

ATTORNEY LETTERHEAD

July 15, 2006

Ms. Sara Kyle, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37219

06-00187

Re: Petition of Aqua Utilities Company for Approval of Adjustment of its Rates
and Charges and Revised Tariff

Dear Chairman Kyle:

Enclosed you will find the original and four (4) hard copies along with a CD in PDF format of the above-referenced Petition of Aqua Utilities Company and a check for \$25.00 for the filing fee.

Sincerely,

J. Gilbert Parrish, Jr.
Attorney for Aqua Utilities Company

Enclosures

Cc: James E. Clausel
Mark Godwin
William H. Novak
Russell Perkins, Esq.

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

PETITION OF AQUA UTILITIES)	
COMPANY FOR APPROVAL OF)	
ADJUSTMENT OF ITS RATES AND)	DOCKET NO. 06- _____
CHARGES AND REVISED TARIFF)	

PETITION

Pursuant to T.C.A. Section 65-5-103 and the Rules of the Tennessee Regulatory Authority (“TRA” or “Authority”), Aqua Utilities Company (“Aqua” or the “Company”) respectfully requests that the TRA approve its Petition for an adjustment in its rates and charges for water and wastewater service for the purpose of obtaining a general increase in its rates and for authority to place into effect revised tariffs.

In support of this Petition, Aqua submits the following:

1. Full name and address of the principal place of business of the Company are:

Aqua Utilities Company
408 Main Street
Savannah, TN 38372

2. All correspondence and communication with respect to this Petition should be sent to the following:

J. Gilbert Parrish, Jr.
60 Brazelton Street, Unit 9
Savannah, TN 38372
Telephone: 731-925-1966
Facsimile: 731-925-1130

James E. Clausel, Owner
Aqua Utilities Company
408 Main Street
Savannah, TN 38372
Telephone: 731-925-6547
Facsimile: 731-925-9524

William H. Novak
WHN Consulting
19 Morning Arbor Place
The Woodlands, TX 77381
Telephone: 713-298-1760
Facsimile: 615-301-3962

3. Aqua is a public utility providing water and wastewater services pursuant to the laws of the state of Tennessee and its public utility operations are subject to the jurisdiction of this Authority.
4. Aqua's existing rates for water and wastewater service are not adequate to permit it an opportunity to recover its reasonable operating costs and to earn a fair and reasonable rate of return on its investment. In order for Aqua to maintain its facilities and provide services in accordance with the reasonable requirements of its customers and the requirements of the TRA, attract capital on terms which are reasonable, and to produce a reasonable rate of return on invested capital, Aqua must be granted a general increase in its rates.
5. As shown on the Company Exhibit to this Petition, using current rates during the attrition period (the 12 months ending December 31, 2007), Aqua is projected to experience a net operating loss of \$95,642 on a rate base of \$2,876,422 which results in an overall return of -3.33%. Such a return is not fair and reasonable and is confiscatory. Without rate relief, Aqua will incur a revenue deficiency during the attrition period of approximately \$559,109.

6. Aqua proposes to phase-in rates that will eliminate this revenue deficiency and is only asking at this time for an increase in its base water and wastewater rates of \$300,000 or approximately one-half (1/2) of the total forecasted revenue deficiency of \$559,109. Aqua plans to file a future rate increase which will allow it to recover the remaining revenue deficiency and to achieve a return on equity of 15.00%.
7. Aqua's inability to earn a fair and reasonable rate of return on its investment results from a number of factors, as outlined in the testimony of Eddie Clausel. These factors include the following:
 - a. Aqua's current tariff rates were initially set in its original CCN application (Docket 90-04334) at the same rate as Aqua's wholesale water supplier. Therefore, Aqua was never able to recover its remaining cost of providing service to customers.
 - b. While Aqua's rates have remained the same since 1990, its wholesale water supplier has increased their rates to Aqua multiple times.
 - c. Aqua's owner has already invested over \$1.8 million in capital to extend its service lines and provide water and wastewater service to its customers.
8. In further support of its Petition, Aqua has attached the following documentation:
 - a. **Prepared Direct Testimony of James E. Clausel** regarding a general overview of Aqua Utilities Company's operations and a summary of the rate relief requested.

- b. **Prepared Direct Testimony of Mark Godwin** regarding the Company's accounting methodology underlying the historic test period balances and test period adjustments in the calculation of rate base and income.
- c. **Prepared Direct Testimony of William H. Novak** regarding the underlying methodology used in the calculation of attrition period adjustments to rate base and income, fair rate of return, revenue deficiency, and rate design.
- d. **Company Exhibit** providing a calculation of the Company's net operating income before and after the proposed rate adjustment, rate base, rate of return, and rate design.
- e. **Existing Tariffs** providing the charges, rules and regulations currently in place.
- f. **Proposed Tariffs** providing the change in rates calculated by the Company's cost of service study.

WHEREFORE, Aqua prays:

- 1. That Notice be issued and a hearing be set regarding the Petition;
- 2. That the Authority find that the existing rates of Aqua are inadequate and that the new rates proposed by the Company are fair, just and reasonable and in the public interest;
- 3. That the Authority approve Aqua's revised tariff implementing the proposed rates to become effective August 15, 2006;
- 4. That Aqua be granted such other and/or further relief as may be warranted.

Respectfully submitted,

Aqua Utilities Company

By:_____

J. Gilbert Parrish, Jr.

60 Brazelton Street, Unit 9

Savannah, TN 38372

Telephone: 731-925-1966

Attorney for Aqua Utilities Company

CERTIFICATE OF SERVICE

I hereby certify that on this ____ day of July 2006, a true and correct copy of the foregoing Petition was served on the persons below by placing same in the U.S. mail, postage pre-paid:

Cynthia Kinser
Consumer Advocate and Protection Division
Office of the Attorney General
P.O. Box 20207
Nashville, Tennessee 37202

J. Gilbert Parrish, Jr.

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

IN RE:
AQUA UTILITIES COMPANY

PREPARED DIRECT TESTIMONY
OF
JAMES E. CLAUSEL

1 **Q. Would you state your name and your business address for the record,**
2 **please?**

3 A. My name is James E. Clausel. My business address is 408 Main Street,
4 Savannah, TN 38372.

5 **Q. Mr. Clausel, are you the current owner of Aqua Utilities Company?**

6 A. Yes.

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

8 A. As owner of the utility, I am providing a general overview of Aqua Utilities
9 Company's ("Aqua's" or "the Company's") operations and a summary of the rate
10 relief that the Company is requesting. Mr. Godwin will provide testimony on the
11 Company's accounting methodology for its historical books and records, and Mr.
12 Novak will provide testimony on the Company's forecasted cost of service
13 calculation and rate design.

14 **Q. Mr. Clausel, could you please describe the Company and explain how you**
15 **came to be the current owner.**

16 A. Aqua is both a water and wastewater utility. Aqua's service territory is a 3,000
17 acre development on the Tennessee River, about seven miles south of Savannah
18 and across the river from Pickwick State Park.

19 Aqua received its CCN from the Tennessee Public Service Commission on
20 August 30, 1990 in Docket 90-04334. In that docket, the original owner of the
21 Company contributed the initial plant investment to the utility and adopted the
22 existing water rates at the time for the City of Savannah as the same rates for
23 Aqua.

24 In 1996 I purchased Aqua from the original owner. However, due to an oversight
25 on my part, the TRA wasn't notified of this transfer until 2002. On May 30,
26 2002, in Docket 02-00387, the TRA approved the transfer of Aqua from the
27 previous owner to myself.

1 Today, Aqua provides water and wastewater service to approximately 240
2 residential customers. Wholesale water is purchased from the City of Savannah
3 and then redelivered to Aqua's customers. Because of the hilly terrain in Aqua's
4 service territory, a regular gravity fed wastewater system is unfeasible. Instead, a
5 system of grinder pumps and lift stations are employed to move wastewater from
6 the customer's residence to Aqua's treatment facility.

7 **Q. When was Aqua's last rate increase?**

8 A. Aqua has never had a rate increase. The existing rates for Aqua were set in its
9 1990 CCN application described above at an amount equal to what the City of
10 Savannah was then charging for service outside the city limits. These same rates
11 are still in effect today.

12 **Q. Was there a problem with the initial rate design for Aqua?**

13 A. Yes. Because the initial tariff rates were set at the same rate that Aqua was
14 purchasing wholesale water for, Aqua has always operated at a loss since there
15 was no provision in the rates for the continuing operation and maintenance
16 expenses of the utility. In 1990, when Aqua's initial rates were set, the City of
17 Savannah was charging \$7.80 for the first 1,000 gallons consumed per month and
18 \$1.65 for usage in excess of 1,000 gallons. Today, the City of Savannah charges
19 \$24.00 for the first 1,000 gallons consumed per month and \$2.00 for usage in
20 excess of 1,000 gallons while Aqua's rates have remained at the 1990 level. This
21 means that Aqua is actually purchasing wholesale water today at a higher rate
22 than its resale tariff rate.

23 **Q. Mr. Clausel, why has Aqua waited until now to ask the TRA for rate relief?**

24 A. Admittedly, both the previous owner as well as myself were unaware of the
25 requirements involved in requesting rate relief from the TRA and its predecessor.
26 In addition, up to this point, most of the attention has been focused on the
27 development served by Aqua instead of the utility itself. With the recent

1 completion of a significant expansion of Aqua's service lines into a new
2 development known as "The Preserve", there was no longer any feasible way to
3 subsidize the costs of the utility. While this lack of attention to Aqua's financial
4 condition has been a benefit to the customers of Aqua, it has finally reached a
5 point where it can no longer be ignored as it was in the past.

6 **Q. How have the costs of the utility been subsidized?**

7 A. Until now, I have absorbed the operating losses of Aqua through my other
8 business ventures. In addition to this, I have also been performing a number of
9 significant management functions for the utility with no reimbursement. These
10 management functions include oversight of the day-to day operations, monitoring
11 the daily work provided by subcontractors, preparation and review of all
12 regulatory reports and filings, and providing the utility with an emergency contact
13 person on a 24 hour basis. In order to eliminate this subsidy and allow the utility
14 to stand on its own financial footing, I have executed a contract between the
15 utility and myself for the performance of these functions. The cost of this
16 contract has been included in this filing and will be explained in more detail by
17 Mr. Novak.

18 **Q. What rate relief is the Company requesting?**

19 A. As will be addressed by Mr. Novak, Aqua's current rates are inadequate and will
20 not provide the Company a reasonable opportunity to recover its operating cost
21 and earn a just and reasonable return on its investment. Without rate relief, Aqua
22 will have a revenue deficiency of approximate \$560,000 during the attrition
23 period. In order to have an opportunity to earn a just and reasonable return, Aqua
24 is requesting that it be allowed to increase its rates to eliminate this deficiency.

25 **Q. How is the Company proposing to implement this rate increase?**

26 A. I fully recognize that such a large increase would likely cause "rate shock" from
27 our customers if the entire revenue deficiency is implemented at one time. I have

1 therefore asked Mr. Novak to prepare Exhibits and Tariffs to implement a revenue
2 increase of only \$300,000 or approximately one-half of the revenue deficiency.
3 My plan is for the remaining revenue deficiency to be implemented in a future
4 rate case.

