed in service throughout the year. The
9 half-year MACRS convention already makes that assumption, so the Company's second
10 pro-rata calculation represents an improper double count resulting in a diminished level
11 of 2022 tax depreciation associated with qualifying assets installed in 2022.

12 **Q11. PLEASE EXPLAIN HOW YOU HAVE ADJUSTED THE COMPANY'S ADIT**
13 **BALANCE.**

14 **A11.** I have eliminated the Company's second pro-rata calculation and adopted the initial
15 MACRS half-year convention to compute 2022 tax depreciation on newly installed
16 assets.

17 **Q12. DESCRIBE THE SCHEDULES YOU ARE SUPPORTING UNDERLYING**
18 **YOUR PROPOSED CAPITAL RIDER REVENUE REQUIREMENT.**

19 **A12.** Exhibit DND-2 summarizes the individual and total capital rider surcharges I am
20 recommending in this proceeding.

1 Exhibit DND-3 provides the detailed Qualified Infrastructure Improvement Program
2 (QIIP) revenue requirement calculation I am supporting in this proceeding.

3 Exhibit DND-4 provides the Economic Development Investment (EDI) revenue
4 requirement calculation I support in this proceeding.

5 Exhibit DND-5 provides the Safety and Environmental Compliance (SEC) revenue
6 requirement calculation I support in this proceeding.

7 Exhibit DND-6 quantifies the adjustments I am supporting to the Company's proposed
8 ADIT balance for the various surcharges.

9 **Q13. IDENTIFY THE CALCULATIONS REFLECTED IN EXHIBIT DND-2.**

10 **A13.** Exhibit DND-2 is a summary schedule reflecting the individual capital rider rates I
11 support. As reflected on lines 1–4, the individual capital riders I am supporting are:

12 QIIP – 24.24%

13 EDI – 1.91%

14 SEC – 9.94%

15 Total – 35.99%

16 These individual capital rider percentages equate to a total revenue requirement
17 proposal of \$16,943,714, representing an increase of \$2,781,703 from that adopted in
18 TPUC Docket No. 20-00128. The details supporting the individual capital rider revenue
19 requirements are shown in Exhibit 2 and are derived from calculations outlined in
20 Exhibits DND-3 through DND-5.

1 **Q14. DISCUSS THE INFORMATION REFLECTED IN THE REVENUE**
2 **REQUIREMENT CALCULATIONS CONTAINED IN EXHIBITS DND-3**
3 **THROUGH DND-5.**

4 **A14.** The revenue requirement schedules for QIIP, EDI, and SEC include my proposed
5 adjustment to eliminate the double proration of tax depreciation, as discussed earlier in
6 my testimony. The revenue requirement calculations for QIIP, EDI, and SEC are
7 \$11,364,596, \$900,353, and \$4,678,765, respectively as shown on Exhibits DND-3
8 through DND-5. The revenue requirement calculation is identical to that proposed by
9 the Company, except for the balance of ADIT for each of the three riders.

10 **Q15. PLEASE EXPLAIN IN GREATER DETAIL THE NATURE OF THE TAX**
11 **PRORATION CALCULATION AS OUTLINED IN EXHIBIT DND-6.**

12 **A15.** Exhibit DND-6 sets forth the proposed increase in ADIT I am sponsoring for each of
13 the three capital riders. The source of the ADIT balances reflected in this Exhibit is
14 found within the Company's Workpapers filed with its Petition.⁴ The correct
15 calculation provided by the Company before further modification is reflected in Line 1.
16 The Company's supported ADIT balance incorporating the double count of the tax
17 depreciation proration is shown in Line 2, with the amount of the ADIT adjustment
18 reflected in Line 3. The increase in ADIT balances I am supporting represents a
19 reduction in the proforma capital rider rate base.

⁴ "TAWC Workpapers Capital Recovery Riders Petition 07_07_22," TPUC Docket No. 22-00072 (July 8, 2022). The Company also provided the workpapers in Excel format. *See* Excel File <TAW_SCH1_2022_Filing2>, Tab "WKP 2022 ADIT Summary."

