

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

IN RE:)
)
JOINT PETITION OF INTEGRATED)
RESOURCE MANAGEMENT, INC.,)
D/B/A IRM UTILITY, INC., AND)
COMMISSION STAFF AS A PARTY)
TO INCREASE RATES AND CHARGES)

DOCKET NO. 24-00073

PRE-FILED DIRECT TESTIMONY

OF

COLE MCCORMICK

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

2 A. My name is Cole McCormick. I am a Utilities Consultant within the Utilities Division
3 for the Tennessee Public Utility Commission. My business address is 502 Deaderick
4 Street, Fourth Floor, 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 Business Administration, majoring in accounting from Tennessee
8 Technological University, and an M.B.A from Middle Tennessee State University. I
9 started working for the Tennessee Public Utility Commission in 2019 and during my time
10 with the Commission I have worked on several cases and reviews for natural gas, electric,
11 water, and wastewater public utilities. Examples of my duties include evaluating
12 applications for certificates of public convenience and necessity, evaluating acquisition
13 and asset transfer petitions for regulated utilities, providing analysis for compliance
14 reviews and escrow audits of regulated utilities, and conducting financial analysis on rate
15 cases for regulated utilities such as Piedmont Natural Gas Company (Docket No. 20-
16 00086), Kingsport Power Company (Docket No. 21-00107), and Superior Wastewater
17 Systems, LLC (Docket No. 22-00087).

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

19 A. The purpose of my testimony is to explain three (3) elements of this rate case that
20 were evaluated to arrive at the Joint Parties' conclusions which are presented in
21 schedules attached to the Direct Testimony of Craig Cox. The topics of discussion are
22 as follows: (1) financial results under current rates, (2) rate design, and (3) the escrow
23 account and its associative accounting issues.

I. Financial results under current rates

Q. Please give a brief presentation of IRM's current and projected financial operating results.

A. Party Staff prepared an income statement model based on IRM's current tariff provisions (authorized charges) and expense data. Party Staff reconciled the test period level of revenues valued at \$398,057 to the Company's general ledger.¹ Party Staff also performed a proof-of revenue by pricing out the currently authorized charges and multiplying them by current customer counts. This price-out of revenues supported the general ledger data.² Party Staff also performed a review of IRM's general ledgers and supporting source documentation for its expense provisions during the test period. This review and modeling by Party Staff results in a net operating loss of (\$67,846) during the test period. Party Staff further analyzed IRM's financial situation by extending the same type of analysis into the attrition period.³ The results of the attrition period are projected to be another net loss of (\$56,683) under presently tariffed charges and forecasted expenses. This information is summarized on TPUC Party Staff Exhibit Staff Exhibit; Schedule 3, Lines 1 through 20 – "Income Statement at Current Rates."

Q. Why is the attrition period level of operating loss slightly lower than the test period?

A. During fiscal 2024, the Utility has been authorized to conduct a sale of its Riverstone Estates wastewater system. Although the sale of Riverstone Estates will lower the Company's revenues (due to the loss of approximately thirty residential customers) the savings experienced from lower amounts of property taxes and the reduction of operating

¹ The test period for this case was 12 months-ended December 31, 2023.

² Customer counts were supported by source data obtained from IRM's third party billing provider.

³ The attrition period for this case was 12 months-ended December 31, 2024.

1 expenses necessary to serve these customers will mitigate the Company's net operating
2 loss that is projected to be incurred.

3 **Q. What target value of net operating profit does Commission Staff believe to be**
4 **reasonable, and how is this value calculated?**

5 A. I will preface my explanation by referring to the Testimony of Craig Cox, which discusses
6 this aspect of Party Staff's analysis in more detail. However, I will give a brief overview
7 of the process. In Tennessee, utility rates are based on a utility's projected Revenue
8 Requirement in a forward-looking period of time known as the "attrition period." In this
9 case, the parties have selected the twelve months ended December 31, 2024, as the
10 Company's attrition year and the twelve months ended December 31, 2023, as the test
11 period. After the attrition year forecast has been derived, the computed earnings (or loss)
12 at present rates are compared to the level of earnings that is required to achieve the Fair
13 Profit component of the projected Revenue Requirement to determine the amount of any
14 earnings surplus or deficiency. If application of the present rates results in an earnings
15 shortfall (deficiency), service rates should be increased in order to give the utility an
16 opportunity to achieve its projected Revenue Requirement in the attrition period. The
17 process of determining the particular rate adjustments that are needed across its customer
18 classes to generate the Revenue Requirement is known as "rate design" which will also
19 be discussed in its respective section of my testimony.