5 **Q. How does Aqua propose to recover this initial \$300,000 revenue deficiency?**

6 A. This issue will also be addressed in more detail by Mr. Novak. In general, Aqua's
7 proposed tariffs will increase the present rates for both water and wastewater
8 customers in order to alleviate the revenue deficiency. Also, Aqua's proposed
9 tariffs provide updated tariff language to address the unique needs of the grinder
10 pumps and lift stations that we utilize in our operations.

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

12 A. Yes, it does.

VERIFICATION

STATE OF TENNESSEE)

COUNTY OF HARDIN)

I, James E. Clausel, being duly sworn state that I am the owner of Aqua Utilities Company, the Petitioner in the subject proceeding; that I have read the foregoing Petition and Exhibits and know the content thereof; that the same are true and correct to the best of my knowledge, information and belief.

Sworn and subscribed before me this _____ day of ###month, year###.

Notary Public

My Commission Expires:_____

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

IN RE:
AQUA UTILITIES COMPANY

PREPARED DIRECT TESTIMONY
OF
MARK GODWIN

Q. Would you state your name, business address and occupation for the record, please?

A. My name is Mark Godwin. My business address is 408 Main Street, Savannah, TN 38372. I am a member of Williams, Jerrolds, Godwin & Nichols, PLLC a professional services company. We provide accounting, tax, audit and management services to various organizations and individuals.

Q. Please provide a summary of your background and professional experience.

A. I obtained a Bachelor of Science degree in accountancy from the University of North Alabama in May 1986 and have worked in the public accounting profession from that time until now. My career in this firm began in June 1987. I have been active in the auditing and consulting with governmental organizations including many utility districts and municipal utility departments. In addition, I audit financial institutions and work in limited areas of taxation.

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

A. The purpose of my testimony is to present to the TRA the accounting methodology underlying the historic test period balances and test period adjustments used by Aqua Utilities Company ("Aqua" or "the Company") in its calculation of rate base and income as shown on Company Exhibit, Schedules 2 and 3. As the accounting partner in charge of overseeing Aqua, I am responsible for the preparation of the Company's ledger and accounting adjustments.

Q. What historic test period and attrition period has the Company proposed in its filing?

A. We have used the twelve months ended December 31, 2005 as our historic test period with adjustments through the twelve months ending December 31, 2007. The twelve months ended December 31, 2005 was chosen as our test period because it was the latest calendar year available as the Company was putting its case together. The twelve months ending December 31, 2007 was chosen as our

attrition period because it represented the first twelve-month period that any new rates approved by the TRA would be in effect.

Q. Please explain the Company's historic test period rate base calculation.

A. The test period rate base calculation of \$1,588,971 is shown in column 1 on Company Exhibit, Schedule 2. As shown Schedule 2, the test period balances are based on the amounts in the Company's ledger at December 31, 2005 and were the same numbers reported to the TRA in the Company's 2005 Annual report.

Q. Has the Company made any significant entries on its books and records that are reflected in the test period rate base calculation of \$1,588,971?

A. Yes. A number of adjustments relating to plant in service, construction work in progress, accumulated depreciation, and contributions in aid of construction were made in December 2005 in order to properly reflect the historical cost of plant added in prior years.

It was Aqua's understanding from the previous owner that new additions to utility plant were to be recorded on the books of Aqua's parent company. During the preparation of this rate case, we learned that this is in error, and an adjusting entry was made on Aqua's books to correctly record utility plant and associated depreciation since the acquisition by the present owner in 1997.

In addition, Aqua first recognized in December 2005 that it had not been properly amortizing the balance in Contributions in Aid of Construction ("CIAOC") in accordance with the uniform system of accounts ("USOA") prescribed by the TRA for small water and wastewater utilities. The historic balance in the CIAOC account was contributed by Aqua's original owner in 1990 and has now been properly amortized to the correct balance at December 31, 2005 based on the same useful life of the property as that used in the Company's depreciation calculation.

Finally, during 2005 Aqua made a substantial investment in utility plant in order to extend its lines to provide service to a new development known as The Preserve. At December 31, 2005, the entire balance in Construction Work in Progress of \$1,179,706 shown on Line 2 of Company Exhibit, Schedule 2 was related to providing service to this new development. Sometime during 2006 and 2007, portions of this amount, along with the additional amount necessary to finish construction, will be transferred to Utility Plant in Service as this project is completed.

Q. Does the test period rate base calculation of \$1,588,971 represent the Company's net investment at December 31, 2005 upon which it should be allowed to earn a fair rate of return before any forecasted adjustments?

A. Yes, it does. As shown in column 2 of Company Exhibit, Schedule 2 there are no adjustments during the test period that need to first be taken into account in order to get an adjusted test period rate base of \$1,588,971 as shown in column 3.

Q. Are there any other rate base calculations that you are responsible for?

A. No. The remaining attrition period adjustments to rate base will be discussed by Mr. Novak.

Q. Please explain the Company's test period net operating income calculation.

A. The test period net operating income calculation of \$-54,024 is shown in column 1 on Company Exhibit, Schedule 3. As shown Schedule 3, the test period amounts are based on the Company's books for the twelve months ended December 31, 2005 and were the same numbers reported to the TRA in the Company's 2005 Annual report.

Q. Are any test period adjustments necessary to reflect a proper test period income statement?

A. Yes. First, during the course of putting this rate case together, the Company discovered that its wholesale water supplier was erroneously charging sales tax on

Aqua's water purchases for resale. As shown in column 2 of Company Exhibit, Schedule 3, the Company has made an adjustment of \$1,651 to remove sales taxes from the test period purchased water expense.

Also, an adjustment of \$1,200 was made to the test period expenses to reflect the ongoing regulatory expenses of the Company as shown in column 2 of Company Exhibit, Schedule 3. In 2006, the Company entered into an agreement with a third-party consultant to provide continuing assistance with its state regulatory reporting obligations. Therefore, an adjustment of \$1,200 has been made to the test period operating expenses of the Company in order to properly reflect the annual cost of this contract.

Q. Are there any other income statement calculations that you are responsible for?

A. No. The remaining attrition period adjustments to income will be discussed by Mr. Novak.

Q. Does this conclude your testimony?

A. Yes, it does.

VERIFICATION

STATE OF TENNESSEE)

COUNTY OF HARDIN)

I, Mark Godwin, being duly sworn state that I am authorized to make this verification on behalf of Aqua Utilities Company; that I have read the foregoing Petition and Exhibits and know the content thereof; that the same are true and correct to the best of my knowledge, information and belief.

Sworn and subscribed before me this _____ day of ###month, year###.

Notary Public

My Commission Expires:_____

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

IN RE:
AQUA UTILITIES COMPANY

PREPARED DIRECT TESTIMONY
OF
WILLIAM H. NOVAK

1 **Q. Would you state your name, business address and occupation for the record,**
2 **please?**

3 A. My name is William H. Novak. My business address is 19 Morning Arbor Place,
4 The Woodlands, TX, 77381. I am the owner of WHN Consulting, a utility
5 consulting and expert witness services company.

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

7 A. I have both a Bachelors degree in Business Administration with a major in
8 Accounting, and a Masters degree in Business Administration from Middle
9 Tennessee State University. I am also licensed to practice as a Certified Public
10 Accountant in Tennessee.

11 My work experience has centered around regulated utilities for over 24 years.
12 Before establishing WHN Consulting, I was Chief of the Energy & Water
13 Division of the Tennessee Regulatory Authority where I had either presented
14 testimony or advised the Authority on a host of regulatory issues for over 19
15 years. In addition, I was previously the Director of Rates & Regulatory Analysis
16 for two years with Atlanta Gas Light Company, a natural gas distribution utility
17 with operations in Georgia and Tennessee. I also served for two years as the Vice
18 President of Regulatory Compliance for Sequent Energy Management, a natural
19 gas trading and optimization company in Texas.

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

21 A. The purpose of my testimony is to present to the TRA the underlying
22 methodology used by Aqua Utilities Company (“Aqua” or “the Company”) in the
23 calculation of its attrition period adjustments to rate base and income as shown on
24 Company Exhibits, Schedules 2 and 3. In addition, I am responsible for
25 presenting the Company’s fair rate of return used to arrive at the revenue
26 deficiency as shown on Company Exhibit, Schedule 1. Finally, I am responsible
27 for the calculation of the new initial proposed rates that will begin providing the

1 Company with the opportunity to recover its reasonable operating expenses and
2 provide a fair return on its investment.

3 **Q. What historic test period and attrition period has the Company proposed in**
4 **its filing?**

5 A. We have used the twelve months ended December 31, 2005 as our historic test
6 period with adjustments through the twelve months ending December 31, 2007.
7 The twelve months ended December 31, 2005 was chosen as our test period
8 because it was the latest calendar year available as the Company was putting its
9 case together. The twelve months ending December 31, 2007 was chosen as our
10 attrition period because it represented the first twelve-month period that any new
11 rates approved by the TRA would be in effect.

12 **Q. Please explain the Company's rate base calculation.**

13 A. The attrition period rate base of \$2,876,422 represents the total projected
14 investment by the owner of Aqua at June 30, 2007, which is the midpoint of the
15 attrition year. This amount also represents the investment on which the Company
16 should be allowed the opportunity to earn a fair rate of return during the attrition
17 period.

18 The attrition period rate base calculation of \$2,876,422 is shown on column 5 of
19 Company Exhibit, Schedule 2. The test period and adjusted test period
20 calculations of rate base in columns 1, 2 and 3 of Company Exhibit, Schedule 2
21 are explained by Mr. Godwin in his testimony. The attrition period adjustments
22 and resulting balances to the rate base calculation are shown in columns 4 and 5
23 of Company Exhibit, Schedule 2 and are presented here.

24 **Line 1, Utility Plant in Service; \$976,200.**

25 Utility Plant in Service largely represents the pipes, meters and treatment plant
26 already in place that are used to provide water and wastewater service to Aqua's
27 customers. An adjustment of \$20,250 was made to the adjusted test period

1 balance to reflect contributions of utility plant from new customers in accordance
2 with the Company's tariff. This adjustment is also included on line 8 of Company
3 Exhibit Schedule 2 under Contributions in Aid of Construction and is discussed in
4 more detail later in my testimony.

5 **Line 2, Construction Work in Process; \$2,454,968.**

6 This item represents the average balance of Construction Work in Process
7 ("CWIP") that will soon become Utility Plant in Service. The Authority has
8 traditionally included CWIP as a component of rate base since it represents an
9 investment to provide utility service.

10 During 2005 Aqua made a substantial investment in utility plant in order to
11 extend its lines to provide service to a new development known as The Preserve.
12 At December 31, 2005, the entire test period balance in Construction Work in
13 Progress of \$1,179,706 shown on Line 2 of Company Exhibit, Schedule 2 was
14 related to providing service to this new development. Additional investments of
15 approximately \$775,000 in 2006 and \$1,000,000 in 2007 will be necessary to
16 completely extend the Company's lines and provide service to this development.
17 The attrition period amount of \$2,454,968 reflects these additions, and represents
18 the average amount of CWIP that will eventually be transferred to Utility Plant in
19 Service when the construction is completed.

