

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

IN RE:)	
)	
JOINT PETITION OF TENNESSEE)	
WASTEWATER SYSTEMS, INC.,)	DOCKET NO. 20-00009
AND TPUC STAFF (as a Party) TO)	
INCREASE RATES AND CHARGES)	

SUPPLEMENTAL TESTIMONY

OF

JOE SHIRLEY

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

2 A. My name is Joe Shirley. I am the Director of Utility Audit & Compliance with the
3 Tennessee Public Service Commission. My business address is 502 Deaderick Street,
4 Fourth Floor, Nashville, TN 37243.

5 **Q. Did you previously submit pre-filed direct testimony in this docket?**

6 A. Yes. My pre-filed direct testimony was filed in this docket on January 31, 2020.

7 **Q. What is the purpose of your supplemental testimony?**

8 A. After Tennessee Wastewater Systems, Inc. ("TWSI") and Commission Staff filed their
9 Joint Petition, the Consumer Advocate Unit in the Financial Division of the Office of the
10 Attorney General ("Consumer Advocate") was granted intervention. The parties have
11 since engaged in substantive discussions regarding the merits of this case, during which
12 the Consumer Advocate proposed certain financial adjustments to the forecasted revenue
13 requirements for the attrition period, as well as additional accounting procedures for escrow
14 funds and developer payments. In order to avoid further litigation, the parties agreed to
15 make certain revisions to the requested relief in this docket. Staff witness Kevin
16 McClenathan will file supplemental testimony detailing the recommended financial
17 adjustments to the forecasted revenue requirements and providing Revised Commission
18 Staff Exhibits, Schedules and Workpapers incorporating the recommended financial
19 adjustments. The purpose of my supplemental testimony is to describe and recommend
20 additional accounting and reporting procedures for escrow funds and developer payments.
21 I will also summarize the impact of the proposed financial adjustments on the
22 recommended service rates. TWSI witness Suzanne Christman will file supplemental
23 testimony providing further support for the proposed revisions.

24 **Q. Please summarize the impact of the proposed financial adjustments on the**
25 **recommended service rates.**

26 As detailed in the supplemental testimony of Staff witness Kevin McClenathan, the parties
27 are recommending that the proposed revenue deficiency be reduced by \$44,905, from an
28 originally proposed deficiency of \$449,198 to a revised deficiency of \$404,293. The
29 parties, however, have agreed to increase escrow fees by the same amount of the decrease
30 in the revenue deficiency and corresponding cost of service. As such, the proposed rate
31 design, as reflected on revised Schedule 13 attached to Mr. McClenathan's supplemental

1 testimony, is adjusted to decrease base service rates and increase escrow charges in the
2 aggregate of \$44,905 so that the proposed combined rates remain the same as the combined
3 rates that were originally proposed. Specifically, the recommended combined rates for
4 wastewater service and escrow charges are unchanged by the financial adjustments and
5 remain the same as the recommended combined rates for Residential Customers,
6 Commercial Customers Without Food Service, Commercial Customers With Food
7 Service, and Commercial Cabin Customers set forth in the Joint Petition and Customer
8 Notice and described on pages 7 through 9 of my pre-filed direct testimony.

9 **Q. Did you previously recommend any changes in the accounting requirements for**
10 **developer funds collected by TWSI?**

11 A. Yes. On pages 10 and 11 of my pre-filed direct testimony, I recommended the Commission
12 change the accounting treatment of developer payments from all sources and for all
13 purposes to require that such amounts be recorded as Contributions In Aid of Construction
14 (“CIAC”) and earmarked for necessary capital projects or other purposes permitted by the
15 Commission. I also recommended that use of such CIAC reserves be governed by the same
16 procedures for use of escrow funds as set forth in TPUC Rule 1220-04-13-.07(7), which
17 would require TWSI to first receive authorization from the Commission via an approved
18 petition or, in emergency situations, authorization in writing from the Chair, prior to using
19 such CIAC reserves.