20 **Q. Explain the process Party Staff used in computing the Company's Revenue**
21 **Requirement in this case.**

22 A. This process has three primary phases. In phase one, Party Staff evaluated IRM's attrition
23 period operating results at its current service rates. The attrition period's net operating

1 loss of (\$56,683) represents IRM's operating shortfall for the twelve months ending
2 December 31, 2024, at its current service rates. The attrition period's net operating loss
3 is computed by the difference between forecasted operating expenses of (\$450,687) and
4 the Company's projected operating revenues at present rates of \$394,003.⁴ This
5 information can be found on TPUC Party Staff Exhibit Staff Exhibit; Schedule 3, Lines
6 1 through 20 – "Income Statement at Current Rates."

7 **Q. Please continue explaining the second phase of the Company's revenue requirement**
8 **calculation, discussing the operating income deficiency computation.**

9 A. After determining the Company's attrition year net operating loss, Party Staff moved to
10 the second phase of the revenue requirement calculation. As shown on TPUC Party Staff
11 Exhibit, Schedule 1, Line 4, the attrition period's operating expenses and taxes were
12 multiplied by the recommended operating margin rate of 10% to determine the target
13 operating income (or "fair profit") of \$45,069. This amount, together with the forecasted
14 attrition period's net operating loss of (\$56,683) (Line 1), results in an operating income
15 deficiency of \$101,752 (Line 5).

16 **Q. Please explain the final phase of the revenue requirement calculation, encompassing**
17 **the revenue conversion factor and its purpose.**

18 A. The income deficiency was then converted to an overall revenue deficiency through
19 application of a gross revenue conversion factor of 1.359599. As demonstrated in TPUC
20 Party Staff Exhibit, Schedule 4, this conversion factor recognizes the impacts of income
21 taxes (federal and state excise) and Commission inspection fees for each new \$1 of

⁴ The calculations, adjustments, and assumptions necessary to determine the Company's attrition period forecasts were based on review and examination of IRM's books, records, and underlying source documents, as well as discussions with Company management and its representatives.

1 revenue. Applying the revenue conversion factor to the operating income deficiency
2 converts (“grosses up”) the deficiency to an amount that covers these additional taxes and
3 fees. Consequently, Party Staff’s computed overall revenue deficiency is \$138,342 (Staff
4 Exhibit, Schedule 1, Line 7), which represents the amount by which IRM’s service
5 revenues need to be increased.

6 **II. Rate Design**

7 **Q. What is rate design?**

8 A. Rate design is the determination of the combination of charges that a Utility should be
9 authorized to assess customers via its tariff, to recover its operating costs; and for the
10 opportunity to earn its fair profit target that is established in a rate case.

11 **Q. Please give a brief explanation of IRM’s current rate design.**

12 A. IRM has several different categories of customer classes (residential, commercial w/food,
13 commercial w/o food, campground, and access fee) and each type of customer class has
14 different amounts of base rate charges and escrow collection charges that the Company
15 assesses to customers within those respective categories as prescribed by its tariff

16 **Q. Can you elaborate more on the difference between base rate charges, escrow 17 collections, and access fee charges?**

18 A. Yes, I will explain each one in detail, starting with access fees. Access fees are best
19 understood as a unique charge that is designed to support the operations of a Utility, but
20 these access fees are charged in place of a “regular” customer classification/billing when
21 a prospective customer has not tapped into the Company’s collection system network and
22 become a regular customer. In other words, the Utility must have the capability of
23 providing its services that are readily available to a respective customer (lot owner), but

1 if that customer is not yet connected to the wastewater system, the lot-owner would be
2 assessed an access fee charge by IRM for the availability of service to the lot.

3 **Q. How significant are sewer access fees for this Company?**

4 A. Sewer access fees account for 15.27% of all revenues (cash inflow) collected by IRM
5 during each reporting year. Under currently tariffed rates, IRM earned access fee revenue
6 of \$60,767 during the test period (2023). For reference, IRM's total amount of revenues
7 earned during the test period equals \$398,057. Thus, access fees are an essential, and
8 relied-upon source of funding for IRM's operations. This information is summarized on
9 TPUC Party Staff Exhibit; Schedule 3, Lines 1 through 6 – "Income Statement at Current
10 Rates."