20 **Line 4, Deferred Rate Case Expense; \$38,542.**

21 This item represents the unamortized balance of the Company's cost of preparing,
22 presenting and defending this rate case filing before the TRA. The Company is
23 expecting the total cost of this filing to be \$46,250 and we are asking the TRA to
24 allow us to amortize this cost over a three-year period. The \$38,542 unamortized
25 amount reflects the expected balance at June 30, 2007, which is the midpoint of
26 the attrition year.

27 **Line 5, Cash Working Capital; \$25,685.**

1 This amount represents the average amount of capital provided by the Company's
2 owner, over and above the investment in plant and other rate base components, to
3 bridge the gap between the time expenditures are required to provide service and
4 the time collections are received from customers for that service. The Authority
5 has traditionally included an amount of working capital as a component of rate
6 base since it represents an investment to provide utility service.

7 To calculate cash working capital, I used a 45-day (1/8 approach) standard
8 formula as a surrogate for a typical lead-lag study. Under the 45-day standard
9 formula, the annual cash working capital is equal to one eighth (1/8 or 45/360) of
10 the Company's operating expenses as calculated on Company Exhibit, Schedule
11 6. The 45-day standard formula has been used for a number of years in many
12 jurisdictions, but is especially useful in rate cases for small utilities such as this,
13 where the cost of preparing a lead-lag study would outweigh its impact.¹

14 **Line 7, Accumulated Depreciation; \$307,643.**

15 This item represents the amount of depreciation which has accumulated over the
16 life of the various plant items included in utility plant in service. The Company
17 has current depreciation rates of 2.5% on its mains and service lines and 10% on
18 all other equipment. The attrition period adjustment of \$42,008 represents the
19 monthly depreciation on existing and new plant through June 30, 2007, which is
20 the midpoint of the attrition year.

21 **Line 8, Contributions in Aid of Construction; \$311,329.**

22 This item represents the net amount of plant that has been contributed from
23 sources other than the owner's equity. The \$3,883 attrition period adjustment to
24 the adjusted test period balance represents the net change in the CIAOC balance
25 from the addition of new customers and the amortization of existing amounts.

¹ See also Accounting for Public Utilities, Hahne & Aliff, Release 19, §5.04 Cash Working Capital, November 2002.

1 After considering all of the above adjustments, the Company computed the
2 attrition period rate base at June 30, 2007 to be \$2,876,422. This amount
3 represents the net investment on which the Company should be allowed the
4 opportunity to earn a fair rate of return during the attrition year.

5 **Q. Mr. Novak, have you provided supporting work papers for the pro forma**
6 **rate base calculations described above that were made to the test period and**
7 **attrition period?**

8 A. Yes. The Company has included its supporting rate base workpapers in its filing.

9 **Q. Please explain the Company's net operating income/loss calculation.**

10 A. The attrition period net operating loss of \$95,642 represents the projected
11 operating loss by Aqua, at presently approved rates, for the twelve months ending
12 December 31, 2007. The calculation of this net operating loss is shown on
13 column 5 of Company Exhibit, Schedule 3. The test period and adjusted test
14 period calculations of net operating income in columns 1, 2 and 3 of Company
15 Exhibit, Schedule 3 are explained by Mr. Godwin in his testimony. The attrition
16 period adjustments and resulting balances to the net operating income calculation
17 are shown in columns 4 and 5 of Company Exhibit, Schedule 3 and are presented
18 here.

19 **Line 1, Water Revenue; \$45,273.**

20 This amount represents the projected water sales revenues the Company expects
21 to realize for the twelve months ended December 31, 2007. To forecast water
22 revenue, we first increased the adjusted test period amount of water revenues for
23 added customers and then priced out the anticipated usage of these new customers
24 at the existing tariff rates.

25 **Line 2, Wastewater Revenue; \$27,454.**

26 This amount represents the projected wastewater revenues the Company expects
27 to realize for the twelve months ended September 30, 2007. As with water

1 revenues, we first increased the adjusted test period amount of sewer revenues for
2 added customers and then priced out the anticipated usage of these new customers
3 at the existing tariff rates.

4 **Line 5, Purchased Water Expense; \$41,512.**

5 The Company purchases wholesale water from the City of Savannah (the “City”)
6 for resale to its customers. Again, we have increased the adjusted test period
7 amount for added customers and then priced out the total anticipated usage from
8 existing and new customers at the City’s current tariff rates.

9 **Line 6, Purchased Power Expense; \$15,521.**

10 The Company uses a great deal of power to operate its wastewater lift stations and
11 treatment facilities. We have increased the adjusted test period amount for added
12 customers and then priced out the total anticipated electric usage from existing
13 and new customers at the electric utility’s current tariff rates.

14 **Line 7, Contractual Services; \$45,548.**

15 The Company has no employees of its own and contracts with other providers for
16 its billing, accounting, reporting, engineering, and legal requirements. This
17 amount represents the expected cost during the attrition year for each contracted
18 service.

19 **Line 8, Miscellaneous Expenses; \$2,600.**

20 Miscellaneous expense includes items such as postage, telephone, bank charges,
21 software and membership fees. To calculate miscellaneous expense, the
22 Company took the adjusted test period amount of \$2,513 and increased it for the
23 incremental postage expense associated with serving new customers.

24 **Line 9, Administrative & General Expense; \$30,000.**

25 In the past, many of the Company’s management functions were performed at no
26 charge by affiliates of Aqua. These management functions include oversight of
27 the day-to day operations, monitoring the daily work provided by subcontractors,

1 preparation and review of all regulatory reports and filings, and providing the
2 utility with an emergency contact person on a 24 hour basis. In an effort to
3 establish Aqua as a viable standalone company, Aqua's owner has executed a
4 management contract that provides for a monthly payment of \$2,500 in exchange
5 for the performance of these functions. This adjustment of \$30,000 represents the
6 attrition period cost of providing these management functions.

7 **Line 10, Regulatory Commission Expense; \$16,617.**

8 The Company anticipates that the total legal, regulatory and accounting costs of
9 making, presenting and defending this rate case filing to be \$46,250. The
10 Company is asking the Authority to allow it to amortize these costs over a three-
11 year period beginning January 1, 2007. The \$15,417 increase in this projected
12 expense represents the first year of this amortization.

13 **Line 11, Depreciation Expense; \$16,996.**

14 This item represents the annual systematic depreciation on the Company's plant
15 in service. As mentioned above, the Company's currently approved depreciation
16 rates are 2.5% on its mains and service lines and 10% on all other equipment.
17 These depreciation rates were applied to the projected average plant in service
18 balances during the attrition year and then netted with the amortization of the
19 balances in Contributions in Aid of Construction to arrive at the attrition year
20 depreciation expense of \$16,996.

21 **Line 12, Taxes Other Than Income; \$6,690.**

22 This item largely represents the Company's property taxes, franchise taxes and
23 TRA Inspection Fees. The attrition period amounts for each of these items were
24 calculated by taking the attrition period balances for rate base and revenues and
25 applying them to the appropriate tax rate.

26 **Line 13, State Excise Tax; \$-6,649.**

1 After the attrition period revenues and expenses were calculated, we calculated
2 the attrition period state excise tax as shown on Company Exhibit, Schedule 4.
3 Since the Company is operating at a loss at current rates, a negative state excise
4 tax is calculated. Also, Aqua has no federal income tax expense of its own since
5 it is a Subchapter S corporation and all of the income for Aqua “flows through” to
6 the owner’s personal income tax return. Therefore no federal income tax expense
7 has been included in the Company’s rate case.

8 After considering all of the above adjustments, the Company computed the
9 attrition period net operating income at present tariff rates to result in a loss of \$-
10 95,642. This amount represents the forecasted net operating income/loss under
11 present rates that any change in rates should be measured against.

12 **Q. Mr. Novak, have you provided supporting work papers for the pro forma net**
13 **operating income calculations described above that were made to the test**
14 **period and attrition period?**

15 A. Yes. The Company has included its supporting revenue and expense workpapers
16 in its filing.

17 **Q. Please explain how the Company’s revenue deficiency was computed.**

18 As shown on Company Exhibit, Schedule 1, the attrition period net operating loss
19 of \$-95,642 was divided by the average attrition period average rate base of
20 \$2,876,422 to get a rate of return under existing rates of -3.33%. The attrition
21 period rate base was then applied to the Company’s requested fair rate of return of
22 15% resulting in a required operating income of \$431,463. This means that the
23 Company’s current net operating income needs to be increased from \$-95,642 to
24 \$431,463 or by \$527,106 in order to achieve this required operating income.
25 After adjusting the \$527,106 operating income deficiency for state excise taxes,
26 the Company’s revenues need to be increased by \$559,109 in order to achieve a
27 fair rate of return.

1 **Q. How did you determine the Company's fair rate of return of 15%?**

2 A. I first examined the Company's capital structure. The Company is completely
3 owned by Mr. Clausel without any debt. Therefore all of the funding has been
4 provided by the owner's equity. To determine a cost of equity, I examined the
5 previous decisions of both the TRA and the Tennessee Public Service
6 Commission for small water and wastewater utilities.

7 Unfortunately, there is not a great deal of documentation available dealing with
8 equity returns for small water and wastewater utilities. I did find where the TRA
9 awarded a 15% return on equity to Antioch Water on June 13, 2001 in Docket 99-
10 00584. In addition, I found where the TRA awarded an 8.00% overall return to
11 Lynwood Utility on May 10, 2000 in Docket 99-00507. However, I was unable
12 to locate any other information that specifically addressed return awards to
13 utilities of similar size to Aqua.²

14 Given the minimal amount of information available for a small sized water or
15 wastewater utility, and the fact that a large percentage of the utility plant of Aqua
16 has already been contributed to the utility, I chose to adopt the 15.00% return on
17 equity awarded by the TRA to Antioch Water in Docket 99-00584 as a reasonable
18 return on equity for Aqua.

19 **Q. How was the Company's proposed rate design calculated for its revenue**
20 **deficiency?**

21 A. As discussed in Mr. Clausel's direct testimony, the Company is asking to
22 implement rates to recover the complete revenue deficiency in two separate
23 proceedings each approximately one year apart. This phased-in approach will
24 help avoid "rate shock" from the Company's customers since their rates have
25 been heavily subsidized and remained at the same level since 1990.

² See specifically Dockets 91-01405 and 96-00758 for Cartwright Creek Utility Company; Docket 95-03351 for Riviera Utilities; and Docket 95-03948 for Shiloh Falls Utilities.

1 Instead of implementing the full attrition period revenue deficiency of \$559,109,
2 the Company is instead proposing to only recover a \$300,000 increase in rates for
3 the first initial year as shown on Company Exhibit, Schedule 1. As shown on
4 Company Exhibit, Schedule 6, a \$300,000 increase in the Company's base service
5 rates will eliminate the projected attrition period net operating loss of \$-95,642
6 and provide a net operating income of \$187,186. Although an increase of
7 \$300,000 will not allow the Company to immediately begin earning a fair return
8 on its investment, it will eliminate the losses experienced by the Company on a
9 going forward basis.