20 **Q. Are you making any changes to this recommendation?**

21 A. No. I am still recommending the accounting changes for developer payments as I described
22 them on pages 10 and 11 of my pre-filed direct testimony. However, I would like to clarify
23 that the recommended accounting changes would not apply to the gross-up payments
24 collected from developers pursuant to the Company’s tariff to recover the corporate federal
25 income taxes associated with related Contributions In Aid Of Construction. Such gross-
26 up payments should be reserved by the Company for payment of the federal tax liability
27 associated with the contributions.

28 Further, the parties have discussed and agreed upon additional accounting and reporting
29 procedures for escrow funds and developer payments that are consistent with my earlier
30 accounting recommendation.

1 **Q. Please describe the additional accounting and reporting procedures for escrow funds**
2 **and developer payments that you are recommending to the Commission.**

3 A. To better track the accountability and availability of escrow funds and developer payments
4 for their intended purposes, I recommend the Commission recognize and adopt the
5 following accounting and reporting procedures:

6 1. Escrow funds and developer payments from all sources, except for gross-up
7 payments collected from developers pursuant to the Company's tariff to recover federal
8 income taxes associated with Contributions In Aid Of Construction, will be earmarked and
9 held in reserve for capital needs or other expenditures approved by the Commission,
10 consistent with TPUC Rule 1220-04-13-.07(7).

11 2. TWSI's use of such escrow funds and developer payments must be approved by
12 the Commission or, in case of emergency by the Chair, upon petition or written request by
13 the Company, consistent with TPUC Rule 1220-04-13-.07(7).

14 3. Escrow funds will accrue and be credited to a separate regulatory liability account,
15 consistent with the Company's current accounting practice.

16 4. Developer payments from all sources will accrue and be credited to a cash CIAC
17 account(s), consistent with the accounting recommendations made in this docket.

18 5. Escrow funds and developer payments from all sources will be deposited at least
19 monthly into a separate, non-operating bank account, consistent with the Company's
20 present practice for escrow funds.

21 6. Withdrawals from the separate, non-operating bank account will be made only to
22 fund capital projects or other expenditures previously approved by the Commission or the
23 Chair, consistent with TPUC Rule 1220-04-13-.07(7).

24 7. Annually, as part of the Commission's Annual Reporting process, TWSI will
25 provide a reconciliation report of the cash balance in the separate, non-operating bank
26 account as of December 31 each year to the balances in the escrow liability and developer
27 CIAC accounts in the Company's general ledger. Additionally, TWSI will provide the
28 bank account statements and general ledger accounts that support the reconciliation report.

29 8. TWSI will provide a reconciliation report and supporting bank statements and
30 general ledger accounts at another specific date(s) upon written request by the Consumer
31 Advocate or Commission Staff.

1 **Q. Do you have any additional comments regarding the recommended accounting and**
2 **reporting procedures for escrow funds and developer payments?**

3 Yes. The parties recognize that a beginning point of the accounting and reporting of the
4 escrow funds and developer payments must be established. As such, TWSI witness
5 Suzanne Christman is providing an initial reconciliation report in this docket which serves
6 as the beginning balance and starting point of the reconciliation process.

7 Additionally, the parties recognize that in Docket No. 19-00085 the Commission approved
8 TWSI's petition to use escrow and reserve funds to make needed capital improvements at
9 Hidden Springs Resort. Accordingly, accounting entries and related withdrawals of escrow
10 and reserve funds from the separate, non-operating bank account to fund the pre-authorized
11 expenditures for the Hidden Springs Resort project should be recognized as part of the
12 accounting and reporting requirements recommended in this docket. However, the
13 recommendations made in this docket are not intended to disturb, or propose any changes
14 to, the accounting and reporting requirements for the Hidden Springs Resort project
15 ordered by the Commission in Docket No. 19-00085.

16 Finally, the parties recognize that the accounting and reporting procedures recommended
17 in this docket do not limit a party from recommending, or the Commission from ordering,
18 additional accounting and reporting requirements related to future capital projects or
19 expenditures that may be approved by the Commission as the circumstances may warrant.

20 **Q. Does this conclude your supplemental testimony?**

21 **A.** Yes it does.