11 **Q. What are base charges, and how do they apply to IRM's financial design and the**
12 **customer bill?**

13 A. Base charges can be thought of as the standard "regular" charges for monthly wastewater
14 service that are designed to generate the majority of funds necessary to cover IRM's
15 routine operating expenditures and provide the Company with a fair reserve margin in
16 exchange for the service it provides.

17 **Q. Explain the overall financial impact of base charges for IRM?**

18 A. Base charge revenue accounted for \$337,252 (or 84.72%) of the Company's total
19 earnings during (2023).

20 **Q. Are there different levels of base charges?**

21 A. Yes, except for the "residential" customer classification, IRM's tariff has several
22 different, pre-determined brackets (tiers) that customers are assigned according to usage
23 design. There are four (4) overarching categories: residential, commercial w/food,

1 commercial w/o food, and campground. It should be noted that IRM has a few customers
2 that do not fit into these four classes which will be discussed separately.

3 **Q. Please discuss the four major customer classifications of IRM's existing tariff and**
4 **how that determines which monthly base rate and escrow charge a customer will be**
5 **assessed.**

6 A. Residential customers only have one tier and are currently assessed a total flat charge of
7 \$58.11 monthly. Most of this charge is a base rate charge, and \$10.13 of the \$58.11 is
8 for escrow collections. Campground customers have three different levels of service and
9 escrow charges, depending on the usage design. Commercial properties have a spectrum
10 of sewer service rates (base charges) and escrow charges that are assessed to customers
11 based on usage design, and these rates are different depending on whether food service is
12 being provided or not.

13 **Q. How will base rates for all customer classes be changing because of Party Staff's**
14 **analysis?**

15 A. It was decided that the computed revenue deficiency of \$138,342 (discussed earlier)
16 should be recovered in equal proportions across all customer classes. Ultimately, to
17 equally distribute the necessary rate increases across IRM's tariff, each tariff
18 classification will observe an approximate thirty-five percent (35%) increase to the
19 existing base service charges. The Commission has repeatedly found across-the-board
20 increases in rates to be just and reasonable in other rate-setting dockets, and Party Staff
21 is of the opinion that equally distributing the rate increase to all customer classes is fair
22 and equitable in this case.

1 **Q. Will access fees be increasing due to the results of Party Staff’s analysis?**

2 A. Yes, access fees continue to be a significant source of funding for IRM. Therefore, an
3 increase to the tariffed access fee charge is warranted. Specifically, the access fee rate
4 will increase by roughly thirty-five percent (35%) from \$160.00 to \$216.18. This
5 information is summarized on TPUC Party Staff Exhibit; Schedule 6, Lines 33 through
6 36 – “Rate Design.”

7 **Q. Will the escrow portion of the customer’s bill be increasing due to the results of**
8 **Party Staff’s analysis?**

9 A. No, escrow charges will remain unchanged. Escrow fees are already built into the total
10 customer bill and will continue to be collected by IRM.

11 **Q. Will there be any other changes to IRM’s tariffed rates?**

12 A. In addition to the four standard categories mentioned above, Party Staff has also included
13 in the revised tariff and the rate design certain developer rates for the Wild Briar
14 development, and also the inclusion of combined service/high-strength waste rates for
15 certain entities. The Wild Briar rates were included in the tariff due to a pre-existing
16 special contract that had expired, and the combined service/high-strength waste
17 customers had pricing agreements for wastewater service with IRM that were not
18 included in the tariff. These rates are already being charged to assigned customers and
19 the base charge of these customers will also be increasing by roughly thirty-five percent
20 (35%).

21 **Q. Please give a brief presentation of IRM’s financial operating results under new**
22 **rates.**

1 A. Party Staff prepared an income statement model based on the recommended updates to
2 IRM's tariff provisions (authorized charges). Each currently authorized base charge was
3 increased by roughly thirty-five percent (35%) to meet the revenue requirement necessary
4 for the Company to meet its operating expense obligations and have an opportunity to
5 earn a fair profit margin. The attrition period model using proposed rates derives a net
6 operating income of \$45,068 during the attrition period (2024). This is derived from the
7 calculation of total projected expenses valued at (\$487,276), being subtracted from total
8 projected revenues valued at \$532,345. This information is summarized on TPUC Party
9 Staff Exhibit Staff Exhibit; Schedule 5, Lines 1 through 20 – "Income Statement at
10 Proposed Rates."

