

**WHN CONSULTING**

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19 Morning Arbor Place  
The Woodlands, TX 77381

June 25, 2007

Ms. Darlene Standley, Chief  
Utilities Division  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

Re: Petition of Cumberland Basin Wastewater Systems, LLC for a Certificate of Public Convenience and Necessity to Serve an Area in Putnam County, Tennessee known as The Bluffs at Cumberland Cove. **Docket 07-00079.**

Dear Ms. Standley:

On behalf of Cumberland Basin Wastewater Systems, LLC, enclosed you will find an original and four (4) hard copies along with a CD in PDF format of the **Company's Response to the TRA Staff's 2<sup>nd</sup> Data Request of June 19, 2007** in the above-referenced docket.

If you questions regarding this electronic filing, please contact me at 713-298-1760.

Sincerely,



William H. Novak

Enclosures

1. What company/companies currently operate and maintain the other wastewater treatment facilities built by W & O Construction Co. Inc.?

**RESPONSE:**

W&O has been constructing wastewater systems for state agencies, municipalities, and private enterprises since 1962. This includes projects up to \$8.8 million. The following projects are representative of the type to be constructed at The Bluffs:

- A. TDOT I-40 Smith County Rest Area operated by the State of Tennessee.
- B. Standing Stone State Park operated by the State of Tennessee.
- C. Pickett State Park operated by the State of Tennessee.
- D. Rock Island State Park operated by the State of Tennessee.
- E. Cornerstone Residential Development operated by Tennessee Wastewater Systems.
- F. Salvation Army Camp Paradise operated by the Salvation Army.

2. Please provide a copy of a bank statement for Cumberland Basin indicating the funds necessary for start-up costs are available.

**RESPONSE:**

See attached.

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P. 001/001

**First National Bank of Tennessee**

Cumberland Basin Wastewater Systems, LLC  
Po Box 239  
LIVINGSTON TN 38570  
931-403-5311

Below is a listing of all your accounts with current balances as of June 22, 2007:

**Cumberland Basin Wastewater Systems, LLC**

Product	Balance	Maturity Date
<i>Non-Personal</i>	20,000.00	
Non Personal Basic Checking	20,000.00	
5142955 LLC		
<i>Loans</i>	0.00	
Non Personal Letter of Credit	0.00	03/28/2008
201100591-00001 LLC		

If you have any questions, please give me a call at 931-403-4217 so I may further assist you.

Thank You

Marla Kay Etheredge



MARLA KAY ETHEREDGE

214 E. MAIN ST., P.O. BOX 379  
LIVINGSTON, TN 38570  
PHONE 931.403.4217 FAX 931.403.4275  
marla.etheredge@fnbotn.com  
www.fnbotn.com

3. A breakdown of the cost/value of the wastewater facilities by component part was provided in the Data Response of May 14, 2007. Please provide how the value of the land (\$420,000) was calculated.

**RESPONSE:**

As stated in response to Item #10 of the TRA Staff's first data request, an exact breakdown of the cost/value of the wastewater facilities by component cannot be given because the wastewater system has not yet been built.

In the Company's response to Item #10, the land cost forecast of \$420,000 was estimated by taking the total land acreage to be dedicated to the wastewater facility of 5 acres and multiplying by the expected sales price /acre of the completed development of \$84,000. However, all of this cost will be donated by the developer and will have a zero (\$0) effect on CBWS's rate base.

4. Will the land, valued at \$420,000, be for the sole use of the wastewater facility?

**RESPONSE:**

Yes. The land identified in response to Item #10 of the TRA Staff's First Data Request will be for the sole use of the wastewater facility.

5. Rates are included in the tariff of Cumberland Basin for both Sand/Gravel and Lagoon type systems; however, the engineering report included with the Petition describes a Sand/Gravel type system being built and no mention is made of a Lagoon system. Will both the Sand/Gravel and Lagoon systems be built and initially billed to the 175 lots in Cumberland Basin? Please explain.