10 **Q. How does the Company propose to implement rate increases for the**
11 **remaining revenue deficiency?**

12 A. The Company will file a future rate case to recover the remaining revenue
13 deficiency. Filing cases in this manner will also allow both the Company and the
14 TRA to determine if the phased in rates are having the expected impact on the
15 Company's earnings before making a final determination of rates in the next rate
16 case.

17 **Q. Has the Company prepared a rate design for this rate increase?**

18 A. Yes. The Company proposes to change its basic monthly water and wastewater
19 rate for the first 1,000 gallons to \$30 and to change its charge for additional
20 monthly usage to \$7.00 per 1,000 gallons for water and \$17.00 per 1,000 gallons
21 for wastewater. As shown on Company Exhibit, Schedule 7, this change in rates
22 will produce an annual revenue increase of \$300,000 water and wastewater
23 revenues.

24 **Q. Has the Company proposed any other tariff changes?**

25 A. Yes. The Company has made a number of other changes that both address the
26 specific requirements of the Aqua system and also bring the tariff more in line
27 with what the TRA has recently approved for other utilities.

1 First, we have proposed to change that portion of the Company's tariff related to
2 grinder pumps. As mentioned earlier, because of the hilly terrain in Aqua's
3 service territory, a gravity fed wastewater system is not feasible. Instead, a
4 grinder pump is installed at each residence that takes the effluent and pumps it to
5 the Company's lift stations and treatment facility. Currently, these grinder pumps
6 are the property of the customer, who is then responsible for their repair and
7 replacement. However, this type of oversight by the customer has resulted in
8 potential problems when a grinder pump is installed incorrectly which can then
9 cause expensive damage to the Company's wastewater treatment system. To
10 alleviate this situation, we are proposing to change our tariff so that the Company
11 will be responsible for initially installing and inspecting the grinder pump. After
12 installation by the Company, the title to the grinder pump will be turned over to
13 the customer who will be responsible for their repair and maintenance. The
14 Company will contract with a third-party provider for grinder pump installation
15 and charge the customer for the cost of this replacement. This change will be
16 transparent to the customer since they will be paying the same rate for grinder
17 pump installation, but it will allow the Company to retain control over the
18 integrity standards of its wastewater system. This change also allows the
19 customer to correctly contact the Company when there is any problem with their
20 wastewater system rather than dealing with an outside contractor who may not be
21 qualified.

22 Next, the Company has proposed a significant change in its rate for
23 reconnections. The residences in Aqua's service territory are generally vacation
24 homes with occupancy for only a portion of the year. Because Aqua's rates have
25 been heavily subsidized until now, the Company has not experienced a significant
26 number of customers requesting to have their service turned off while the home is
27 unoccupied. This is important for Aqua since the significant costs of the water

1 and wastewater system are fixed and do not go away if the customer temporarily
2 shuts off service. However, as the existing subsidies are eliminated and the rates
3 begin to approach those of other utilities, Aqua will more than likely begin to
4 experience an increasing number of requests from customers to have their service
5 disconnected while the home is unoccupied. In order to avoid this change in
6 service character, Aqua is proposing to increase its reconnection charge to \$400.
7 At this level of charge, the customer would need to be away from their residence
8 for at least five (5) months to receive any economic benefit from disconnecting
9 their utility service. The Company strongly urges the TRA to implement this
10 reconnection rate, since failure to do so would only increase the existing rates for
11 all other customers.

12 Next, the Company has updated its existing water and wastewater tap fee charges
13 of \$250 to recognize the current cost of installing the water and wastewater
14 service lines. The fees realized from these charges are not reflected in income,
15 but are instead credited to contributions in aid of construction. In addition, the
16 Company has proposed a variable water tap fee charge for those customers
17 desiring larger service lines.

18 Also, the Company has proposed to eliminate the existing security deposit
19 requirement in its tariff. Until now, the Company has had very little experience
20 with customers who have not paid their utility bills on a timely basis, and we see
21 no reason for continuing to require these deposits. However, we have updated
22 our tariff to include bad checks fees at rates already approved by the TRA for
23 other utilities.

24 Finally, the Company has made a number of other changes to its Rules &
25 Regulations that are primarily cosmetic, in order to bring its tariff up to date with
26 changes approved by the TRA for other utilities.

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

1 A. Yes, it does.

VERIFICATION

STATE OF TENNESSEE)

COUNTY OF HARDIN)

I, William H. Novak, being duly sworn state that I am authorized to make this verification on behalf of Aqua Utilities Company; that I have read the foregoing Petition and Exhibits and know the content thereof; that the same are true and correct to the best of my knowledge, information and belief.

Sworn and subscribed before me this _____ day of ###month, year###.

Notary Public

My Commission Expires:_____

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

IN RE:
AQUA UTILITIES COMPANY

COMPANY EXHIBIT

**AQUA UTILITIES COMPANY
DIRECTORY
For the 12 Months Ending December 31, 2007**

	<u>Schedule</u>
Results of Operations	1
Average Rate Base	2
Income Statement at Current Rates	3
State Excise Tax	4
Revenue Conversion Factor	5
Income Statement At Proposed Rates	6
Rate Design	7

AQUA UTILITIES COMPANY
Results of Operations
For the 12 Months Ending December 31, 2007

<u>Line No.</u>		<u>Amount</u>
1	Rate Base	\$2,876,422 <i>A/</i>
2	Operating Income At Current Rates	<u>-\$95,642</u> <i>B/</i>
3	Earned Rate Of Return	-3.33%
4	Fair Rate Of Return	15.00% <i>C/</i>
5	Required Operating Income	\$431,463
6	Operating Income Deficiency	\$527,106
7	Gross Revenue Conversion Factor	<u>1.060715</u> <i>D/</i>
8	Revenue Deficiency (Complete Needs)	<u>\$559,109</u>
9	Revenue Deficiency (Phase-In Year 1)	<u>\$300,000</u>

A/ Schedule 2.

B/ Schedule 3.

C/ Company Testimony.

D/ Schedule 5.

AQUA UTILITIES COMPANY
Average Rate Base
For the 12 Months Ending December 31, 2007

<u>Line No.</u>		<u>Test Period</u>	<u>Test Period Adjustments</u>	<u>Adjusted Test Period</u>	<u>Adjustments</u>	<u>Attrition Period</u>
Additions:						
1	Utility Plant in Service	\$955,950 A/	\$0	\$955,950	\$20,250 A/	\$976,200 A/
2	CWIP	1,179,706 B/	0	1,179,706	1,275,262	2,454,968 B/
3	Inventories	0	0	0	0	0
4	Deferred Rate Case Expense	26,396 C/	0	26,396	12,146	38,542 F/
5	Cash Working Capital	<u>0</u>	<u>0</u>	<u>0</u>	<u>25,685</u>	<u>25,685 G/</u>
6	Total Additions	<u>\$2,162,052</u>	<u>\$0</u>	<u>\$2,162,052</u>	<u>\$1,333,343</u>	<u>\$3,495,395</u>
Deductions:						
7	Accumulated Depreciation	\$265,635 D/	\$0	\$265,635	\$42,008	\$307,643 D/
8	Contributions in Aid of Construction	<u>307,446 E/</u>	<u>0</u>	<u>307,446</u>	<u>3,883</u>	<u>311,329 E/</u>
9	Total Deductions	<u>\$573,081</u>	<u>\$0</u>	<u>\$573,081</u>	<u>\$45,891</u>	<u>\$618,973</u>
10	Rate Base	<u>\$1,588,971</u>	<u>\$0</u>	<u>\$1,588,971</u>	<u>\$1,287,451</u>	<u>\$2,876,422</u>

A/ Company Ratebase Workpaper RB-10.00.

B/ Company Ratebase Workpaper RB-11.00.

C/ Company Ratebase Workpaper RB-14.04-1.03

D/ Company Ratebase Workpaper RB-15.00.

E/ Company Ratebase Workpaper RB-18.00.

F/ Company Ratebase Workpaper RB-14.04-1.00.

G/ 1/8th of Attrition Period Expenses per Schedule 6.

AQUA UTILITIES COMPANY
Income Statement at Current Rates
For the 12 Months Ending December 31, 2007

Line No.		Test Period	Test Period Adjustments	Adjusted Test Period	Adjustments	Attrition Amount
1	Water Revenue	\$36,826 A/	\$0	\$36,826	\$8,447 H/	\$45,273
2	Wastewater Revenue	19,024 A/	0	19,024	8,430 H/	27,454
3	Other Revenue	466 A/	0	466	0	466
4	Total Operating Revenues	\$56,316	\$0	\$56,316	\$16,877	\$73,193
5	Purchased Water Expense	\$34,472 B/	-\$1,651 B/	\$32,821	\$8,691 I/	\$41,512
6	Purchased Power Expense	11,997 C/	0	11,997	3,524 J/	15,521
7	Contractual Services	30,835 D/	0	30,835	14,712 D/	45,548
8	Miscellaneous Expense	2,513 E/	0	2,513	87 E/	2,600
9	Administrative & General Expense	0	0	0	30,000 K/	30,000
10	Regulatory Commission Expense	0	1,200 L/	1,200	15,417 L/	16,617
11	Depreciation Expense	28,896 F/	0	28,896	-11,900 M/	16,996
12	Taxes Other Than Income	1,626 G/	0	1,626	5,064 G/	6,690
13	State Excise Tax	0	0	0	-6,649 N/	-6,649
14	Total Operating Expenses	\$110,339	-\$451	\$109,889	\$58,947	\$168,835
15	Net Operating Income	-\$54,024	\$451	-\$53,573	-\$42,069	-\$95,642

A/ Company Revenue Workpaper R-1.10 to R-1.13.

B/ Company Expense Workpaper E-1.06.

C/ Company Expense Workpaper E-2.02.

D/ Company Expense Workpaper E-3.00.

E/ Company Expense Workpaper E-4.00.

F/ Company Ratebase Workpaper RB-15.02.

G/ Company Expense Workpaper E-7.00.

H/ Company Revenue Workpaper R-1.00.

I/ Company Expense Workpaper E-1.00.

J/ Company Expense Workpaper E-2.00.

K/ Company Expense Workpaper E-5.00.

L/ Company Expense Workpaper E-6.00.

M/ Company Ratebase Workpaper RB-15.00.

N/ Company Exhibit, Schedule 4.

