

**IN THE TENNESSEE REGULATORY AUTHORITY
AT NASHVILLE, TENNESSEE**

IN RE:

**JOINT PETITION OF INTEGRATED
RESOURCE MANAGEMENT, INC.
AND TRA STAFF (AS A PARTY) TO
INCREASE RATES AND CHARGES**

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DOCKET NO. 15-00130

PRE-FILED DIRECT TESTIMONY

OF

JOE SHIRLEY

1 **Q. Please state your name, position and business address.**

2 A. My name is Joe Shirley. I am the Deputy Chief of Utilities for the Tennessee
3 Regulatory Authority. My business address is 502 Deaderick Street, Fourth Floor,
4 Nashville, Tennessee 37243.

5 **Q. Please provide a summary of your educational background and professional**
6 **experience.**

7 A. I have a B.S. in Accounting from Western Kentucky University, an M.B.A. from
8 Middle Tennessee State University and a J.D. from the Nashville School of Law. I am
9 a licensed attorney and C.P.A. in Tennessee. I have over thirty years of professional
10 experience as an attorney, utility consultant, financial analyst and auditor, with nearly
11 sixteen of those years in public utility ratemaking and regulation in the telephone,
12 natural gas, water and wastewater industries. I have litigated various utility rate cases
13 as the lead attorney and I have testified in various utility rate hearings as an expert
14 witness before the Tennessee Regulatory Authority and its predecessor agency, the
15 Tennessee Public Service Commission. I have also advised the leadership of the
16 Authority and Commission on a host of regulatory issues.

17 **Q. What is the purpose of your testimony in this proceeding?**

18 A. The purpose of my testimony is to present the forecast for Integrated Resource
19 Management, Inc.'s ("IRM") (1) rate base; (2) rate case expense; (3) amortization and
20 depreciation; and (4) taxes and fees. The related TRA Staff Exhibits and Workpapers
21 are attached to the pre-filed direct testimony of Tiffany Underwood.

22 **Q. Please explain your forecast for rate base.**

1 A. Rate base constitutes the value of property on which a public utility is permitted to earn
2 an authorized rate of return established by a regulatory agency. In general, the rate base
3 consists of the value of property the utility uses to provide service.

4 In this case, IRM's rate base components include: additions for net utility plant in
5 service ("UPIS"), deferred rate case expense and working capital funds advanced by the
6 utility; and deductions for net contributions in aide of construction ("CIAC") and
7 escrow and customer deposits held by the utility.

8 As reflected on TRA Staff Exhibit Schedule 2, IRM's rate base for the 12 Months
9 Attrition Period Ending December 31, 2016 is forecasted to be \$113,893. The rate base
10 amount is relatively small primarily because most of IRM's plant is financed by
11 donations of plant or contributions for construction of plant by other persons. These
12 donations or contributions are known as "contributions in aide of construction"
13 ("CIAC") and are deducted from rate base since the utility's own funds are not invested
14 in the plant. Further, depreciation on contributed plant is not used as an expense in
15 establishing rates for the utility.

16 **UPIS and CIAC.** As shown on TRA Staff Workpapers 2.01 and 2.02, the balances for
17 net UPIS and net CIAC were traced to the general ledger for the Test Period, and then
18 these amounts were computed for the Attrition Period by assuming no additions or
19 retirements and by applying a composite depreciation rate of 3.957% for UPIS and a
20 composite amortization rate of 3.755% for CIAC. The average of the forecasted
21 beginning and ending UPIS and CIAC balances for the Attrition Period were then
22 included in rate base, as reflected on TRA Staff Exhibit Schedule 2.

1 **Deferred Rate Case Expense.** An allowance for rate case expense of \$2,500 was
2 made, with recovery of this amount over three years. This results in an average
3 deferred rate case expense of \$2,084 for the Attrition Period, which was included in rate
4 base as reflected on TRA Staff Exhibit Schedule 2. Given the nature of this proceeding,
5 this rate case expense allowance is reasonable.

6 **Cash Working Capital.** Consistent with long-standing ratemaking practice, an
7 allowance for cash working capital was made by taking one-eighth of cash operating
8 expenses (total operating expenses less non-cash expenses for depreciation and
9 amortization). This method essentially assigns a 45-day time lag for cash working
10 capital purposes and, as reflected in TRA Staff Exhibit Schedule 2, results in an
11 estimated balance of \$24,112 for the Attrition Period.