**RESPONSE:**

There will not be a Lagoon system installed or operated by Cumberland Basin to serve The Bluffs.

Rates for a Lagoon System were included in the Company's filing because this is the initial CCN and tariff. The Company hopes to provide wastewater service to other territories in the future. To facilitate this future expansion, the Company included in its proposed tariff the existing rates of other wastewater utilities already approved by the TRA for both Sand/Gravel and Lagoon systems.

6. There is a monthly escrow amount included on Sheet # 1 of Section 1 of the proposed tariff. How was the escrow amount determined? Does the monthly rate of \$35.11 include the escrow amount, or will this be a bill addition for a total bill of \$45.24 per month? Why is the escrow amount not included in Section 3, Original Sheet # 1?

**RESPONSE:**

The Company included the existing escrow rates of other wastewater utilities that were already approved by the TRA in its proposed tariff. The total monthly rate of \$35.11 that is charged to the customer includes \$10.13 for escrow as shown on Section #1, Sheet #1 and Section #3, Sheet #1.

Section #1, Sheet #1 of the Company's tariff was designed to show the rate components of the Company's tariff from the TRA and Company's point of view. Section #3, Sheet #1 of the Company's tariff was designed to show the total charge by geographic area (in this case, The Bluffs) from the Customer's point of view. The escrow amount is not broken out separately on Section #3, Sheet #1 in order to avoid confusion by the customer.



7. Data Response No. 11 of May 14, 2007 states that the projected commercial establishment at Cumberland Basin will be for non-food service; however, both non-food commercial service and food commercial service rates are included in TRA 1, but not in TRA # 3. Will both types of commercial service be initially billed to establishments at Cumberland Basin? Please explain.

**RESPONSE:**

There will not be any wastewater facilities installed at The Bluffs for commercial customers providing food services.

Rates for commercial customers providing food services were included in the Company's filing because this is the initial CCN and tariff. The Company hopes to provide wastewater service to other territories in the future. To facilitate this future expansion, the Company included in its tariff the existing rates of other wastewater utilities already approved by the TRA for both food and non-food commercial customers.

8. Data Response No. 11 filed May 14, 2007 states that TRA # 3 is for Residential services; however, there is wastewater service requested for one commercial establishment for Cumberland Basin. Please explain.

**RESPONSE:**

Section #3 of the Company's tariff is designed to provide residential rates by geographic territory from the residential customer's point of view. TRA #3 is designed to be a simple one-page tariff sheet showing a flat monthly rate that can be distributed to the customers of a specific geographical service territory.

The Company's rates for commercial service are only included on Section #1, Sheets #2 and #3. These rates are more complex than the residential rates and are dependent on the customer's monthly water usage. The volumetric rates for commercial service are not included in TRA #3 since they are not dependent on the type of wastewater system (sand/gravel or lagoon) utilized.

9. There is no mention of a commercial establishment in the Engineering Report provided with the Petition. Please explain.

**RESPONSE:**

The sole commercial customer at The Bluffs will be the Club House for the Development.

10. To determine if funding is available for the first year of operation, it is requested that the following be provided:

- The pro forma statement of all estimated operating expenses and revenues for the first five years did not include any salary expense, (ex. Mr. Potter) insurance expense, power costs, regulatory fees other than TDEC, etc. Please adjust the pro formas to include all necessary expenses.
- Please include all supporting documentation and rationale justifying the expenses and revenues.
- Provide power costs based on local power rates, estimated pumping rates, etc.
- Please provide a pro forma balance sheet and statement of cash flows.
- The proposed Pro Forma statement, included with the Petition, includes revenues for all of 2007; however it is stated in the Petition that the system is not expected to be completed until December 31, 2007. Will the first year's proposed 15 lots be connected to the wastewater service to produce revenue by January 2008 or will they be staggered over the course of the year? Please adjust the pro forma income statement accordingly.

**RESPONSE:**

The first 15 lots are expected to be connected over the course of the year beginning in 2008. Attached is an adjusted five-year pro forma income statement that reflects the first lot sales that will begin in 2008.

