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Chairman Eddie Roberson
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

**VIA ELECTRONIC DELIVERY**

filed electronically in docket office on 07/03/07

**Re: Data Response No. 2 for Integrated Resources Management, Inc. in Docket No. 07-00061—Reserve/Escrow Requirement Pursuant to Tenn. Comp. R. & Regs. 1220-4-13-.07(8).**

Dear Chairman Roberson:

Please find Data Response No. 2 for Integrated Resource Management, Inc. in the referenced docket enclosed herewith.

Thank you for your assistance regarding this matter. If we can be of further assistance, please do not hesitate to contact us.

Very truly yours,

FARRIS MATHEWS BRANAN
BOBANGO HELLEN & DUNLAP, PLC

Jamie R. Hollin

Enclosure

1. Please provide several examples of system repairs or replacements that IRM would consider non-routine. For each example, provide the estimated cost for parts and labor to effectuate the repair or replacement.

**RESPONSE:**

Non-routine maintenance typically includes storm damage, equipment failure, upgrades due to waste strength change, upgrades due to higher than typical wastewater production, vandalism, or other non-anticipated, non-scheduled maintenance.

Residential: The reserve/escrow requirement established by IRM for non-routine repairs is only applicable to residential customers. Non-routine maintenance includes the pumping of tanks more regularly than the schedule of 5-6 years, replacement of pumps, and the repair of capital plant items. A cost schedule is included at the end of this response.

Commercial: IRM's commercial rates are designed in anticipation of increased non-routine maintenance due to the transient nature of system users in rental uses and waste strength changes by industrial users *e.g.* laundry, restaurants, or offices. To further illustrate the problems inherent in the transient nature of rental properties, a list of additional considerations is as follows:

- Higher biochemical oxygen demand of the waste as a result of increased disposal of food wastes that are not typically disposed of down the drains at a household, *e.g.* bacon grease, other greases, egg shells, celery and other products high in hemicellulose compounds. Visitors do not have a grease jar, compost area, or alternatives of throwing away waste food products. Many times they are put down the sink in the rental cabins.
- Higher Septic Tank Effluent Pumping System maintenance due to the flushing of rags, grease, disposable diapers, condoms, wash cloths, paper towels and many other items that fall into toilets. These items are commonly flushed in rental units–atypical of common residential homeowners—and more frequent pumping of the septic tanks than a typical household is required.
- Chemically unstable compounds enter the treatment system from hot tub management. Most of the rental cabins have hot tubs that are changed weekly or nightly in between renters. These tubs contain disinfectant of halogen compound such as iodine, bromine, ozone, and chlorine. Also, many cabins have water conditioners due to lime build-up in the tubs. The conditioners produce a backwash that is high in calcium and magnesium chloride with other complex minerals. Additional monitoring of the biological systems IRM uses is required with these stresses put on the plants.
- Increased peak loading of the treatment system occurs because of high weekend demands and low flows throughout the week. Many people occupy the cabins in a crowded situation for a week or weekend where they

would not be so densely crowded in a typical residence. Many cabins have large draw and drain Jacuzzi type tubs that may be occasionally used at home, but are used multiple times in a rental situation. It is true not much laundry is done, but many cabins have washers and dryers. The recreational use of water outweighs any savings from reduced laundry use. This increases management of the treatment system and the need for timers and monitoring devices.

IRM's commercial tariff allows IRM to charge a commercial customer for the capital costs of upgrading the system if the customer's anticipated usage exceeds the system's capacity. There is no similar provision in the residential tariff. Thus, the residential rate includes the reserve/escrow account for the sole purpose of serving the particular residential system. However, there are instances in a residential development where the property owner rents his/her unit to the public for commercial, overnight rental, transient or institutional purposes. IRM must be allowed to charge these types of customers the commercial rate since they place an undue usage burden on a system designed for residential purposes—i.e. a usage rate rather than a flat residential rate.