11 **III. Escrow funds and associative accounting issues**

12 **Q. Please explain escrow fees and how they are collected?**

13 A. Escrow fees are a component of every base rate billed by the Company. The escrow fee
14 and base charges are added together to create the total utility bill. The escrow fees provide
15 reserve funding to cover non-routine capital needs, extraordinary expenditures, or any
16 other purpose that is approved by the Commission. The escrow fee amount is different
17 among the various customer classes and makes up anywhere from 10% to 25% of the
18 customer's total utility bill. Escrow fees are not treated as revenues in Party Staff's
19 analysis of IRM's revenue requirement. The escrow portion of the customer's bill is
20 required to be transferred (deposited) into a separate, reserve bank account by the Utility.
21 Although these funds are not treated as revenue, they do represent a source of cash that
22 is saved in reserve by the Utility for uses approved by the Commission. Because debt
23 and equity markets are not readily available to a Utility of IRM's scale, these escrow

collections are an essential source of funding for emergencies or approved expenditures that fall outside of routine operating and maintenance expenses incurred by IRM. Escrow fees will remain unchanged for all customers.

Q. Has IRM complied with the Commission’s requirements for use of escrow as set forth in the escrow rule?

A. No, IRM has not complied with procedural requirements for obtaining prior authorization prior to using escrow funds. The Commission’s escrow rules became effective as of December 2018, and Party Staff has reviewed the usage of escrow by IRM and found that the Company’s non-compliance with the escrow requirements goes back to the time of the rule change in December 2018.

Q. What are the Commission’s rules pertaining to escrow accounts?

A. The escrow rules are a subset of Commission rules belonging to Chapter 1220-04-13, pertaining to wastewater utilities regulated by the Commission. The rules read as follows:⁵

“(6) Upon the filing of an initial CCN application, a determination shall be made regarding the establishment of a reserve/escrow account. The Commission may review the financial condition of any public wastewater utility at any time to determine whether a reserve/escrow account balance is adequate or an account should be established. The requirement for a public wastewater utility to maintain a reserve/escrow account shall be determined by the Commission on a case-by-case basis.

(7) Reserve/escrow accounts established by a public wastewater utility shall be limited to paying for or reimbursing the utility for extraordinary expenses of the utility or for

⁵ Refer to Commission Rule 1220-04-13-.07(6)-(8)

1 necessary capital projects, unless otherwise permitted by the Commission. Extraordinary
2 expenses are those resulting from events which are infrequent and unusual in nature, and
3 unrelated to the utilities' routine service or business activities. The utility must first
4 receive authorization from the Commission via approved petition or, in emergency
5 situations, authorization in writing from the Chairman of the Commission upon written
6 request by a representative of the utility to use such funds. The Commission may require
7 public wastewater utility employees having signature authority over such account to
8 obtain a fidelity bond. The public wastewater utility's tariff shall set forth the specific
9 amount charged to customers to fund the reserve/escrow account.

10 (8) The TPUC may waive or modify requirements of this rule for good cause shown,
11 including but not limited to affordability of rates, minimization of rate shock or other
12 operating characteristics of the utility.”

13 **Q. How did IRM use the escrow funds that were withdrawn from the account?**

14 A. Staff examined escrow expenditures during the test year and also reviewed expenditures
15 from the escrow account back to 2019. Staff found that all escrow withdrawals were used
16 to fund provisioning of wastewater service to customers. Further, upon close examination
17 of escrow deposits and withdrawals, Staff did not detect any uses of escrow for any other
18 purpose besides the payment of reasonable expenditures associated with providing
19 services to customers. It is clear to Staff that without using the escrow funds to support
20 wastewater service operations, IRM would have incurred significant operating losses and
21 would have been unable to support its operations through service rates during this time,
22 which could have jeopardized the Company's ability to provide safe and reliable
23 wastewater services to customers.

Q. Can you elaborate more on Staff’s analysis of escrow usage and the Company’s operating results if escrow funds had not been used to support wastewater operations?