AQUA UTILITIES COMPANY
State Excise Tax Expense at Current Rates
For the 12 Months Ending December 31, 2007

Line No.		Attrition Amount
1	Water Revenue	\$45,273 A/
2	Sewer Revenue	27,454 A/
3	Other Revenue	466
4	Total Operating Revenues	\$73,193
5	Purchased Water Expense	\$41,512 A/
6	Purchased Power Expense	15,521 A/
7	Contractual Services-Water	45,548 A/
8	Miscellaneous Expense-Water	2,600 A/
9	Administrative & General Expense	30,000 A/
10	Regulatory Commission Expense	16,617 A/
11	Depreciation Expense	16,996 A/
12	Taxes Other Than Income	6,690 A/
13	Total Operating Expenses Before Excise Tax	\$175,484
14	NOI Before Excise & Income Tax	-\$102,291
15	Less Interest Expense	0
16	Pre-Tax Book Income	-\$102,291
17	Excise Tax Rate	6.50% B/
18	Excise Tax Expense	-\$6,649

A/ Company Exhibit, Schedule 3.

B/ Statutory Rates.

AQUA UTILITIES COMPANY
Revenue Conversion Factor
For the 12 Months Ending December 31, 2007

Line No.		<u>Amount</u>	<u>Balance</u>
1	Operating Revenues		1.000000
2	Forfeited Discounts	0.83% A/	<u>0.008300</u>
3	Balance		1.008300
4	State Excise Tax	6.50% B/	<u>0.065540</u>
5	Balance		<u>0.942761</u>
6	Revenue Conversion Factor (Line 1 / Line 5)		<u>1.060715</u>

A/ Company Revenue Workpaper R-1.04.

B/ Statutory Rate.

NOTE: Aqua Utilities Company is a Subchapter S Corporation. As such, Aqua has no federal tax obligation of its own that it is responsible for. Instead, all income flows through to the owner's personal tax return.

AQUA UTILITIES COMPANY
Income Statement at Proposed Rates
For the 12 Months Ending December 31, 2007

Line No.		Current Rates	A/	Adjustments	Proposed Rates
Complete Needs:					
1	Water and Wastewater Revenue	\$72,727		\$559,109 B/	\$631,836
2	Other Revenue	466		4,641 C/	5,106
3	Total Operating Revenues	\$73,193		\$563,750	\$636,942
4	Purchased Water Expense	\$41,512			\$41,512
5	Purchased Power Expense	15,521			15,521
6	Contractual Services	45,548			45,548
7	Miscellaneous Expense	2,600			2,600
8	Administrative & General Expense	30,000			30,000
9	Regulatory Commission Expense	16,617			16,617
10	Depreciation Expense	16,996			16,996
11	Taxes Other Than Income	6,690			6,690
12	State Excise Taxes	-6,649		36,644 C/	29,995
13	Total Operating Expenses	\$168,835		\$36,644	\$205,479
14	Net Operating Income	-\$95,642		\$527,106	\$431,463
Phase-In (Year 1):					
15	Water and Wastewater Revenue	\$72,727		\$300,000 B/	\$372,727
16	Other Revenue	466		2,490 C/	2,956
17	Total Operating Revenues	\$73,193		\$302,490	\$375,683
18	Purchased Water Expense	\$41,512			\$41,512
19	Purchased Power Expense	15,521			15,521
20	Contractual Services	45,548			45,548
21	Miscellaneous Expense	2,600			2,600
22	Administrative & General Expense	30,000			30,000
23	Regulatory Commission Expense	16,617			16,617
24	Depreciation Expense	16,996			16,996
25	Taxes Other Than Income	6,690			6,690
26	State Excise Taxes	-6,649		19,662 C/	13,013
27	Total Operating Expenses	\$168,835		\$19,662	\$188,497
28	Net Operating Income	-\$95,642		\$282,828	\$187,186

A/ Schedule 4.

B/ Schedule 1.

C/ Schedule 5.

AQUA UTILITIES COMPANY
Rate Design
For the 12 Months Ending December 31, 2007

Line No.		Attr. Period Determinants A/	Current Rates B/	Current Revenues	Rate Increase	Proposed Revenues	Proposed Rates
Complete Needs:							
	Water:						
1	Water Bills	3,390	\$7.80	\$26,442	\$109,158	\$135,600	\$40.00
2	Water Excess Usage	11,412,703	\$1.65	18,830.96	209,423	228,254	\$20.00
3	Total Water Revenues			<u>\$45,273</u>	<u>\$318,581</u>	<u>\$363,854</u>	
	Wastewater:						
4	Wastewater Bills	2,793	\$3.00	\$8,379	\$103,341	\$111,720	\$40.00
5	Wastewater Excess Usage	6,358,253	\$3.00	19,074.76	137,187	156,262	\$24.58
6	Total Wastewater Revenues			<u>\$27,454</u>	<u>\$240,528</u>	<u>\$267,982</u>	
7	Other Operating Revenues			<u>\$466</u>	<u>\$4,640</u>	<u>\$5,106</u>	
8	Total Operating Revenues			<u>\$73,193</u>	<u>\$563,750 C/</u> <u>\$563,750 C/</u>	<u>\$636,942</u> <u>\$636,942</u>	
Phase-In (Year 1):							
	Water:						
9	Water Bills	3,390	\$7.80	\$26,442	\$75,258	\$101,700	\$30.00
10	Water Excess Usage	11,412,703	\$1.65	18,830.96	61,058	79,889	\$7.00
11	Total Water Revenues			<u>\$45,273</u>	<u>\$136,316</u>	<u>\$181,589</u>	
	Wastewater:						
12	Wastewater Bills	2,793	\$3.00	\$8,379	\$75,411	\$83,790	\$30.00
13	Wastewater Excess Usage	6,358,253	\$3.00	19,074.76	88,273	107,348	\$16.88
14	Total Wastewater Revenues			<u>\$27,454</u>	<u>\$163,684</u> <u>\$163,684</u>	<u>\$191,138</u> <u>\$191,138</u>	
15	Other Operating Revenues			<u>\$466</u>	<u>\$2,490</u>	<u>\$2,956</u>	
16	Total Operating Revenues			<u>\$73,193</u>	<u>\$302,490 C/</u> <u>\$302,490 C/</u>	<u>\$375,683</u> <u>\$375,683</u>	

A/ Company Revenue Workpaper R-1.00.
B/ Company Revenue Workpaper R-1.01.
C/ Schedule 6.

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

IN RE:

AQUA UTILITIES COMPANY

CURRENT TARIFF

RULES, REGULATIONS AND TARIFFS

FOR

AQUA UTILITIES COMPANY

P. O. BOX 829

ADAMSVILLE, TENN. 38310

PHONE 901-632-1200

ISSUED: AUGUST, 1990

EFFECTIVE: AUGUST, 1990

A. STATEMENT OF PURPOSE

The general purpose of these rules and regulations are:

1. To establish procedures for furnishing water, sewerage, and sewer treatment services on uniform bases to customers within the service area boundary of Aqua Utilities Company.
2. To provide standards and procedures operation.
3. Establish rates and other charges.

B. DEFINITION OF TERMS

1. COMPANY: The word COMPANY shall mean the Aqua Utilities Company.
2. ENGINEER: The word ENGINEER shall mean the consulting engineer of the Aqua Utilities.
3. CUSTOMER: The word CUSTOMER shall mean any person, firm, corporation, association, or government unit furnished services by the COMPANY.
4. PROPERTY: The word PROPERTY shall mean all facilities owned and operated by the COMPANY.
5. COMMISSION: The word COMMISSION shall mean Tennessee Public Service Commission.
6. TRUNK SEWER: The words TRUNK SEWER shall mean a sewer that runs parallel to a natural drainage channel and receives sewage from many tributary branches and terminates at the sewage treatment plant or major lift station.
7. COLLECTOR SEWER: The words COLLECTOR SEWER shall mean those sewers running within the development and conveying the sewage to the trunk sewer.
8. LATERAL SEWER: The words LATERAL SEWER shall mean those sewers extending from the Collector Sewer to the property line of the Customer.
9. BUILDING SEWER: The words BUILDING SEWER shall mean that sewer extending from the Customer's property line to his place of business or residence.
10. WATER MAIN: The words WATER MAIN shall mean all lines and appurtenances, including valves, meters, and fittings required to transport water through and including the individual service meters.

B. DEFINITION OF TERMS CONT.

11. WATER SERVICE LINE: The words WATER SERVICE LINE shall mean those lines extending from the Customer's service meter to his place of business or residence.
12. OWNER: The word OWNER, whenever the same appears herein, means the person, firm, corporation or association having the sole interest in any premises or property which is, or is about to be supplied with services by the Company, and the word OWNERS means all so interested.
13. TENANT: The word TENANT, whenever the same appears herein means anyone occupying a premises or property under lease, oral or written, from the Owner and obtaining services from the Company with the consent of his landlord.
14. CUSTOMER: The word CUSTOMER as used herein shall mean the party contracting for services.

B. AUTHORIZATION OF RULES AND REGULATIONS:

The Company, which is organized and engaged in business as a public utility in the State of Tennessee under a Certificate of Convenience and necessity issued by the Tennessee Public Service Commission on _____ under Docket No. 90-04334, submits the following statement of its rules and regulations in compliance with Rule 602.2.

C. EFFECT OF RULES AND REGULATIONS:

All provisions of these rules and regulations shall be incorporated in each contract with each Customer of the Company.

D. UTILITY ITEMS ON PRIVATE PROPERTY:

The Company shall not furnish or maintain any items or appurtenances for services on the Customer's premise without execution of an agreement for an easement or encroachment. No property of the Company shall be located on the premises of Customers. The Building Sewer and water service line shall be maintained by the Customer.

E. APPLICATIONS FOR SERVICES:

All applications for services must be made on written forms provided by the Company. Upon acceptance thereof and payment to Company of any Commission-approved tap-on fee, such applications shall constitute a contract between the applicant as a Customer and the Company.

F. APPLICATIONS FOR SERVICES CONT.

A new application must be made upon any change in tenancy where the tenant has contracted for the services or by the new Owner upon any change in ownership where the Owner has contracted for services. Where more than one tenant is supplied through a meter, the application for the water service must be made by the Owner of the property.

When an application is made, the Company reserves the right to require a deposit in cash commensurate with the probable size of the applicant's bill for the purpose of establishing or maintaining any Customer's credit. Any such deposit so made shall be subject to such terms and conditions as may be required by order of regulation of the Tennessee Public Service Commission.

No contract for services will be entered into by the Company with any applicant until all arrears and charges due by such applicant for services to any premises then or theretofore owned or occupied by him shall have been paid.

G. RULES GOVERNING SERVICE:

When the supply of water is to be temporarily shut off, advance notice will be given by the Company when practicable to all Customers affected by the shutting off, stating the probable duration of the interruption of service.

The Company will not permit its mains or services to be connected on any premises with any service pipe or piping which is connected with any other source of supply. The Company will not permit its mains or services to be connected in any way to any piping, tank, vat or other apparatus which contains liquids, chemicals, or any other matter which may flow back into the Company's service lines or mains.

The Company undertakes to use reasonable care and diligence to provide a constant supply of water at a reasonable pressure but reserves the right at any time, without notice to shut off the water in its mains for the purpose of making repairs or extensions or for other purposes.

The Company shall not be liable for a deficiency or failure, regardless of cause, in the supply of water or in the pressure nor for any damage caused thereby or by the bursting or breaking of any main or service pipe or any attachment to the Company's property. All applicants having broilers upon their premises depending upon the pressure in the Company's pipes to keep them supplied are cautioned against danger of collapse, and all damage occasioned by any such collapse must be borne exclusively by the Customer.

