

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:)	
)	
PETITION OF LYNWOOD UTILITY)	DOCKET NO. 07-00007
CORPORATION TO CHANGE AND)	
INCREASE CERTAIN RATES AND)	
CHARGES)	
)	

PROPOSED SETTLEMENT AGREEMENT

For the purpose of settling this case, Tennessee Regulatory Authority (“TRA”) docket number 07-00007, Robert E. Cooper, Jr., the Tennessee Attorney General and Reporter, through the Consumer Advocate and Protection Division (“Consumer Advocate”) and Lynwood Utility Corporation (“Lynwood”), the parties in this litigation, respectfully submit this proposed settlement agreement. The parties stipulate to and agree to the following:

1. Lynwood is incorporated under the laws of the State of Tennessee and is engaged in the business of providing sewer service to Walnut Grove Elementary School, as well as homes in and near to Cottonwood Subdivision, Legends Ridge Subdivision, River Landings Subdivision, in Williamson County, Tennessee. Lynwood presently serves 793 residential consumers and Walnut Grove Elementary School. Lynwood is a public utility pursuant to the laws of Tennessee, and its public utility operations are subject to the jurisdiction of the TRA.

2. Lynwood is a wholly owned subsidiary of Southern Utility Corporation. Lynwood’s principal office and place of business is located at 321 Billingsly Court, Suite 4, Franklin, TN 37065.

3. On January 4, 2007, Lynwood filed a petition for approval of adjustment to its rates and charges, comprehensive rate design proposal, and revised tariff to increase the current rates which have been in effect since March 1, 2000. In that filing Lynwood sought a 34.85% rate increase or an increase in its annual revenues of \$177,471.

4. On January 16, 2007, the Consumer Advocate filed a petition to intervene. By order dated February 2, 2007, the TRA granted the intervention request of the Consumer Advocate.

5. The parties to this proposed settlement agreement have engaged in substantial discovery and have undertaken extensive discussions to resolve all known disputed issues. As a result of the information obtained during discovery and the discussions between the parties, the parties have agreed to adjustments that reduce Lynwood's proposed additional revenue requirements from \$177,471 to \$61,991.

6. The adjustments referenced in the preceding paragraph are quantified in Settlement Exhibit A.

7. Effective August 1, 2007, or at a later date determined by the TRA, Lynwood will increase rates by 13.15%, which is designed to increase its annual revenues by \$61,991 as a result of the approval of this proposed settlement agreement.

8. Lynwood's rate base is \$565,425.

9. Lynwood's operating income at present rates is (\$16,757).

10. Lynwood's required operating income is \$45,234.

11. Lynwood's operating income deficiency is \$61,991.

12. Lynwood's gross revenue conversion factor is 1.0.

13. Lynwood's revenue deficiency is \$61,991.

14. Lynwood's fair rate of return on rate base is 8.0%.

15. Unless Lynwood and the Consumer Advocate agree otherwise, Lynwood will file a petition to determine whether revenue requirements should be increased or decreased no later than August 1, 2011.

16. The new rate design includes the following major items:

- a. The residential wastewater treatment charge will change from \$5.77 per 1,000 gallons to \$6.53 per 1,000 gallons
- b. The non-residential wastewater treatment charge will change from \$7.21 per 1,000 gallons to \$8.16 per 1,000 gallons
- c. Tap fees will increase from \$2,750.00 per tap to \$3,500.00 per tap.
- d. The maximum rate charged to the Walnut Grove Elementary School will increase from \$787.50 per month to \$891.00 per month.
- e. No other rates will change.

Lynwood will file a tariff which will set forth the new rates agreed to in this proposed settlement agreement.

17. Lynwood agrees to record the agreed upon adjustments to rate base and maintain sufficient records to support such adjustments.

18. Lynwood will maintain documentation supporting all future maintenance expense charges and plant additions.

19. The revised rates and tariffs agreed to in this proposed settlement are fair and reasonable to all customer classes and will provide Lynwood with a reasonable opportunity to recover the agreed upon additional operating revenue requirement and a reasonable rate of return on

investment.

20. For the purposes of this settlement, all prefiled testimony and exhibits are introduced into evidence without objection, and the parties waive their right to cross examine all witnesses with respect to all such prefiled testimony and exhibits. If, however, questions should be asked by any person, including a Director, who is not a party to this stipulation, the parties may present testimony and exhibits to respond to such questions and may cross examine any witnesses with respect to such testimony and exhibits; provided, however, that such cross examination shall not be inconsistent with this stipulation.

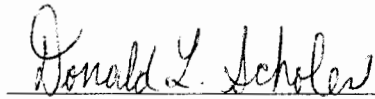
21. The provisions of this proposed settlement agreement do not necessarily reflect the positions asserted by any party, and no party to this proposed settlement agreement waives the right to assert any position in any future proceeding. This proposed settlement agreement shall not have any precedential effect in any future proceeding or be binding on any parties except to the limited extent necessary to implement the provisions hereof.