A. Yes, Staff performed an analysis of the Company’s operating performance by year from 2019 through 2023. This was accomplished by taking the amount of actual gross revenues earned by the Company and subtracting the total operating and maintenance expenses for each year. This calculation yields the net operating (loss) for each respective year during the period selected. This analysis shows the Company’s best performance was a net operating loss of (\$42,056) during 2020, and the Company’s worst performance was a net operating loss of (\$115,518) during 2022. The results of Staff’s calculated net operating results for IRM are as follows:

	Year				
	2023	2022	2021	2020	2019
Actual Net Operating Income	(\$67,847)	(\$115,518)	(\$42,444)	(\$42,056)	(\$59,864)

Q. Why is there a significant differential between the amount of net operating income/(loss) reported in Staff’s analysis and the Company’s Annual Report?

A. IRM has been accounting for escrow collections as revenues since at least 2019. Escrow fees are a part of the total charge on a customer’s utility bill. The full amount of each utility bill is collected by IRM when a customer pays their bill. However, escrow collections should be treated as a liability from a regulatory accounting perspective, not as revenue. IRM has consistently been reporting its escrow collections as revenues, each year since at least 2019, and this inflates the revenue value on the Company’s income statement. Because IRM has been accounting for escrow collections as operating revenue

1 as opposed to a regulatory liability, IRM's reported financial results are only slightly
2 deficient. However, as demonstrated by the table above, appropriately classifying escrow
3 collections as a regulatory liability, the adjusted financial results show that the Company
4 has incurred substantial net operating losses every year since 2019.

5 **Q. What is Staff's overall conclusion regarding this analysis of operating results and**
6 **IRM's use of escrow funds?**

7 A. The Company would have been unable to meet its documented levels of operating and
8 maintenance expenses necessary to support the provision of service to customers at the
9 currently authorized amount of base charge revenue collections. In other words, the
10 Company would have inadequate operating cash inflow to consistently meet its expense
11 obligations during the period analyzed. Thus, the usage of escrow collections as a source
12 of funding for provisioning monthly wastewater service served to mitigate the cash
13 shortfall and substantial net operating losses that would have otherwise been incurred.

14 **Q. How does Party Staff propose that IRM handle escrow funds going forward?**

15 A. Under the circumstances of (1) escrow funds having been used to support wastewater
16 operations during a time when rates were materially insufficient to cover reasonable
17 operating expenses without incurring substantial operating losses and (2) given that the
18 proposed rate increase, if approved, should provide IRM with the necessary funds to
19 cover reasonable operating expenses without using escrow funds going forward, Party
20 Staff is recommending that IRM be required to observe the procedural and substantive
21 requirements set forth in the escrow rule on a prospective basis.

22 **Q. Is the Company in agreement with Party Staff's escrow recommendations?**

1 A. Yes, the Company has agreed to all of Staff's recommendations concerning the use and
2 accounting for escrow funds. In particular, and as set forth in the testimony of IRM
3 witness Bill Cox, IRM has agreed that it will adhere to the procedural requirements of the
4 escrow rule, including the requirement to obtain authorization from the Commission prior
5 to withdrawing escrow funds, that IRM will hold escrow collections in a separate cash
6 bank account, and that IRM will begin accounting for escrow funds as a regulatory
7 liability rather than its prior practice of accounting for them as operating revenue, as well
8 as other accounting and reporting requirements. These same requirements are discussed
9 on pages 15 through 17 on the Testimony of Party Staff witness Craig Cox.

10 **IV. Summary of rate changes being proposed**

11 **Q. Can you provide a summary of the rate changes that are being proposed?**

12 A. Yes, I will note that these can be viewed on TPUC Party Staff Exhibit; Schedule 6, Lines
13 1 through 36 – "Rate Design." However, I will write-up a brief narrative on each rate
14 classification and provide tables that show current and proposed tariffed rates for the
15 Company:

- 16 1) For all Residential wastewater rates, the rates will increase from \$58.11 to \$74.96, a
17 total increase of twenty-nine percent (29%).
- 18 2) Sewer access fees will increase from \$160.00 to \$216.18, a total increase of thirty-five
19 percent (35.1%).
- 20 3) For all Campground wastewater rates, the rates will increase from \$824.64 to
21 \$1,044.11, a total increase of twenty-six and six-tenths of a percent (26.6%).