The Company shall require all new Customers who desire both regular water service and fire protection to install separate service lines, one of which is to be used solely for private fire protection. The Company will not permit the use of water from separate fire protection lines except for the extinguishing of fires or fire drills.

The Company shall have the sole right to determine the size of meters, number of meters, valves, service line and connections necessary to give the service applied for.

G. RULES GOVERNING SERVICE CONT.

All applications for service connections must be made in writing on forms furnished by the Company by the person or parties desiring the same, must state the correct lot(s), block and street number of the property to be supplied, and must be signed by the Owner of the premises or his duly authorized agent.

A service line or building sewer shall not be used to supply more than a single property without the consent of the Company. The minimum earth cover of the Customer's service pipe installation shall be three (3) feet.

Service lines or building sewer shall not be installed where any portion must pass through lands, buildings or parts of buildings which are not the property of applicant, unless applicant assumes the liability therefor, in writing.

Meters will be maintained by the Company as far as ordinary wear and tear are concerned, but damage due to freezing hot water or external causes shall be paid for by the Customers (except for outside meter settings).

Rules and regulations regarding meter accuracy, meter testing and frequency of meter tests shall be as contained in the Tennessee Public Service Commission's Rules and Regulations Governing Public Utilities as from time to time revised.

No person other than a Company agent or employee shall take water from any fire hydrant except for fire fighting purposes, and no fire hydrant except for fire fighting purposes, and no fire hydrant shall be used for sprinkling streets, flushing sewers or gutters or for any other purpose except with the advance approval of the Company in writing.

Where water is to be used for steam boilers or other uses where a stoppage of water supply might cause damage, Customers are cautioned that it is impossible for the Company to guarantee a continuous supply of water and that the Customer should, therefore, arrange for adequate storage capacity.

Title to the main, service connections from the main up to and including the meter, stop cocks or valves, buffalo boxes, meters and meter installations is vested in the Company, and shall not be trespassed upon or interfered with in any way.

Curb stops shall not be used by the Customer for turning on or shutting off the water supply. Control of the water supply by the Customer shall be by means of a valve located on the property where the Customer is provided with water service.

Where two or more Customers are supplied through a single service pipe, any violation of the rules and regulations of the Company by either or any of such Customers shall be considered as a violation by all, and the Company may take such action as may be taken for a single Customer committing the violation.

All employees of the Company whose duty compels them to enter the Customer's premises shall, upon request, show their credentials or other evidence of authority.

G. RULES GOVERNING SERVICE CONT.

If the Company finds that a meter seal or cover has been broken or any bypass inserted or there is evidence that the meter or meter seal or cover has been tampered with, the water will be shut off and not turned on again until the Customer has paid for the estimated quantity of water which has been used for the preceding four (4) month period and not registered plus the cost to restore the meter to proper working order and other expense incurred by the Company, plus the reconnection fee hereinabove specified.

It is specifically understood that the Company does not hold itself out to render private fire protection service.

The Company does not hold itself out to furnish public fire protection service.

Automatic lawn sprinklers or sprays or other attachments requiring large quantities of water will be permitted only when water is furnished by meter measurement. The Company reserves the right to restrict lawn sprinkling by Customers whenever in its judgment there is not an adequate supply of water available for such purposes.

A supply of water for construction or other special purposes must be applied for in writing, and the Company reserves the right to require a suitable deposit from the applicant. Water so supplied shall be discharged through a hose or pipe directly upon the material to be wet or into a barrel or other container and not upon the ground or into or through a ditch or trench, and all use of water by other than the applicant or for any purposes or upon any premises not described or stated in the application must be prevented by the applicant.

For all sewerage connections, in addition to the customary tap fees, the Company reserves the right to require any non-residential user to provide special treatment for any high strength or toxic effluent before discharge into its sewerage system. The Company may, upon the basis of recognized engineering standards and treatment cost, increase the tap fees or flat rate charges to cover the cost of treatment of high strength effluent or industrial waste, and may impose recognized engineering standards as to the maximum size of solids and constituents in such waste discharged into its sewerage system. Generally, only domestic sewage or its equivalent if allowed in the system without pre-treatment. All State and Environmental Protection Agency pre-treatment requirements must be followed.

Additionally, if excessive volumes of sewage are received, the Company may require the Customer to monitor flow volume in order to compute additional taps required.

H. BILLS AND PAYMENT OF SERVICES:

Customers are liable for payment for all water used on the premises or property until notice has been received at the Company's office that the use of water is no longer desired. Customers are liable for all water shown to have passed through the meter whether by use, wastage or leakage.

A Customer's bill will not be considered past due unless it remains unpaid subsequent to the due date printed on the bill. This due date will be twenty-one (21) days after the bill is mailed.

H. BILLS AND PAYMENT OF SERVICES CONT.

Bills for metered service shall be rendered monthly unless otherwise specified in the rate schedule then in effect, and shall show the readings of the meter at the beginning and end of the period for which the bill is rendered as well as consumption for the period.

Bills for water service will be mailed or delivered to the Customer's last address as shown by the records of the Company when due, but failure to receive a bill will not relieve the Customer from the obligation to pay the same. All bills and other accounts must be paid at the office of the Company.

In case the meter cannot be read for any cause, the Company will require a payment of account equal to the estimated bill for the period involved.

In cases where for any cause the meter cannot be read for a period of two (2) billing periods, the Company will turn off the water upon (5) days written notice (8 days, if mailed) unless the Customer provides access to the meter immediately.

Where a meter has ceased to register or is registering improperly, the quantity of water for which the bill will be rendered will be determined by the average registration of the meter for the prior three (3) billing periods.

I. DISCONTINUANCE OF SERVICE:

Service under any application may be discontinued for the following reasons:

1. Non-payment of bill as herein set forth.
2. For misrepresentation in the application.
3. For adding to the Property or fixtures without notice to the Company.
4. For failure to protect the connections, service lines or fixtures in good order.
5. For molesting any service pipes or any property of the Company in any way whatsoever.
6. Vacancy of premises.
7. For violation of any rules of the Company as filed with the Commission.
8. For disconnecting or reconnecting service by any party other than a duly authorized agent of the Company without the consent of the Company.
9. For discharge of high strength or toxic effluent without pre-treatment.
10. For waste of water due to leakage.

I. DISCONTINUANCE OF SERVICE CONT.:

11. For cross-connecting the Company's supply with any other source of supply, or with any apparatus which may endanger the quality or health standard of the Company's water supply.

If a Customer whose service has been discontinued for non-payment of bills or for violation of the rules and regulations of the Company desires a reconnection, such reconnection will only be made after the Customer:

- (a) has made a deposit to insure future payment of bills (in cases only where no deposit was originally made or where such deposit has been applied to payment of the Customer's delinquent account);
- (b) has paid all unpaid bills and other charges;
- (c) had paid a reconnection fee;
- (d) and has corrected any condition found objectionable under rules and regulations of the company.

J. SECURITY DEPOSITS:

Each new Customer, before connection or reconnection of the service, may be required to make a refundable deposit to secure payment of Customer. Interest of six percent (6%) will be paid on any such refundable deposit. Deposits shall be refunded when service is terminated, unless the deposit is used to satisfy last bill requirements.

K. ENGINEERING, MATERIALS, AND CONSTRUCTION STANDARDS:

All sewerage systems added to the Company system shall meet the Company Requirements.

A prospective Customer shall submit one (1) copy of a preliminary plan of any proposed service system to the Engineer.

Upon approval of the preliminary plans, a prospective Customer shall submit three (3) copies of a final set of plans to the Engineer.

The final plans shall contain a note that all construction is to conform to the technical specifications of the company.

A set of final plans with the approval stamp of the Engineer shall be present at the site of the construction at all times during construction.

One set of "As-Built" plans shall be submitted to the Engineer and one to the Company upon completion.

The Company shall be given 24 hours notice of construction in order to provide adequate inspection.

K. ENGINEERING, MATERIALS, AND CONSTRUCTION STANDARDS CONT.:

Any construction done on a proposed addition to the Company system without the Company Inspector present may be torn out at the prospective Customer's expense.

L. DAMAGES:

The Company shall in no event be responsible for maintaining any service line owned by the Customer, nor for damages created by sewage escaping therefrom, nor for defects in lines or fixtures on the property of the Customer. The Customer shall at all times comply with all regulations of the Tennessee Public Service Commission and of the Company relating to the service lines and shall make all changes in his line required on account of grade or otherwise.

The Company shall not be liable to the Customer for interruption in service or for damages or inconvenience as a result of any interruptions, stoppage, etc., which was beyond the reasonable control of the Company.

M. CHANGES IN RULES AND REGULATIONS:

The Company reserves the right at any time to alter, amend, change or add to these rules, regulations and conditions of service or to substitute other rules and regulations, subject to the approval of the Tennessee Public Service Commission or other regulatory body having jurisdiction thereof.

No representative, employee or agent of the Company has the right to alter or waive any or these rules, regulations or conditions of service without the consent or approval of the Tennessee Public Service Commission or other regulatory body having jurisdiction thereof.

N. SCHEDULE OF RATES AND FEES:

	<u>Water</u>	<u>Sewer</u>
Tapping Fee	\$250.00*	\$250.00*
Security Deposit	(double monthly bill for type service)	
Metered Service		
0-1000 gallons	\$ 7.80 (min. bill)	\$ 3.00 per 1000 gal.
All over 1000 gallons	\$ 1.65 per 1000 gal.	\$ 3.00 per 1000 gal.
Reconnection Fee	\$ 15.00	Included
N. S. F. Check Charge	\$ 10.00	Included

*Based on estimated contract cost and is subject to change by agreement with independent contractor.

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

IN RE:

AQUA UTILITIES COMPANY

PROPOSED TARIFF

Aqua Utilities Company

Water & Wastewater Service Tariff

TRA #1 Cost of Residential Services

SCHEDULE OF RATES & CHARGES

Monthly Water Service:

First 1,000 gallons per month	\$30.00
Monthly usage in excess of 1,000 gallons	\$7.00 per 1,000 gallons

Monthly Wastewater Service:

First 1,000 gallons per month	\$30.00
Monthly usage in excess of 1,000 gallons	\$17.00 per 1,000 gallons

Initial Water Connection Tap Charges:

0.75" Service Line	\$575.00
1.00" Service Line	\$650.00
1.50" Service Line	\$850.00
2.00" Service Line	\$1,500.00

Initial Wastewater Connection Tap Charges:

Service Lines (All Sizes)	\$850.00
Road Bores	\$450.00
Grinder Pump Installation	\$1,000.00
Grinder Pumps	\$2,700.00

Miscellaneous Charges:

Reconnection Fee	\$400.00
Returned Check Charge	\$20.00
Forfeited Discount Rate	5.00%

Aqua Utilities Company

Water & Wastewater Service Tariff

TRA #2 Rules and Regulations

RULES AND REGULATIONS

Governing the water distribution and wastewater collection and treatment systems of Aqua Utilities Company.

