

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

IN RE:)
)
JOINT PETITION OF CARTWRIGHT)
CREEK, LLC. AND TRA STAFF)
(AS A PARTY) TO INCREASE RATES)
AND CHARGES)

DOCKET NO. 16-00127

**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
11 seventeen 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 Cartwright Creek, LLC's
19 ("Cartwright" or "Company") rate base, taxes and fees. The related TRA Staff Exhibits
20 and Workpapers discussed in my testimony below are attached to the pre-filed direct
21 testimony of Daniel Ray.

22 **Q. Please explain your calculation of 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, rate base
3 consists of the value of property the utility uses to provide service.

4 The calculation of Cartwright's rate base is presented on TRA Staff Exhibit, Schedule
5 2. In this case, the components of Cartwright's rate base include: additions for utility
6 plant in service ("UPIS") and deductions for accumulated depreciation and net
7 contributions in aide of construction ("CIAC"). As shown on Schedule 2, the
8 summation of these figures results in a *de minimis* rate base amount of (\$33,536) for the
9 Test Period. These figures include the contribution of plant for the recently-constructed
10 Hideaway system, which was booked to the Company's general ledger in 2015.
11 Further, there are no plans to add any significant amount of rate base items, such as
12 utility plant or construction in progress, through the Attrition Period. Thus, the forecast
13 of rate base for the Attrition Period is essentially the same as the amount calculated for
14 the Test Period.

15 Moreover, since the Company's rate base is *de minimis*, the parties are recommending
16 that rates be established on the operating margin method rather than the rate-of-return
17 method, as explained in Mr. Ray's testimony.

18 **Q. Are you forecasting any depreciation expense for utility plant during the Attrition**
19 **Period?**

20 A. No. The net annual depreciation expense for the Attrition Period is forecasted to be
21 zero. The Company's utility plant has been either fully depreciated (as in the case of
22 the Grasslands system) or contributed to the utility by developers (as is the case for the

Arrington Retreat and Hideaway systems). Thus, for purposes of utility ratemaking in this case, there is no depreciation expense to be recognized for the Attrition Period.

Q. Please explain your forecast for property taxes.

A. As reflected on TRA Staff Exhibit, Schedule 3, Line 23, property tax expense is projected to be \$12,024 for the Attrition Period. As shown on TRA Staff Workpaper 4.01, the Attrition Period forecast assumes that property taxes will increase by the percentage increase in equalized assessments from 2014 to 2015, which was the latest data available. Additionally, based on estimates provided by the Company, property tax expense was increased by \$5,000 to provide for taxes related to the assessment of the newly-constructed Hideaway system plant.

Q. Please explain your forecast for franchise taxes.

A. As reflected on TRA Staff Exhibit Schedule 3, Line 24, franchise tax expense is projected to be \$9,197 for the Attrition Period. This amount was computed by summing Test Period franchise taxes with an estimate of franchise taxes attributable to the addition of the newly-constructed Hideaway system, as shown on TRA Staff Workpaper 4.03.

Q. Please explain your forecast for TRA inspection fees.

A. As reflected on TRA Staff Exhibit Schedule 3, Line 25, TRA inspection fees of \$2,859 are forecasted for the Attrition Period. As shown on TRA Staff Workpaper 4.02, 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 state excise tax.

1 A. As shown on TRA Staff Exhibit, Schedule 3, Line 26, state excise tax attributable to
2 present rates is projected to be \$117 for the Attrition Period. The forecast of state
3 excise tax is presented on TRA Staff Exhibit, Schedule 4, and shows application of the
4 statutory tax rate to forecasted pre-tax book income, which is derived from subtracting
5 forecasted expenses before income taxes from forecasted operating revenues at current
6 rates.

7 **Q. Are you forecasting any federal income tax for the Attrition Period?**

8 A. No. Cartwright Creek, LLC is a limited liability company which files Form 1065 and
9 Schedule K-1 returns with the Internal Revenue Service. As such, Cartwright is a pass-
10 through entity for federal tax purposes, with all profits and associated federal income
11 tax liabilities flowing through to the members' federal tax returns. Accordingly, no
12 federal income tax expense has been forecast for utility ratemaking purposes.

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

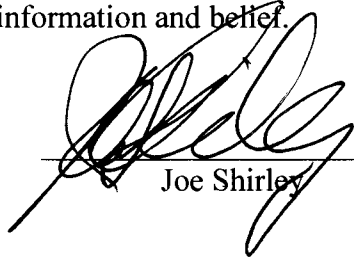
14 A. Yes it does.

VERIFICATION

STATE OF TENNESSEE)

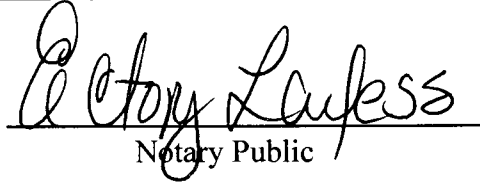
COUNTY OF DAVIDSON)

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 10th day of November, 2016.



Notary Public

My Commission Expires: 1/9/2018