4) For Commercial without Food (overnight rental) wastewater rates, the recommended increases, as well as the current total rates, are included in the table below:

Commercial Without Food:			
	<u>Current</u>	<u>Proposed</u>	<u>Increase</u>
Commercial (0-300 gallons), 3 bedrooms or less	\$ 114.64	\$ 147.30	28.5%
Commercial (301-400 gallons), 4 bedrooms	\$ 144.97	\$ 186.76	28.8%
Commercial (401-500 gallons), 5 bedrooms	\$ 174.29	\$ 224.86	29.0%
Commercial (501-600 gallons), 6 bedrooms	\$ 203.62	\$ 262.96	29.1%
Commercial (601-700 gallons), 7 bedrooms	\$ 237.95	\$ 307.83	29.4%
Commercial (701-800 gallons), 8 bedrooms	\$ 272.28	\$ 352.69	29.5%
Commercial (801-900 gallons), 9 bedrooms	\$ 306.60	\$ 397.55	29.7%
Commercial (901-1,000 gallons), 10 bedrooms	\$ 340.93	\$ 442.41	29.8%
Commercial (1,001-1,100 gallons), 11 bedrooms	\$ 376.47	\$ 489.01	29.9%
Commercial (1,101-1,200 gallons), 12 bedrooms	\$ 412.00	\$ 535.61	30.0%
Commercial (1,201-1,300 gallons), 13 bedrooms	\$ 447.55	\$ 582.22	30.1%
Commercial (1,301-1,400 gallons), 14 bedrooms	\$ 483.09	\$ 628.82	30.2%
Commercial (1,401-1,500 gallons), 15 bedrooms	\$ 518.38	\$ 675.08	30.2%
Commercial (1,501-1,600 gallons), 16 bedrooms	\$ 553.64	\$ 721.32	30.3%
Commercial (1,601-1,700 gallons), 17 bedrooms	\$ 588.95	\$ 767.60	30.3%
Commercial (1,701-1,800 gallons), 18 bedrooms	\$ 624.24	\$ 813.86	30.4%
Commercial (1,801-1,900 gallons), 19 bedrooms	\$ 659.53	\$ 860.13	30.4%
Commercial (1,901-2,000 gallons), 20 bedrooms	\$ 694.82	\$ 906.39	30.4%

5) For Commercial with Food wastewater rates, the recommended increases, as well as the current total rates, are included in the table below:

Commercial With Food:			
	<u>Current</u>	<u>Proposed</u>	<u>Increase</u>
Commercial (0-300 gallons), 3 bedrooms or less	\$ 141.77	\$ 181.42	28.0%
Commercial (301-400 gallons), 4 bedrooms	\$ 178.53	\$ 229.27	28.4%
Commercial (401-500 gallons), 5 bedrooms	\$ 214.08	\$ 275.48	28.7%
Commercial (501-600 gallons), 6 bedrooms	\$ 249.63	\$ 321.69	28.9%
Commercial (601-700 gallons), 7 bedrooms	\$ 291.25	\$ 376.10	29.1%
Commercial (701-800 gallons), 8 bedrooms	\$ 332.87	\$ 430.51	29.3%
Commercial (801-900 gallons), 9 bedrooms	\$ 374.49	\$ 484.92	29.5%

Commercial (901-1,000 gallons), 10 bedrooms	\$ 416.10	\$ 539.32	29.6%
Commercial (1,001-1,100 gallons), 11 bedrooms	\$ 459.26	\$ 595.91	29.8%
Commercial (1,101-1,200 gallons), 12 bedrooms	\$ 502.41	\$ 652.49	29.9%
Commercial (1,201-1,300 gallons), 13 bedrooms	\$ 545.56	\$ 709.07	30.0%
Commercial (1,301-1,400 gallons), 14 bedrooms	\$ 588.71	\$ 765.65	30.1%
Commercial (1,401-1,500 gallons), 15 bedrooms	\$ 631.56	\$ 821.83	30.1%
Commercial (1,501-1,600 gallons), 16 bedrooms	\$ 674.41	\$ 878.00	30.2%
Commercial (1,601-1,700 gallons), 17 bedrooms	\$ 717.25	\$ 934.16	30.2%
Commercial (1,701-1,800 gallons), 18 bedrooms	\$ 760.11	\$ 990.35	30.3%
Commercial (1,801-1,900 gallons), 19 bedrooms	\$ 802.95	\$ 1,046.51	30.3%
Commercial (1,901-2,000 gallons), 20 bedrooms	\$ 845.80	\$ 1,102.70	30.4%