Statement of Purpose:

The general purpose of these Rules and Regulations is to institute standard measures and procedures for serving the customers and service area of Aqua Utilities Company on a uniform basis. Included within these Rules and Regulations are:

- a. The Authorization of the Rules.
- b. The Definition of Terms.
- c. Applications for Service.
- d. Engineering Materials and Construction Standards.
- e. Water & Wastewater System Construction.
- f. Apparatus-Easements.
- g. Meter Tests and Adjustments.
- h. Bills, Payments and Non-Payments.
- i. Special Pretreatment Wastewater Requirements.
- j. Public, Emergency and Regulatory Contact Information.

Authorization of the Rules and Regulations

Aqua Utilities Company is a corporation in good standing with the State of Tennessee and is organized as a privately-owned public utility. Aqua Utilities Company operates under the auspices of a Certification of Convenience and Necessity issued by the Tennessee Regulatory Authority on August 30, 1990 in Docket No. 90-04334. Aqua Utilities Company submits the following statement of its Rules and Regulations in compliance with TRA Rule 1220-4-1-.03(2).

All provisions of these rules and regulations shall be incorporated in each contract with each water and wastewater system customer of Aqua Utilities Company.

Definition of Terms

1. Applicant – Shall mean any person who has made an application to the Company for water and/or wastewater service.
2. Collector Line - Shall mean the line from the service line to the main line.
3. Company - Shall mean Aqua Utilities Company.
4. Customer - Shall mean any person, firm, corporation, association, company, or government unit furnished with water and/or wastewater services by Aqua Utilities Company.
5. Grinder Pump –Shall mean a specialized pump designated for the specific purpose of grinding and pumping domestic wastewater.
6. Main Line - Shall mean the line from the collector line to the treatment facility.
7. Operator/Engineer - Shall mean the Licensed Wastewater Operator and/or consulting engineer of Aqua Utilities Company.
8. Point of Delivery – Shall mean the outgoing side of the water meter installed and maintained by the Company for the purpose of measuring water delivered to the Customer.
9. Property - Shall mean all facilities owned and/or operated by the Company.
10. Pumping Station - Shall mean a tank containing pump(s) and receives effluent from a STEG/STEP tank and/or collector lines.
11. Service Line - Shall mean the line from the Customer's property line to the collector line.
12. Sewer Lift Station – Shall mean a tank containing pump(s) that receives sewerage/wastewater effluent from a main line and provides sufficient lift, flow, and pressure capacity to continue the transport of sewerage along and through a subsequent main line.
13. Sewer Pressure Main –Shall mean all lines and appurtenances, including valves, meters, tanks, pumps, appurtenant electrical connections and controls required for the transport of sewerage by means of pressure to a point discharge approved and regulated by the State of Tennessee Division of Water Pollution Control.
14. STEG tank - Shall mean any tank located near a building containing an effluent filter for the purposes of accepting sewage waste.
15. STEP tank - Shall mean any tank located near a building containing a pump vault for the purposes of accepting sewage waste.
16. Stub-out line (building collector line) - Shall mean the line that carries the sewage waste from the building to the STEP/STEG tank.
17. TRA — Shall mean Tennessee Regulatory Authority.
18. Water Main – Shall mean all lines and appurtenances, including valves, meters, and fittings required for the transport of water through and including individual service meters.
19. Water Pumping Station – Shall mean an approved enclosure containing a pump(s) and appurtenances required for the maintenance of regulatory flow and pressure for the transport of water through a water main.
20. Water Service Line – Shall mean those lines extending from the customer's service meter to his place of business or residence.

Applications For Service

Service will be rendered by the Company upon application by the Customer for service and the acceptance thereof by the Company. All Applicants for service shall be required to provide the Company with a completed Water & Wastewater Subscription Agreement form provided by the Company. All Applicants shall also be provided with a List of Required Practices by the Company.

Changes in ownership, Tenancy of Services

A new application and agreement must be made and approved by the Company on any change in ownership of property, or in tenancy, or in the services as described in the application. In the event of failure of a new owner or tenant to make such application, the company shall have the right to discontinue service until such new application is made and approved.

Engineering, Materials and Construction Standards

1. General — This specification covers the type of water and wastewater system required for various design conditions constructed by developers. The requirements called for are minimum standards in all cases. Bedding conditions, material specifications, sealing requirements and installation methods are the responsibility of the Operator/Engineer and must be approved by the Company. Design and construction of water and wastewater lines shall meet the requirements of the State of Tennessee Department of Environment and Conservation (TDEC), Division of Water Pollution Control, and the Division of Water Supply, in addition to this specification. Where conflicts exist, the more restrictive shall govern.
2. All wastewater collection system components are to be water tight and free of Inflow and Infiltration. This includes Stub-out lines, tanks, collector lines, service lines, and main lines. Collector lines and main lines are to be tested to 100 pounds per square inch of water pressure. Risers and lids are to be watertight.
3. STEP and STEG Tanks are to be installed near the building to be served. The tanks are to be set in a level condition and tested for water tightness before backfilling.
4. All pipe is to be PVC, classes and sizes will be per operator/engineer's design and in all cases SDR-21 class 2000 will be the minimum allowable.
5. Only wastewater drains are to be connected to the wastewater system. No water sources such as roof drains, sump pumps, condensate lines and swimming pools shall be connected to the wastewater system.
6. No connection to the Company system will be allowed without prior on site review by an authorized company representative of the location of the proposed lines and appurtenances.
7. All grinder pumps must be purchased and installed for the Customer by the Company. No connection to the Company system will be allowed for grinder pumps not purchased from, and installed by the Company. Grinder pumps, STEP and STEG Tanks and appurtenances installed by the Company for the customer shall be warranted by the Company for a period of one year from the date of completion of the installation and the successful connection to the company system. This warranty applies to materials only and does not include the cost of labor or any additional cost incurred by the company to comply with regulatory requirements imposed after the installation of the customer's system. The customer will be required to maintain the system after the expiration of the one year warranty period.
8. The Company reserves the right to enter upon the property of the customer to remedy any real or perceived environmental threat posed by the customer's system. The customer agrees to reimburse the company for documented costs associated with any emergency repairs or clean up related to such real or perceived environmental threat.

9. The Company and its agents shall install all systems, connections, and taps associated with the water and sewer systems owned by the company. No third party vendor, supplier, installer, or contractor is permitted under this agreement without written authorization by the company.

Water and Wastewater System Construction

General

The Company will construct, own, operate and maintain water and wastewater distribution mains generally along public streets, roads and highways which the Company has the legal right to occupy and, at the Company's election, on public lands and private property across which rights-of-way satisfactory to the Company may be obtained without cost to the Company.

The Company will construct, own, operate and maintain water and wastewater service lines of suitable capacity from its distribution mains to the curb or right-of-way line of a public street, highway, road or alley upon which the structure to be served faces and abuts.

Utility Items on Private Property

The company shall own and maintain all water service lines, wastewater service lines, STEP and STEG tanks, Water Pumping Stations, Sewer Lift Stations, and control systems required to provide water and wastewater service to the customer's premises. The customer must execute an agreement granting an easement to the Company for maintenance of the water and wastewater system. The building plumbing and Stub-out lines shall be maintained by the customer.

Legal and equitable title to all mains installed by the Company upon which an advance contribution, or other payment has been made, shall be and remain in the Company, and the Company shall have the right without the consent of, or any refund to, any party who made such advance, contribution or other payment to extend such mains and to serve additional customers at any time through service connections attached to such mains.

Apparatus-Easements

Customer's Lines: All house lines and equipment, except the Company's meters and accessories on the customer's side of the point of delivery, necessary to utilize service furnished by the Company, must be installed and maintained by and at the expense of the Customer. The Customer's lines shall terminate at the point of delivery, in a manner satisfactory to the Company, for connection with the Company's lines or apparatus.

Company Property: All service lines, apparatus, instruments, meters and materials supplied at the expense of the Company shall remain its property, and any other property installed at the expense of the Company, shall belong to the Company.

Inspection by Company: The Company is willing to assist the Customer by advice as to the installation of the Customer's apparatus and to examine the Customer's installation, and may refuse to make a water or wastewater connection or to commence or continue service whenever such installation is not in proper condition; but no inspection by the Company, nor any failure by it to object to the Customer's installation, shall render the Company in any way liable for any damage or injury resulting from any defective installation made by the Customer.

Right-of-Way: The Customer shall make or procure satisfactory conveyance to the Company of right-of-way for the Company's lines and apparatus across and upon the property owned and controlled by the customer, necessary or incidental to the furnishing of water or wastewater service.

Installation: For the purpose of determining the amount of water used, a meter or meters shall be installed and maintained by the Company upon the Customer's premises; and, except as to outside locations heretofore or hereafter approved by the Company, the Customer shall provide free of expense to the Company, near the service entrance, a clean, dry, safe place for the meter and any necessary appurtenant device, which may be furnished by the Company.

Notice to Discontinue: Notice by Customer to discontinue water and/or wastewater usage must be given to the Company at least 24 hours in advance. The Customer will be held responsible for all water and/or wastewater service until such notice is given, including a reasonable time for securing the final reading of the meter.

Meter Tests and Adjustments

The Company, at any time upon the request of the Customer, will test the meter of such Customer within five (5) days after receipt of such request, provided the Customer will accept the result of such test as a basis for the settlement of the Customer's account. If any such test shall show the average error of the meter to be less than two percent (2%), the customer shall pay the expense of the test; except that where the meter has not been tested at the request of the customer within a five (5) year period immediately preceding such request, the test will be made without charge to the customer. The Company may at any time at its own expense test any of its meters. If on test of a Customer's meter, such meter shall be found to have a percentage of error greater than two percent (2%) the following provisions for the adjustment of the Customer's bill shall be observed:

Fast Meters: When a meter is found to be fast in excess of two percent (2%), the Company shall refund to the Customer an amount equal to the excess charged for the water and/or wastewater service incorrectly metered. The period over which the correction is to be made shall be the time elapsed since the last previous test, provided however that the period shall not exceed six (6) months. No part of the minimum service charge shall be refunded.

Slow Meters: When a meter is found to be slow in excess of two percent (2%), the Company may make a charge to the customer for the water and/or wastewater service incorrectly metered. The period over which the correction is to be computed shall be the time elapsed since the last previous test, provided, however that the period shall not exceed six (6) months.

Failure to Register: If a meter is found not to register for any period, the Company will estimate and charge for the water and/or wastewater service used by averaging the amounts registered over similar periods and under similar conditions preceding or subsequent thereto, or over corresponding periods in previous years.

Company Rights: The properly authorized employees of the Company shall at all times have the right of access to the premises into which water and/or wastewater service has been provided, for the purpose of examining the general service or to read, inspect, test, repair, replace or remove its meter or other equipment, or for such other purposes as may be necessary for the protection of the Company. In case of any willful, intentional, or unnecessary injury to or interference with the meter or any connection made to the house lines or services, the meter at the option of the Company may be removed, the service line cut off, and service discontinued.

