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T.R.A. DOCKET ROOM

Ms. Darlene Standley
Chief of Utilities Division
Tennessee Regulatory Authority
460 James Robertson Pkwy
Nashville, TN 37243

Re: Petition of Tennessee Wastewater Systems, Inc. to Amend its Certificate of Convenience and Necessity (Petition of Tennessee Wastewater Systems, Inc. to Reclassify Specific Resort Areas in Sevier County From Residential to Commercial)

Docket No. 06-00259

Dear Ms. Standley:

Tennessee Wastewater Systems submits the following response to the Staff's data request dated July 23, 2007.

1. Please provide a detailed definition setting forth the conditions that a customer must meet in order to qualify for the proposed "Overnight Rental" tariff rate.

RESPONSE: TWS adopts the definition of "overnight rentals" found in T.C.A. §67-4-702(a)(11). As set forth in that statute, overnight rentals refers to "rental of a vacation lodging to one (1) or more individuals for temporary human lodging not to exceed a period of one hundred eighty (180) consecutive days, provided, however, that a tenancy or lease to an individual who has no other place of residence or abode during the lease period to which such individual may return after the lease terminates is not 'overnight rentals.'"

2. Will TWS extend the proposed new minimum bill rate to overnight rentals in its service areas throughout the state?

RESPONSE: Yes, the proposed tariff will apply to all overnight rentals served by TWS.¹

- A. If so, how does TWS intend to provide notice to these affected customers?

¹ Initially, the tariff will apply to all overnight rentals in developments classified as "commercial," and to Starr Crest I and Starr Crest II. If the TRA approves the request by TWS to reclassify overnight rentals located in seven other developments from residential to commercial, the tariff will apply to all overnight rentals served by TWS. Any cabin owner who notifies TWS that the cabin is not available for lease as an overnight rental property will be charged as a residential customer.

RESPONSE: See Exhibit 1 in Docket 06-00259, which was mailed to all overnight rentals served by TWS, including those properties which are already classified as commercial.

B. If TWS does not propose to extend these rates to all overnight rental customers, please explain.

RESPONSE: Not applicable.

3. If the new proposed rate is approved and extended throughout TWS' service territory, will any customers receive reduced rates and if so, how many customers will be affected?

RESPONSE: At this time, there are approximately 223 overnight rentals which are classified as commercial customers. The tariff rates applicable to these customers will be reduced.² There are approximately 412 overnight rentals which are currently classified as residential customers. These are the subject of the reclassification petition.

4. Please explain and provide all rationale, including documentation, analysis, etc. to justify how overnight rentals are distinguished from other commercial customers (without food) and why they should be placed in a special class to receive a reduced rate, e.g. usage, facilities, maintenance, etc. Please include in your discussion why such a special classification of customers would not be discriminatory compared to other non-food commercial customers.

RESPONSE: This classification was created as the result of settlement negotiations between TWS and Starr Crest in Docket 06-00259. TWS agreed to the settlement, in part, out of recognition that overnight rental properties located in Starr Crest and in seven other resort-type developments were originally informed that they would be classified by TWS as "residential" customers and these property owners have been billed at the residential rate for several years. Reclassification of these customers to the commercial rate would, absent this proposed settlement, more than double the minimum charge for these customers from \$35.00 to \$75.00 per month. The proposed tariff is intended to reduce the size of this increase and alleviate the impact of reclassification.

Furthermore, the current tariffs of TWS reflect the fact that a typical commercial customer of TWS is an isolated market, restaurant, or small strip mall. As a result, the cost-per-customer of operating a stand-alone treatment facility serving commercial customers is typically much higher than the cost-per-customer of operating a similar facility serving a residential development. For example, the state testing and reporting requirements are the same whether

² Although these customers are currently classified as commercial customers and should be paying commercial rates, Mr. Hines testified that the majority of these customers are being charged the residential rate because of concerns about discrimination. Those customers who are currently classified as commercial and are being billed at the commercial rate will receive a rate decrease if this settlement is approved. As previously noted, all overnight rentals were notified of the proposed increase to the commercial rate, whether or not the customer was already paying that rate.

the treatment facility is serving one, isolated convenience market or fifty homes in a residential development. That is one reason why the standard commercial rates of TWS are significantly higher than the residential rates.

Overnight rentals are considered commercial customers but, unlike other commercial users, are typically grouped together in developments like residential customers. Therefore, the costs of operating a treatment system serving overnight rentals can be spread over a larger number of customers than can be done with other types of commercial properties. For that reason, among others, TWS agreed that the minimum rate for overnight rentals should be less than the minimum rate applicable to other commercial customers.

Finally, under the new tariff, overnight rentals will be charged based on usage rather than on capacity. Since usage at overnight rentals can vary widely depending upon occupancy rates, the parties to the settlement believe that a usage based charge would be more equitable than a capacity based charge. If, of example, an overnight rental property remained vacant for an extended period of time, the owner would be charged only a minimum bill. This type of situation does not normally occur with other commercial properties.

For all of these reasons, TWS submits the proposed new category of commercial customers is non-discriminatory, just and reasonable in the context of this case.

5. If TWS files a general rate case, please explain and provide all rationale to justify why overnight rental customers should not bear any portion of a revenue increase proposed by TWS.

RESPONSE: At this time, TWS has not determined how much of an increase it needs or how the increase will be spread among customer classes. Since TWS has already requested that the owners of overnight rentals in eight developments be reclassified as commercial customers, resulting in a significant rate increase for those customers, TWS has agreed not to seek an additional increase in the \$55.00 minimum charge applicable to those customers who use less than 300 gallons per day, an average, over a thirty day period. TWS may, however, propose to increase rates for usage above that amount. Both parties to the settlement understand that, regardless of what rates TWS may request in its general rate case, the final decisions as to rates for any class of customers rests with the TRA.

Very truly yours,

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By: 
Henry Walker

HW/djc

cc: All parties