1 **Q16. DO YOU AGREE WITH THE COMPANY'S OFFSET OF THE CAPITAL**
2 **RIDERS WITH CREDITS RESULTING FROM THE TAX CUTS AND JOBS**
3 **ACT ("TCJA")?**⁵

4 **A16.** Yes. Our office is evaluating the reasonableness of the TCJA credit supplied by the
5 Company in this docket on August 17, 2022. I am reserving judgement on the
6 calculation, but I do agree with the Company that such credits should continue to be
7 used to offset the costs of the Company's capital rider.

8 **Q17. DOES THIS COMPLETE YOUR TESTIMONY?**

9 **A17.** Yes.

⁵ *Direct Testimony of Tricia N. Sinople at 27:18–29:12, TPUC Docket No. 22-00072 (July 8, 2022).*

Tennessee American Water Company
Summary of Capital Rider Revenue Requirement
Docket 22-00072
Consumer Advocate Calculation

Exhibit DND-2

Line Number	Rate Mechanism	CA Proposed Revenue Requirement	Percentage Applied to Bill*	Revenue Requirement as Authorized - 2021 (1)	Percentage Applied to Bill as Authorized (1)	Impact of Proposed Adjustments on Revenue Requirement	Impact of Proposed Adjustments on Bill Percentage
1	QIIP	\$11,364,596	24.14%	\$9,010,519	19.14%	\$2,354,077	5.00%
2	EDI	900,353	1.91%	587,183	1.25%	\$313,170	0.66%
3	SEC	4,678,765	9.94%	4,564,309	9.70%	\$114,456	0.24%
4	Total	\$16,943,714	35.99%	\$14,162,011	30.09%	\$2,781,703	5.90%

(1) From prior docket #20-00128 order that approved the capital rider surcharges

Tennessee American Water Company
Calculation of QIIP Revenue Requirement
Docket 22-00072

Consumer Advocate Calculation

Exhibit DND-3

Line Number	Description	TAWC Proposal QIIP		Consumer Advocate Adjustment (Exhibit DND-6)	Consumer Advocate Calculation
		Company Totals Petitioners Exhibit QIIP 1			
1	Additions Subject to QIIP:				
2	Plus: Cost of Removal less Salvage	\$91,349,637			\$91,349,637
3	Less: Contributions in Aid to Construction (CIAC)	18,054,675			\$18,054,675
4	Less: Deferred Income Taxes	2,313,483			\$2,313,483
5	Less: Accumulated Depreciation	9,897,666		395,036	\$10,292,702
6	Less: Investment Supplied QIIP Additions:	7,829,695			\$7,829,695
7	Net Investment Supplied QIIP Additions:	\$89,363,468		(\$395,036)	\$88,968,432
8	Pre-Tax Rate of Return:	8.45145%			8.45145%
9	Pre-Tax Return on Additions:	\$7,552,511		(\$33,386)	\$7,519,125
10					
11	Depreciation Expense on QIIP Additions:	2,374,148			2,374,148
12					
13	Operational Expenses Related to QIIP	0			0
14					
15	Property and Franchise Taxes Associated with QIIP:	1,134,479			1,134,479
16					
17	QIIP Revenues:	\$11,061,139		(\$33,386)	\$11,027,753
18					
19	Revenue Taxes	3.191%			3.191%
20	QIIP Revenues with Revenue Taxes	\$11,425,734		(\$34,487)	\$11,391,247
21					
22	QIIP APP Revenue Reduction	(26,652)			(26,652)
23					
24	Total QIIP Revenues with Revenue Taxes & APP Reduction	\$11,399,082		(\$34,487)	\$11,364,596
25					
26	Service Charge and Volumetric Revenues as Per Docket No. 12-00049	\$47,073,724			\$47,073,724
27					
28	QIIP Percentage to Apply to Bill:	24.22%			24.14%

Tennessee American Water Company
Calculation of EDI Revenue Requirement
Docket 22-00072
Consumer Advocate Calculation