Bills, Payments and Non-Payments

Payment of bills for service rendered must be received by the due date as stated on the Customer's bill which shall be approximately twenty-one (21) days from the date billed. A non-payment penalty of five percent (5%) of the outstanding charge will be due after the due date shown on the bill. If payment is not received within fifteen days after the due date, a written notice will be sent to the customer. If payment is not received within 15 days of the written notice, water and/or wastewater service will be turned off from the customer's property as per the Water and Wastewater Subscription Agreement executed by the customer with no additional notice being sent. No service shall be reconnected if discontinued for non-payment until all charges have been paid, including any disconnection and reconnection fees.

Discontinuance of Service

Service under any application may be discontinued for the following reasons:

1. Non-payment of bill as hereinafter set forth below.
2. For misrepresentation in the application.
3. For adding to the property or fixtures without notice to the company.
4. For failure to protect the connections, service lines or fixtures.
5. For molesting any service pipe, tank, control system, filter, or any property of the company in any way whatsoever.
6. For violation of any rules of the company.
7. For disconnecting or reconnecting service by any party, other than a duly authorized agent of the company, without the consent of the company.
8. For discharge of high strength or toxic effluent without pre-treatment.
9. For cross-connecting the Company's water supply with any other source of supply, or with any apparatus which may endanger the quality or health standard of the Company's water supply.

If a customer whose service has been discontinued for non-payment of bills or for violation of the rules and regulations of the Company desires a reconnection, such reconnection will only be made after the customer:

- (a) has paid all unpaid bills and other charges;
- (b) has paid a reconnection fee; and
- (c) has corrected any condition found objectionable under the rules and regulations of the Company.

Special Pretreatment Wastewater Requirements

For all wastewater connections, the Company reserves the right to require any nonresidential user to provide special pre-treatment for any high strength effluent before discharge into its sewage system. The Company may, upon the basis of recognized operator/engineering standards and treatment costs, increase the rate charged to cover the cost of treatment of high strength effluent, commercial or

industrial waste, and may impose standards as to the maximum size of solids and constituents in such waste discharged into its wastewater system.

Additionally, if excessive volumes of wastewater are received, the Company may require the customer to monitor flow volume and increase surge holding, treatment, and disposal capacity at the customer's expense. All customers will be required to follow the List of Required Practices (Biological Systems Users Manual) for an effluent collection system, supplied to them by the Company. These requirements prohibit the dumping of any toxic chemicals, non-biodegradable detergents, whitening agents, or other non-environmentally friendly compounds that kill tank bacteria. Also prohibited is the disposal of an excessive amount of grease, paints, pesticides or other typical household items that consumers introduce into sanitary sewer and storm drains.

Public, Emergency and Regulatory Contact Information

Public Contact:

Eddie Clausel, President
Aqua Utilities Company
408 Main Street
Savannah, Tennessee 38372

Phone: 731-925-6547

Emergency Contact:

The Company shall not be liable to the customer for interruption in service, or for damages or inconvenience as a result of any interruption, stoppage, etc., which was beyond the reasonable control of Aqua Utilities Company. In the case of an emergency, call 731-607-0067 or other provided service number.

Regulatory Contact:

The rates and service of Aqua Utilities Company are overseen and regulated by:

Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Phone: 800-342-8359

AQUA UTILITIES COMPANY

WATER & WASTEWATER SUBSCRIPTION AGREEMENT

 Printed Name

 Address of Property

 Mailing Address

 Telephone Number

Application for:

Water

0.75" Service Line @	\$575.00 _____
1.00" Service Line @	\$650.00 _____
1.50" Service Line @	\$850.00 _____
2.00" Service Line @	\$1,500.00 _____

Wastewater

All Service Lines @	\$850.00 _____
Road Bores @	450.00 _____
Grinder Pump Installations @	1,000.00 _____
Grinder Pumps @	2,700.00 _____

I hereby make application to Aqua Utilities Company for water and/or wastewater service at the address of property stated above. In consideration of the undertaking on the part of Aqua Utilities Company to furnish water and/or wastewater service, I understand, covenant and agree as follows:

1. I understand that components of a water and/or wastewater system either have been or will be installed on the property referred to above, which is owned or occupied by me, and which is to be connected with a water distribution system and a wastewater disposal system owned and/or maintained by Aqua Utilities Company. I warrant that any connection to and/or subsequent use to this system by the components on my property shall be in accordance with the Rules and Regulations and Plans of Aqua Utilities Company. Regarding my usage of the system components on my property, which are owned by me, I covenant to follow the guidelines set forth in the Biological Users Manual (List of Required Practices). Should I violate these Rules and/or abuse or damage my components, I understand that I must bear the expense to repair or replace the same in accordance with the Plans of Aqua Utilities Company.

2. I acknowledge Aqua Utilities Company, its successors and assigns have a perpetual easement in, over, under and upon the above specified land as shown on the property plat, with the right to operate and repair all components of the water and/or wastewater systems on my property, including but not limited to the septic tank, the STEG (Septic Tank Effluent Gravity) or STEP (Septic Tank Effluent Pumping)

system. I further grant Aqua Utilities Company permission to enter upon my property for any reason connected with the provision or removal of water and/or wastewater service or collection therefore.

3. For all other plumbing and structures on the property, including the out fall line to the septic tank, I agree that I am responsible for all operation and repair thereof.

4. Payment of bills for service rendered must be received by the due date as stated on the Customer's bill which shall be approximately twenty-one (21) days from the date billed. A non-payment penalty of five percent (5%) of the outstanding charge will be due after the due date shown on the bill. If payment is not received within fifteen days after the due date, a written notice will be sent to the customer. If payment is not received within 15 days of the written notice, water and/or wastewater service will be turned off from the customer's property as per the Water and Wastewater Subscription Agreement executed by the customer with no additional notice being sent. No service shall be reconnected if discontinued for non-payment until all charges have been paid, including any disconnection and reconnection fees.

5. Service under any application may be discontinued for the following reasons:

1. Non-payment of bill as hereinafter set forth below.
2. For misrepresentation in the application.
3. For adding to the property or fixtures without notice to the company.
4. For failure to protect the connections, service lines or fixtures.
5. For molesting any service pipe, tank, control system, filter, or any property of the company in any way whatsoever.
6. For violation of any rules of the company.
7. For disconnecting or reconnecting service by any party, other than a duly authorized agent of the company, without the consent of the company.
8. For discharge of high strength or toxic effluent without pre-treatment.
9. For cross-connecting the Company's water supply with any other source of supply, or with any apparatus which may endanger the quality or health standard of the Company's water supply.

6. If a customer whose service has been discontinued for non-payment of bills or for violation of the rules and regulations of the Company desires a reconnection, such reconnection will only be made after the customer:

- (a) has paid all unpaid bills and other charges;
- (b) has paid a reconnection fee; and
- (c) has corrected any condition found objectionable under the rules and regulations of the Company.

7. For all wastewater connections, the Company reserves the right to require any nonresidential user to provide special pre-treatment for any high strength effluent before discharge into its sewage system. The Company may, upon the basis of recognized operator/engineering standards and treatment costs, increase the rate charged to cover the cost of treatment of high strength effluent, commercial or industrial waste, and may impose standards as to the maximum size of solids and constituents in such waste discharged into its wastewater system. Additionally, if excessive volumes of wastewater are received, the Company may require the customer to monitor flow volume and increase surge holding, treatment, and disposal capacity at the customer's expense. All customers will be required to follow the List of Required Practices (Biological Systems Users Manual) for an effluent collection system, supplied to them by the

Company. These requirements prohibit the dumping of any toxic chemicals, non-biodegradable detergents, whitening agents, or other non-environmentally friendly compounds that kill tank bacteria. Also prohibited is the disposal of an excessive amount of grease, paints, pesticides or other typical household items that consumers introduce into sanitary sewer and storm drains.

4. I accept the current Rules and Regulations and the Rates and Fees Schedule and agree to abide by any amendments to such Schedules.

5. I agree that this Agreement shall remain in effect for as long as I own, reside upon or rent the above- described property. When such circumstances no longer exist, I agree to provide notice to Aqua Utilities Company at least thirty (30) days in advance of my vacating the property.

Subscribers Signature
Date

Aqua Utilities Company

List of Required Practices

BIOLOGICAL SYSTEM USER MANUAL

The ability of your natural and biological systems performance is affected by the materials introduced into the system. The following is a summary of some of the items that are bad management and good management practices. A knowledgeable user can prevent premature failures and eliminate costly repairs.

Items that cause problems and failure of this system are:

- Garbage disposal use
- Excessive sludge or scum accumulation in septic tank
- Improper fabric softeners and whiteners
- Grease and oils from cooking and washing
- Hair
- Disposable and non-disposable diapers, rags, cigarette butts, coffee grounds, feminine hygiene products, plastic and rubber products, condoms, and chemical cleaners
- Any non-biologically degradable substances
- Water usage over design limits

A properly maintained wastewater system provides a high degree of treatment and yields an effluent that is relatively free of grease and solids that can clog the effluent. The best practice is not to discharge anything into a wastewater system that is poisonous or that may inhibit the abilities of the system. A good rule of thumb should be to not discharge anything into the system that cannot be ingested. This would not include toilet paper and mild detergents.

The following management practices and recommendations should be followed:

GOOD MANAGEMENT PRACTICES

- Communicate with the operator or the operator's assistant (Operator) if anything about your system is out of the ordinary. Upon the first indication of a visual or audible alarm, call the Operator.
- Contact Aqua Utilities Company prior to the installation of any new landscaping or the construction of permanent structures. It will be critical to coordinate any work to ensure that the integrity of the biological system and lines are protected.
- Maintain toilet bowl hardware so as to prevent leaky conditions and excess water use and waste.
- Collect grease in a container rather than pouring down the drain.

POOR MANAGEMENT PRACTICES

- Don't connect rain gutters or storm drains or allow other surface water to get into your septic system.
- Don't use excessive quantities of water. Use water saving devices such as low flow shower heads and low volume flush toilets.
- Don't allow toilets to become a problem. Repair leaky toilets, faucets, or plumbing fixtures (leaky toilets can result in flows of 1,000 gallons or more per day).
- Don't dump recreational vehicle (RV) waste into the wastewater system.
- Don't flush undesirable substances into the wastewater system. **Flushing flammable and toxic products is a dangerous practice.** Other materials such as paper towels, rags, newspapers, cigarettes, coffee grounds, egg shells, sanitary napkins, condoms, large amounts of hair, and cooking grease are a maintenance nuisance and will result in frequent pumping of septage from the tank.
- Don't use garbage disposal systems to dispose of non-biodegradable materials because they increase the amount of solids entering the septic tank and will increase the frequency required for septage pumping. **Do not pour grease down the drain.**
- **Don't drain water softener backwash into the tank.** The backwash brine contains high levels of chlorides that can destroy the balance of the biological system, affect soil performance, and break down components of the system. The brine solution also interferes with the solid's sedimentation that occurs in the tank.
- Don't use special additives in your tank. **Additives do not improve the performance of the septic tanks and can cause major damage to other areas in the collection and treatment system.**
- Don't flush cat litter box medium down the toilets.