Except for transient amounts of cash, the Company's balance sheet is expected to be zero (\$0) since all plant will be contributed by the developers.

The Company does not have a list of itemized expenses that were included on its forecasted pro forma income statement. The five-year pro forma income statement forecast previously submitted was prepared at a very high level without detail supporting calculations. As indicated in the five-year pro forma income statement, the individual expenses have been adjusted by different items that are fully explained in the footnotes to the statement.

**Cumberland Basin Wastewater Systems  
The Bluffs at Cumberland Cove  
Five Year Pro Forma Income Statement**

		2008	2009	2010	2011	2012
<b>Customers:</b>						
Residential		15	70	115	150	175
Commercial		0	1	1	1	1
<b>Total End of Year Customers</b>		<b>15</b>	<b>71</b>	<b>116</b>	<b>151</b>	<b>176</b>
<b>Average Customers for the Year</b>		<b>8</b>	<b>43</b>	<b>94</b>	<b>134</b>	<b>164</b>
<b>Revenue:</b>						
Residential	A/	\$3,371	\$17,695	\$39,183	\$56,036	\$68,675
Commercial	B/	0	900	900	900	900
<b>Total Revenues</b>		<b>\$3,371</b>	<b>\$18,595</b>	<b>\$40,083</b>	<b>\$56,936</b>	<b>\$69,575</b>
<b>Expenses:</b>						
Operation & Maintenance Expense	C/	\$859	\$4,618	\$10,096	\$14,392	\$17,614
Treatment System Expense	D/	598	3,215	7,027	10,018	12,261
Utility Expense	E/	125	671	1,466	2,090	2,558
Disposal Expense	F/	147	789	1,726	2,460	3,011
Sampling & Testing Expense	G/	672	3,612	7,896	11,256	13,776
Bill & Collecting Expense	H/	144	774	1,692	2,412	2,952
Miscellaneous Expense	I/	38	206	451	643	787
Management Fees & Expenses	J/	461	2,477	5,414	7,718	9,446
TDEC Regulatory Expense	K/	50	268	587	836	1,023
Franchise & Excise Tax Expense	L/	79	423	925	1,319	1,614
Public Utility Ad Valorum Tax Expense	M/	91	490	1,072	1,528	1,870
Federal Tax Expense	N/	107	573	1,252	1,785	2,184
<b>Total Expenses</b>		<b>\$3,371</b>	<b>\$18,117</b>	<b>\$39,604</b>	<b>\$56,457</b>	<b>\$69,096</b>
<b>Net Income</b>		<b>\$0</b>	<b>\$479</b>	<b>\$479</b>	<b>\$479</b>	<b>\$479</b>

A/ Residential Customer Charge	\$35.11
Months per Year	12
Total Annual Residential Charge/Customer	<u>\$421.32</u>

B/ First 300 Gallons/Day	\$75.00
Months per Year	12
Total Annual Commercial Charge/Customer	<u>\$900.00</u>

- C/** O&M Expense = \$8.95/Month \* Number of customers.  
**D/** Treatment Expense = \$6.23/Month \* Number of customers.  
**E/** Utility Expense = \$1.30/Month \* Number of customers.  
**F/** Disposal Expense = \$1.53/Month \* Number of customers.  
**G/** Sampling & Testing Expense = \$7.00/Month \* Number of customers.  
**H/** Billing & Collecting Expense = \$1.50/Month \* Number of customers.  
**I/** Miscellaneous Expense = \$0.40/Month \* Number of customers.  
**J/** Management Expense = \$4.80/Month \* Number of customers.  
**K/** TDEC Expense = \$0.52/Month \* Number of customers.  
**L/** F&E Tax Expense = \$0.82/Month \* Number of customers.  
**M/** Ad Valorum Tax Expense = \$0.95/Month \* Number of customers.  
**N/** Federal Tax Expense = \$1.11/Month \* Number of customers.