Exhibit DND-4

Line Number	Description	TAWC Proposal EDI Company Totals Petitioner's Exhibit EDI 1	Consumer Advocate Adjustment (Exhibit DND-6)	Consumer Advocate Calculation
1	Additions Subject to EDI:	\$8,787,882		\$8,787,882
2	Plus: Cost of Removal less Salvage	2,159		\$2,159
3	Less: Contributions in Aid to Construction (CIAC)	243,483		\$243,483
4	Less: Deferred Income Taxes	837,834	3,253	\$841,087
5	Less: Accumulated Depreciation	290,580		\$290,580
6	Net Investment Supplied EDI Additions:	\$7,418,144	(\$3,253)	\$7,414,891
7				
8	Pre-Tax Rate of Return:	8.45145%		8.45145%
9	Pre-Tax Return on Additions:	\$626,941	(\$275)	\$626,666
10				
11	Depreciation Expense on EDI Additions:	128,352		128,352
12				
13	Operational Expenses Related to EDI	0		0
14				
15	Property and Franchise Taxes Associated with EDI:	118,717		118,717
16				
17	EDI Revenues:	\$874,010	(\$275)	\$873,735
18				
19	Revenue Taxes	3.191%		3.191%
20	EDI Revenues with Revenue Taxes	\$902,819	(\$284)	\$902,535
21				
22	EDI APP Revenue Reduction	(2,182)		(2,182)
23				
24	Total EDI Revenues with Revenue Taxes & APP Reduction	\$900,637	(\$284)	\$900,353
25				
26	Service Charge and Volumetric Revenues as Per Docket No. 12-00049	\$47,073,724		\$47,073,724
27				
28	EDI Percentage to Apply to Bill:	1.91%		1.91%

Tennessee American Water Company
Calculation of SEC Revenue Requirement
Docket 22-00072
Consumer Advocate Calculation

Exhibit DND-5

Line Number	Description	TAWC Proposal		Consumer Advocate Adjustment (Exhibit DND-6)	Consumer Advocate Calculation
		SEC	Company Totals Petitioner's Exhibit SEC 1		
1	Additions Subject to SEC:		\$40,196,378		\$40,196,378
2	Plus: Cost of Removal less Salvage		4,339,593		\$4,339,593
3	Less: Contributions in Aid to Construction (CIAC)		0		\$0
4	Less: Deferred Income Taxes		5,048,961	161,509	\$5,210,470
5	Less: Accumulated Depreciation		5,268,757		\$5,268,757
6	Net Investment Supplied SEC Additions:		\$34,218,253	(\$161,509)	\$34,056,744
7					
8	Pre-Tax Rate of Return:	8.45145%			8.45145%
9	Pre-Tax Return on Additions:		\$2,891,939	(\$13,650)	\$2,878,289
10					
11	Depreciation Expense on SEC Additions:		1,155,274		1,155,274
12					
13	Operational Expenses Related to SEC		0		0
14					
15	Property and Franchise Taxes Associated with SEC:		507,916		507,916
16					
17	SEC Revenues:		\$4,555,129	(\$13,650)	\$4,541,480
18					
19	Revenue Taxes	3.191%			3.191%
20	SEC Revenues with Revenue Taxes		\$4,705,275	(\$14,100)	\$4,691,175
21					
22	SEC APP Revenue Reduction		(12,410)		(12,410)
23					
24	Total SEC Revenues with Revenue Taxes & APP Reduction		\$4,692,865	(\$14,100)	\$4,678,765
25					
26	Service Charge and Volumetric Revenues as Per Docket No. 12-00049		\$47,073,724		\$47,073,724
27					
28	SEC Percentage to Apply to Bill:		9.97%		9.94%

Tennessee American Water Company
2022 Budget Capital Rider Application
Docket 22-00072

Exhibit DND-6

Adjustment to Eliminate Duplicate Tax Pro-Ration

Line No.

		QIIP	EDI	SEC	Total	Source:
1	2022 Net ADIT with Pro-Ration	\$ 10,292,702	\$ 841,087	\$ 5,210,470	\$ 16,344,259	WKP 2022 ADIT Summary Tab/Petitioners Summary Exhibit; Excel Line 45 (2022 Data)
2	TAWC ADIT per Filing (Duplicate Pro-Ration of Tax Depreciation)	\$ 9,897,666	\$ 837,834	\$ 5,048,961	\$ 15,784,461	WKP 2022 ADIT Summary Tab/Petitioners Summary Exhibit; Excel Line 55
3	Understated ADIT due to Duplicate 2022 Tax Pro-Ration	\$ 395,036	\$ 3,253	\$ 161,509	\$ 559,798	

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Docket No. 22-00072

AFFIDVAIT OF DAVID N. DITTEMORE

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

David N. Dittmore

DAVID N. DITTEMORE

Sworn to and subscribed before me

This 19th day of September, 2022.

Tiffany H. Blackman

NOTARY PUBLIC



My Commission Expires: March 22, 2023