22. If the TRA does not accept the proposed settlement in whole, the parties are not bound by any position set forth in this proposed settlement agreement. In the event that the TRA does not approve this proposed settlement agreement, each of the signatories to this proposed settlement agreement will retain the right to terminate this proposed settlement agreement. In the event of such action by the TRA, any of the signatories to this proposed settlement agreement would be entitled to give notice within five (5) business days of exercising its right to terminate this proposed settlement agreement; provided, however, that the signatories to this proposed settlement agreement could, by unanimous consent, elect to modify this proposed settlement agreement to address any modification required by, or issues raised by, the TRA. Should this proposed settlement

agreement terminate, it would be considered void and have no binding precedential effect, and the signatories to this proposed settlement agreement would reserve their rights to fully participate in all relevant proceedings notwithstanding their agreement to the terms of this proposed settlement agreement.

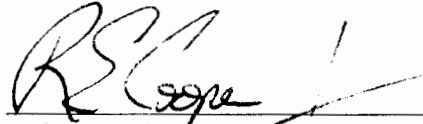
23. This Agreement shall be governed by and construed under the laws of the State of Tennessee, notwithstanding conflict of laws provisions.

FOR LYNWOOD UTILITIES CORPORATION:

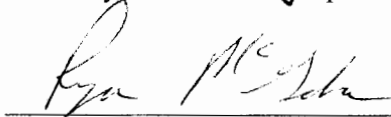


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July 11, 2007

108507

Exhibit A

**Lynwood Utility Corporation
2006 Rate Case
Results of Operations for the 12 Months Ended December 31, 2006**

Line No.			
1	Rate Base	\$ 565,425	A/
2	Pro-forma operating income at current rates	\$ (16,757)	B/
3	Earned rate of return on rate base	-2.96%	
4	Approved <u>overall rate</u> of return	8.00%	
5	Required operating income	\$ 45,234	
6	Operating income deficiency	\$ (61,991)	
7	Revenues	\$ 476,030	B/
8	Overall Rate of Return (Current Approved Rate)	8%	
9	Required revenues	\$ 538,021	C/

A/ Schedule 1-1

B/ Schedule 2

Lynwood Utility Corporation
2006 Rate Case
Rate Base

<u>Line No</u>		<u>12/31/2006</u>	
1	Utility Plant in Service	\$ 2,806,755	A/
2	Deferred Debit	60,717	D/
3	Accumulated Depreciation	(1,263,822)	B/
4	Contributions in Aid of Construction	<u>(1,038,225)</u>	C/
		<u>\$ 565,425</u>	

A/ Schedule 3

B/ Schedule 4

C/ Schedule 5

D/ Unrecovered Regulatory Cost (TDEC) being amortized over a 5 year period.

**Settlement
Company
Exhibit
Schedule 2**

**Lynwood Utility Corporation
2006 Rate Case**

Pro-forma Income for the year ended December 31, 2006

				2006
Revenues				
Sewer Fees	464,813			464,813
Inspection Fees	4,500			4,500
Late charges	6,717			6,717
	<u>476,030</u>			<u>476,030</u>
Expenses:				
Operating & Maintenance				
Salaries & Wages/ benefits				-
Purchased Sewage Treatment	5,685			5,685
Sludge Removal Treatment	17,592	2,408	A/	20,000
Purchased Power	51,815			51,815
Chemicals	20,870			20,870
Material & Supplies	4,816			4,816
Contractual Services	291,421	(95,274)	A/	196,147
Rents	16,667	(11,667)	A/	5,000
Utilities	1,224	(918)	A/	306
Insurance Expense	9,554			9,554
Testing	25,933			25,933
Customer Accounting	42,118	2,438	B/	44,556
Property Taxes and Other	30,510	(3,435)	C/	27,075
Miscellaneous Expense	2,410			2,410
	<u>520,615</u>			414,167
Depreciation Expense	138,300	(1,960)	D/	136,340
Amort of Cont. in Aid	(66,520)			(66,520)
Amort of Rate Case Cost		8,800	E/	8,800
Total Expenses	592,395	(99,608)		492,787
Income (Loss)	<u>(116,365)</u>	99,608		<u>(16,757)</u>

A/ Agreed upon adjustment with Consumer Advocates

B/ Schedule 2.1

C/ Schedule 2.11

D/ Schedule 4

E/ Schedule 2.9

**Lynwood Utility Corporation
2006 Rate Case**

**Line
No.**

Customer Accounting Expense

1	Calculated Amount	A/	\$	44,556
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A/ $\$471,530 \times .075 = \$35,364$ + Admin Cost of $\$9,192 = \$44,556$.

$\$464,813 + \$6,717 = \$471,530$ Amount collected by City of Franklin & HB & TS

**Lynwood Utility Corporation
2006 Rate Case**

**Line
No.**

Rate Case Expense

1	Prior Balance	\$	-
2	Legal Expenses	14,000	A/
3	Accounting (\$600 per Month)	<u>12,400</u>	B/
5	Proforma Balance	<u>\$</u>	<u>26,400</u>

A/ Estimated expense Branstetter, Kilgore, Stranch & Jennings

B/ Estimated expense - Vision, Inc.