1

2

3 6) There will be a newly created category of rates that are for the Utility, “Developer

4 Service Rates.” These rates shall encompass a pre-existing special contract that had

5 expired for the Wild Briar territory:

<u>Developer Service Rates</u>	<u>Current</u>	<u>Proposed</u>	<u>Increase</u>
Wild Briar - Developer Rate - Lot 20	\$ 103.19	\$ 135.80	31.6%
Wild Briar - Developer Rate - Lots 21 & 22	\$ 237.38	\$ 312.40	31.6%
Wild Briar - Developer Rate - Lots 30 & 31	\$ 340.93	\$ 448.68	31.6%
Wild Briar - Developer Rate - Lots 14 & 17	\$ 416.30	\$ 547.87	31.6%
Wild Briar - Developer Rate - Lots 33R & 39R	\$ 510.00	\$ 671.18	31.6%
Wild Briar - Developer Rate - Pool	\$ 52.51	\$ 69.11	31.6%

6

7 7) For Combined Service/High-Strength wastewater rates, the recommended increases,

8 as well as the current total rates, are included in the table below:

9

<u>Combined Services/High-Strength Waste</u>	<u>Current</u>	<u>Proposed</u>	<u>Increase</u>
Grand View Resort HOA	\$ 205.00	\$ 259.26	26.5%
Cove Mountain Realty	\$ 333.58	\$ 436.03	30.7%
Valley Mart Exxon	\$ 426.00	\$ 535.47	25.7%
River Club	\$ 792.00	\$ 1,002.04	26.5%

1 **Q. How do the proposed rate increases compare to the rate of inflation since the last**
2 **increase in IRM’s rates?**

3 A. Party Staff has found that the results of our rate case analysis produce a proposed rate
4 increase that is comparable with two separate economic growth indexes. This would be
5 (1) the Consumer Price Index (CPI), and (2) the Gross Domestic Price Deflator Index
6 (GDP-deflator). Both of these indexes are published on a quarterly basis by the US
7 Bureau of Labor Statistics and are used as measures of inflation. Party Staff measured
8 the percentage change in both of these index levels from the first quarter of 2016 (when
9 IRM’s current rates initially became effective) until the end of the second quarter of 2024
10 (which was the most recent data available at the time). For the CPI, the differential
11 between (Q2) of 2024 and (Q1) of 2016 presents a 32.76% growth. If this is divided by
12 the period of time between measurements (measured in years) then an 8.5-year time gap
13 produces an average annual “inflation” rate of 3.39% applied to 2016 prices to reach (Q2)
14 2024 price levels. Similarly, the GDP-deflator presents a 28.04% growth from (Q1) of
15 2016 through (Q2) of 2024. Expressed as an average annual growth rate would mean an
16 “inflation” factor of 2.95% applied to (Q1) 2016 prices to reach (Q2) 2024 levels.

17 Thus, these two measures of inflation demonstrate prices would need to increase at least
18 28.04% to 32.76% from the time IRM’s current rates were implemented over eight years
19 ago until today, in order to true-up price levels to account for these inflationary indexes.
20 Party Staff’s cost of service study in this case results in a recommendation to increase the
21 total bill of IRM’s monthly service customers up to 31.6% (with the base rate portion of
22 the bill increasing up to 35.1%) in order to cover IRM’s reasonable operating costs for
23 the attrition year. Party Staff, therefore, concludes that the rate increase recommended in

1 this case is reasonable and consistent with general economic inflation since the
2 Company's rates were last adjusted.

3 **Does this conclude your testimony?**

4 A. Yes, it does.

VERIFICATION

STATE OF TENNESSEE)


COUNTY OF DAVIDSON)

I, Cole McCormick, being duly sworn, state that I am authorized to make this verification on behalf of Commission Staff (as a Party); that I have read the accompanying Pre-filed Direct Testimony of Cole McCormick and know the content thereof; and that the same are true and correct to the best of my knowledge, information and belief.



Cole McCormick

Sworn to and subscribed before me on the 14th day of November 2024.



Notary Public

My Commission Expires: 3/3/2026