IRM operates ten different wastewater plants of different sizes including numbers of homes/lots, length of collection lines, gallons treated, and tank sizes. The major components these wastewater systems are as follows:

- **STEP System at the home.** **$6,000.00 ea.**
  Tanks -- $2,500
  Pumps/Risers/Control Panel -- $2,500
  Miscellaneous -- $1,000.00

- **Collection System along the road.** **$20.00 per foot.**
  Materials -- $5.00
  Rock -- $5.00
  Labor -- $5.00
  Miscellaneous -- $5.00

- **Treatment System.** **$10.00 per gallon.**
  Treatment System -- $5.00
  Labor -- $4.00
  Miscellaneous -- $1.00

- **Tanks.** **$4.00 per gallon.**
  Tanks -- $2.00
  Labor -- $1.00
  Rock -- $0.50
  Miscellaneous -- $0.50

- **Control Panel/Telemetry/uV Disinfection.** **$9,750.00/$5,750.00/$2,500.00 respectively**

  Equipment $13,000.00
  Electrician $3,500
  Materials $750.00
  Miscellaneous $750.00

- **STEP System Pumping of Small Tanks (Routine).** **$150-250.00**

  Pumping $150-250.00

- **STEP System Pumping of Small Tanks (Non-Routine).** **$400.00-500.00**

  2 Service calls $250.00
  Pumping $150-250.00

Based on the schedule above, if a home needed a pump replacement at the end of ten years and the tanks are still in good shape it would cost $2,500.00.

If a subdivision had 40 feet of collection line replaced due to damage from another utility breaking into the system it would cost 40 ft. x $20.00 per foot or $800.00 to complete the repair.

If lightning hit a control panel and the entire panel and electric controls needed replaced, then it would cost $18,000.00 to replace.

2. Does IRM have the necessary funds available should a non-routine repair or replacement be necessary? If so, identify the source of such funds.

**RESPONSE:**

Yes. Reserve/escrow account for residential customers and commercial rates are based in anticipation of non-routine repair or replacement. The plants are relatively new and still under warranty and being operated at low capacity.

3. If IRM does not have the necessary funds available, would the Company have the ability to borrow the necessary funds from a financial institution? Why or why not?

**RESPONSE:**

Yes. The Company's cash flow, accounts receivable, and asset value provide adequate security to borrow money from a local lender.

4. Please provide the life expectancy of each major plant component and the approximate current replacement cost of each component.

**RESPONSE:**

| | Life Expectancy | Replacement Cost |
|---|---|---|
| Collection STEP at Homes | 10 Years | $6,000.00 ea. |
| Collection Sewers Equipment | 50 Years | $20.00 per foot |
| Treatment Equipment | 20 Years | $10.00 per gallon |
| Electrical | 10 Years | $18,000.00 |
| Tanks | 24 Years | $4.00 per gallon |
| Disposal Equipment | 24 Years | $5.00 per foot |

5. Please provide the depreciation rate applied to each plant component identified above.

**RESPONSE:**

IRM uses a depreciation rate of 2.00% representing a 50 year life on USOA Account #360 – Collection Sewers Equipment, and a 3.85% depreciation representing a 24 year life for USOA Account #380 – Treatment & Disposal Equipment.

Although no depreciation study has ever been undertaken by IRM, these depreciation rates are the same as that adopted by the TRA in the last rate case for Tennessee Wastewater Service in Docket No. 99-00393.

6. Is the monthly escrow amount of $10.13 currently tariffed and established at the time the original CCN was granted used for routine or non-routine maintenance expenses?

**RESPONSE:**

At some point in time, all of the wastewater plants providing service to customers of IRM will have to be replaced, but not necessarily all at the same time. It is IRM's position that the reserve/escrow funds are only to be used for non-routine operation and maintenance expenses in accordance with Tenn. Comp. R. & Regs. 1220-4-13-.07(9) or replacement of capital plant items included in IRM's rate base that were originally contributed by the developer.