C/ Amortization over 3 years at \$8,800 per year

Lynwood Utility Corporation
2006 Rate Case

Line
No.

Normalized Taxes and Fees

1	Williamson County Trustee	\$	1,068
2	F & E Taxes		3,160
3	TRA Fees		1,402
4	Secretary of State Annual Fee		20
5	NPDES Fee		1,250
6	Property taxes		<u>20,175</u>
5	Proforma Balance	\$	<u><u>27,075</u></u>

Lynwood Utility Corporation
2006 Rate Case
Utility Plant

	353 Land	354 Struct. & Imp	371 Pump. Equip	380 Treat. & Disp	391 Transport. Eq.	Total
2000 Balance	10,000.00	125,105.00	50,986.00	1,548,515.00	2,885.00	1,737,491.00
Additions	-	-	-	-	-	-
Retirements	-	-	-	-	-	-
2001 Balance	10,000.00	125,105.00	50,986.00	1,548,515.00	2,885.00	1,737,491.00
Additions	-	-	35,353.00	47,868.67	-	83,221.67
Retirements	-	-	-	-	-	-
2002 Balance	10,000.00	125,105.00	86,339.00	1,596,383.67	2,885.00	1,820,712.67
Additions	-	-	88,181.00	645,156.92	-	733,337.92
Retirements	-	-	-	-	-	-
2003 Balance	10,000.00	125,105.00	174,520.00	2,241,540.59	2,885.00	2,554,050.59
Additions	-	-	-	224,190.00	10,500.00	234,690.00
Retirements	-	-	-	-	-	-
2004 Balance	10,000.00	125,105.00	174,520.00	2,465,730.59	13,385.00	2,788,740.59
Additions	-	-	9,720.00	33,647.63	-	43,367.63
Retirements	-	-	-	-	-	-
2005 Balance	10,000.00	125,105.00	184,240.00	2,499,378.22	13,385.00	2,832,108.22
Additions	-	6,475.00	2,377.00	26,511.67	-	35,363.67
Retirements	-	-	-	60,717.00	-	60,717.00
2006 Balance	10,000.00	131,580.00	186,617.00	2,465,172.89	13,385.00	2,806,754.89

Lynwood Utility Corporation
2006 Rate Case

DEPRECIATION	Vehicles	354 Struct. & Imp	371 Pump. Equip	380 Treat. & Disp	391 Transport. Eq.	Total
2000 Balance		104,737.00	51,521.00	464,350.00	4,033.00	624,641.00
Additions		6,255.25	(535.00)	77,425.75	(1,148.00)	81,998.00
Retirements						-
2001 Balance		110,992.25	50,986.00	541,775.75	2,885.00	706,639.00
Additions		6,255.25		77,425.75		83,681.00
Retirements						-
2002 Balance		117,247.50	50,986.00	619,201.50	2,885.00	790,320.00
Additions		6,255.25	1,767.00	79,819.00		87,841.25
Retirements						-
2003 Balance		123,502.75	52,753.00	699,020.50	2,885.00	878,161.25
Additions		1,602.25	6,177.00	112,077.03		119,856.28
Retirements						-
2004 Balance		125,105.00	58,930.00	811,097.53	2,885.00	998,017.53
Additions			6,177.00	123,286.52		129,463.52
Retirements						-
2005 Balance		125,105.00	65,107.00	934,384.05	2,885.00	1,127,481.05
Additions			7,149.00	124,968.91	4,223.00	136,340.91
Retirements						-
2006 Balance		125,105.00	72,256.00	1,059,352.96	7,108.00	1,263,821.96

Lynwood Utility Corporation
2006 Rate Case

Analysis of Contribution in Aid of Construction

	GROSS	Accum. Amort.	NET
Balance 2000	429,050.00	32,420.00	396,630.00
Additions	196,850.00		196,850.00
Deduction (amortization)		26,373.75	26,373.75
Balance 2001	625,900.00	58,793.75	567,106.25
Additions	74,000.00		74,000.00
Deduction (amortization)		33,145.00	33,145.00
Balance 2002	699,900.00	91,938.75	607,961.25
Additions	363,000.00		363,000.00
Deduction (amortization)		40,620.00	40,620.00
Balance 2003	1,062,900.00	132,558.75	930,341.25
Additions	109,750.00		109,750.00
Deduction (amortization)		55,888.75	55,888.75
Balance 2004	1,172,650.00	188,447.50	984,202.50
Additions	133,000.00		133,000.00
Deduction (amortization)		61,957.50	61,957.50
Balance 2005	1,305,650.00	250,405.00	1,055,245.00
Additions	49,500.00		49,500.00
Deduction (amortization)		66,520.00	66,520.00
Balance 2006	1,355,150.00	316,925.00	1,038,225.00