12 **Escrow and Customer Deposits.** As shown on TRA Staff Exhibit Schedule 2, the
13 average Test Period balances for escrow and customer deposits were used as estimates
14 for these rate base deductions for the Attrition Period.

15 Due to the small size of IRM's rate base, and consistent with the rate case proceedings
16 for similar wastewater utilities, TRA Party Staff determined that utilizing the Operating
17 Margin Method to establish rates was preferable in this case. Further, IRM has agreed
18 to this methodology. Additional testimony concerning use of the Operating Margin
19 Method to set rates in this case is presented by Tiffany Underwood.

20 **Q. Please explain your forecast for rate case expense.**

21 A. As discussed previously, an allowance of \$2,500 for the costs of this case has been
22 made, with recovery over a three year period. This results in annual rate case expense
23 of \$834, as shown on TRA Staff Exhibit Schedule 3, Line 12. Given the nature of this

case and assistance received by Party Staff, this amount of rate case expense is reasonable.

Q. Please explain your forecast for depreciation and amortization.

A. As shown on TRA Staff Workpaper 2.02, the net annual depreciation expense for the Attrition Period is forecasted to be zero. As discussed previously, no depreciation expense is recognized for ratemaking purposes in this case because IRM's utility plant in service is contributed plant. And as reflected on TRA Staff Workpaper 2.02, annual amortization of organization expense of \$1,886 was traced to the Test Period, and this same amount was allowed for the Attrition Period, as shown on TRA Staff Exhibit Schedule 3, Line 13.

Q. Please explain your forecast for inspection fees.

A. As reflected on TRA Staff Exhibit Schedule 3, Line 14, TRA inspection fees of \$627 was forecasted for the Attrition Period. As shown on TRA Staff Workpaper 5.03, the statutory formula for determining the TRA inspection fee was applied to the Attrition Period revenue forecast to calculate the projected fee.

Q. Please explain your forecast for property taxes.

A. As reflected on TRA Staff Exhibit Schedule 3, Line 15, \$2,778 was forecasted for property tax expense for the Attrition Period. Since the Attrition Period forecast assumes no growth in property, plant and equipment, which is one of the main drivers of property tax liability, the forecasted property tax was taken directly from IRM's 2015 property tax notices, as shown on TRA Staff Workpaper 5.02.

Q. Please explain your forecast for franchise taxes.

1 A. As reflected on TRA Staff Exhibit Schedule 3, Line 16, \$236 was forecasted for
2 franchise tax expense for the Attrition Period. This amount was estimated by estimated
3 taxable net worth by deducting unamortized CIAC forecasted for the Attrition Period
4 from net UPIS for the Attrition Period and applying the statutory tax rate, as shown on
5 TRA Staff Workpaper 5.01.

6 **Q. Please explain your forecast for state excise and federal income taxes.**

7 A. As shown on TRA Staff Exhibit Schedule 3, Lines 17 and 18, no provision for state
8 excise tax or federal income tax has been made in this case. Review of state and federal
9 income tax returns since 2012 indicates that the Company has reported net operating
10 losses. Further, IRM has reported net operating losses in its Annual Reports to the
11 TRA. Under both state and federal tax codes, IRM will be able to carry forward these
12 net operating losses (“NOLs”) to reduce its income tax liability in future years. Should
13 the requested rate increase be approved and the forecasted operating margin be
14 achieved, it is estimated that sufficient NOL carryforwards will be available to reduce
15 any resulting state excise and federal income tax liabilities to zero in the Attrition
16 Period. Thus, no provision for excise or income taxes has been included in rates.

17 **Q. Does this conclude your testimony?**

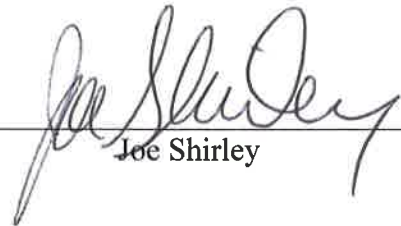
18 A. Yes it does.

VERIFICATION

STATE OF TENNESSEE)

COUNTY OF DAVIDSON)

I, Joe Shirley, being duly sworn, state that I am authorized to make this verification on behalf of TRA Staff (As a Party); that I have read the foregoing Pre-filed Direct Testimony, Exhibits and Workpapers of Joe Shirley and know the content thereof; and that the same are true and correct to the best of my knowledge, information and belief.


Joe Shirley

Sworn to and subscribed before me the 8th day of January, 2016.


Notary Public

My Commission Expires: March 8, 2016



My Commission Expires MAR. 8, 2016